ANNUAL REPORT 2018

Unlocking the power of the immune system

1994 **25** 2019
YEARS
OF GREAT ACHIEVEMENTS IN THE VACCINE SPACE

BAVARIAN NORDIC

→ STIMULATING THE IMMUNE SYSTEM

GIVING HOPE TO MILLIONS

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2018 IN REVIEW

2018 was another year that saw important progress of our pipeline assets towards licensure and fulfilling of our mission to unlock the power of the immune system to improve public health. We reported positive clinical data, initiated four proof of concept Phase 2 studies, and filed the company's first ever Biological License Application (BLA) for our smallpox vaccine with the FDA. To secure the future revenue streams we are expanding our manufacturing capabilities to include a state-of-the-art fill and finish facility and we announced new immunotherapy concepts that will further expand and enrich our pipeline assets. These and other important strategic events (page 17) will transform the company in the years to come, on the path towards fulfilling our vision of becoming a leading and profitable biotech company, developing, manufacturing and commercializing products for infectious disease and cancer.

Last year we confirmed our global leadership for smallpox vaccines suitable for the general population. On the back of positive Phase 3 efficacy data we filed a BLA that was accepted and granted priority review status. We are on track in supporting the FDA review process and remain confident that MVA-BN® will be approved along with the receipt of a priority review voucher in 2019.

Last year's cases of monkeypox in the UK and Israel, including a health care worker looking after one of the infected patients, highlight the need for a better preparedness for emerging diseases, or biological threats like smallpox. When licensed, there will be new opportunities to assist the U.S. Government preparedness plans beyond the stockpiling of smallpox vaccines, such as the vaccination of military and other first line responders.

Bavarian Nordic remains at the forefront of RSV vaccine development and has the most progressed vaccine

"Bavarian Nordic remains at the forefront of RSV vaccine development and has the most progressed vaccine in development

— Paul Chaplin
President & CEO

in development. We rarely follow the crowd and our vaccine candidate has a unique and completely differentiated approach that has never previously been evaluated. We reported additional positive data supporting an annual booster vaccination to induce broad and durable immune responses in elderly adults and remain on track to enter a Phase 3 efficacy trial in 2020.

In collaboration with pharmaceutical companies and investigators, we have moved CV301 into three separate Phase 2 studies to investigate whether our cancer vaccine can enhance the efficacy of checkpoint inhibitors in several different cancer indications. BN-Brachyury also entered a pivotal study in patients with chordoma, an extremely rare cancer that once it has progressed post-surgery has few, if any, treatment options.

Utilizing adaptive designs, or investigator-sponsored studies, has allowed for a balanced investment with a rapid proof of concept, with data already expected in 2019.

While we have many exciting pipeline opportunities we cannot rest on our laurels, because in drug development not all concepts will succeed. However, to ensure we bring the best treatments for patients we must evolve our strategies and bring fresh new ideas forward. Last year we announced new immunotherapy strategies, which were developed in our own research laboratories that harness other parts of the immune system to fight and kill cancer. These exciting new approaches will also move forward into clinical studies in 2019.

With a solid year's operational performance behind us, we have an exciting year ahead. 2019 is the company's 25th anniversary and on a solid financial base we expect to report proof-of-concept data, and the path forward for RSV; to initiate new programs; celebrate our first U.S. approval and seek new smallpox vaccine orders.

We would like to thank all our dedicated and skilled employees, our partners, and investors for their support in the continued development and success of Bavarian Nordic.

Paul Chaplin
President & CEO

Gerard van Odijk
Chairman of the Board of Directors

"With a solid year's operational performance behind us, 2019 will be an exciting year and the company's 25th anniversary"

— Gerard van Odijk
Chairman of the Board of Directors

BAVARIAN NORDIC AT A GLANCE

UNLOCKING THE POWER OF THE IMMUNE SYSTEM

– TO IMPROVE PUBLIC HEALTH WITH FOCUS ON HIGH UNMET MEDICAL NEEDS

FOUNDED IN 1994
IPO 1998

400+
EMPLOYEES

FIRST PRODUCT APPROVED IN 2013
(MVA-BN AS SMALLPOX VACCINE)

VISION

By 2023 we aspire to be a leading and profitable biotech company that through harnessing the power of the immune system will develop, manufacture and commercialize products for infectious disease and cancer

STRATEGY TRACK

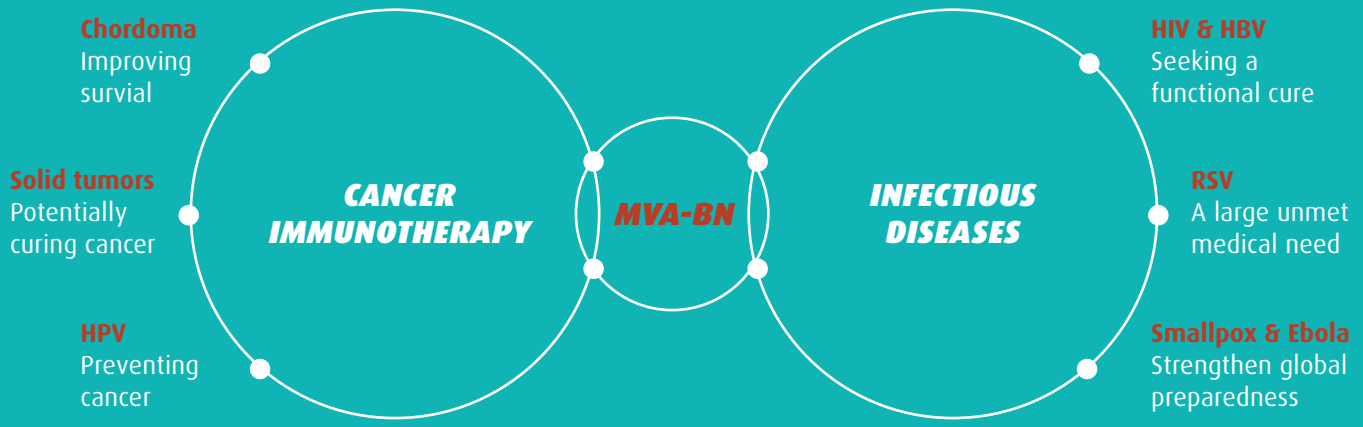
5 YEAR VISION

PRIORITIES | MILESTONES | OBJECTIVES

- **MAINTAIN** GLOBAL LEADERSHIP OF OUR SMALLPOX VACCINE BUSINESS
- **EXPAND** AND RAPIDLY **ADVANCE** THE PIPELINE OF INFECTIOUS DISEASE PROGRAMS
- **ESTABLISH** A BROAD AND DEEP CANCER IMMUNOTHERAPY PORTFOLIO
- **EXPAND** THE COMMERCIAL FOOTPRINT AND CAPABILITIES

OUR VACCINES

Bavarian Nordic focuses on developing product candidates to address cancer and infectious diseases.



CORE CAPABILITIES

Proven vaccine development expertise

25 YEARS

IN-HOUSE R&D EXPERTISE APPROVED PLATFORM TECHNOLOGY

Commercial scale vaccine manufacturing capabilities

30+ MILLION

VACCINE DOSES PRODUCED COMMERCIAL SCALE FILL AND FINISH FACILITY UNDER CONSTRUCTION

Strong relationships with USG and major pharma companies

15+ YEARS

STRONG RELATIONSHIPS WITH THE U.S. GOVERNMENT AND MAJOR PHARMA COMPANIES, INCLUDING BRISTOL-MYERS SQUIBB, ROCHE AND A STRATEGIC PARTNERSHIP WITH JANSSEN

Strong financial position

DKK 2.3 BILLION

CASH PREPAREDNESS BY END OF 2018

25 YEARS OF GREAT ACHIEVEMENTS IN THE VACCINE SPACE!

Employees: **3**

1994
Founded

43

1998
Listed on the Copenhagen Stock Exchange

87

2003
Entered the first smallpox development contract with the U.S. Government

145

2004
Acquisition of manufacturing facility

264

2007
First smallpox supply contract for 20 million doses to the U.S. Government

Founded in 1994, Bavarian Nordic has been a pioneer in the biotechnology sector and have celebrated many successes over the last 25 years. Our activities have expanded, and we are today an international company with operations in Germany, Denmark and the USA with more than 400 employees and widely recognized for our work in the vaccine space. The list of achievements is long, and while the timeline above only mentions a few, they tell a great story, that will continue to develop for years to come.

Vaccine development is challenging and not all attempts will obviously work, however we have never been afraid of making tough decisions in our endeavors to revolutionize research and create life changing vaccines. It is this bold approach that is the bedrock of our success. From acquiring our own manufacturing plant in 2004 that enabled us to become the sole provider of a safer alternative smallpox vaccine to the U.S. Government - to our continual investment in developing vaccines for cancer, we dare to go where others are afraid to tread. These bold decisions have often resulted in industry firsts; such as being the first to develop a safer non-replicating smallpox vaccine with licensure in the EU and Canada, or the first to receive a procurement contract for vaccines protecting the people of the United States under Project Bioshield to mention a few achievements that have made Bavarian Nordic a global leader in smallpox vaccines.

400+

2010

Delivery of the first vaccines to the U.S. Strategic National Stockpile

400+

2011

First Phase 3 study initiated

400+

2013

Smallpox vaccine approved in EU and Canada

400+

2014

Entered commercial partnership with Janssen

400+

2018

Initiated construction of fill and finish facility and submitted first BLA

1994 **25** 2019
YEARS
OF GREAT ACHIEVEMENTS IN THE VACCINE SPACE

Our wealth of talent and enviable resources have allowed us to make a difference by doing what we do best; using cutting edge science to develop industry changing vaccines to help millions across the globe.

Over these 25 years, we have built a truly unique infrastructure that supports and drives our activities from basic research and development to commercial manufacturing, all with a focus on vaccines for infectious diseases and cancer and all being achieved by doing things our own way, discovering new approaches to treat diseases and continuing being prepared to take risks necessary for breaking new ground.
Today, we celebrate our heritage of achievements. Tomorrow, we will celebrate our next wave of industry changing decisions and continue to boldly strive to meet unmet needs by harnessing the power of the body's immune system in our fight against infectious diseases and cancer. ■

KEY DEVELOPMENTS 2018/19

JANUARY

Initiated a Phase 1 clinical trial to evaluate the safety of our novel cancer immunotherapy candidate, **BN-Brachyury**, which is targeting brachyury, a key driver of cancer metastasis in several tumor types.

FEBRUARY

Reported positive results from the second Phase 3 study to support FDA approval of **MVA-BN smallpox vaccine**.

Reported positive follow-up data from the Phase 2 study of our **RSV** vaccine candidate, which demonstrated increased level of antibodies in the nasal mucosa, an immune parameter reported to be associated with protection against RSV.

Entered an agreement valued at up to USD 36 million with the U.S. Department of Defense on the development of a multivalent vaccine against three separate **equine encephalitis viruses**, that are considered potential biological threats.

MARCH

Initiated the construction of a new fill and finish facility, which will enable us to perform commercial-scale filling and freeze-drying of vaccines.

MAY

BN-Brachyury was granted orphan drug designation for the treatment of chordoma by the FDA.

Henrik Juuel was appointed Executive Vice President and Chief Financial Officer. He took up the position in November.

JULY

An investigator-led Phase 2 study of **CV301**, nivolumab (OPDIVO®) and chemotherapy was initiated in oligometastatic microsatellite stable colorectal cancer.

AUGUST

Reported positive data from the **RSV** Phase 2 extension study, which confirmed the durability of broad vaccine responses after 1 year and showed, that these responses could be rapidly increased following an annual booster vaccination.

Obtained a EUR 30 million loan facility from the European Investment Bank to support our investment in the new fill-finish facility.

Announced plans to investigate intravenous and intra-tumoral administration of our immunotherapy candidates with the first clinical trials expected in 2019.

SEPTEMBER

Smallpox vaccines were supplied to the Public Health England for vaccination of healthcare workers involved in first ever human cases of monkeypox in the U.K.

Initiated a Phase 2 study of **CV301** and atezolizumab (TECENTRIQ®) in metastatic bladder cancer.

OCTOBER

A Biologics License Application (BLA) for liquid-frozen **MVA-BN smallpox vaccine** was submitted to the U.S. Food and Drug Administration (FDA).

NOVEMBER

Initiated a Phase 2 clinical trial of **BN-Brachyury** for the treatment of chordoma. Recruitment of patients for the first stage of the trial was completed ahead of schedule in early 2019.

An investigator-led Phase 1/2 study of **CV301** and durvalumab (IMFINZI®) was initiated in pancreatic and colorectal cancer.

DECEMBER

The BLA for **MVA-BN smallpox vaccine** was accepted by FDA with priority review, targeting completion of review in 2019.

JANUARY 2019

The U.S. Government awarded an additional USD 44 million under our contract framework to support qualification of the new fill-finish facility, as well as transfer and validation of the freeze-drying production process.

FEBRUARY 2019

Our partner Janssen initiated a Phase 1/2a clinical trial of the therapeutic HPV vaccine regimen.

"Since I joined Bavarian Nordic, I have furthermore learned how my colleagues are setting themselves ambitious targets and constantly work to deliver on those targets

— **Henrik Juuel**
Chief Financial Officer

A WORD FROM THE NEW CFO

Joining Bavarian Nordic was a great opportunity for me. I get motivated by working for companies that can make real differences in the fight against diseases that pose threats to public health and Bavarian Nordic is exactly such a company.

Our focus is on infectious diseases and cancer immunotherapy, two areas with very significant unmet needs, which I believe we can address with our vaccines, that are designed to unlock the power of the amazing human immune system and bring hope to patients worldwide.

Aside from the exciting pipeline, the fact that Bavarian Nordic is a fully integrated company also attracted me to the job. Today we are engaged in all parts of the value chain from R&D to manufacturing and to our commercial business with revenue contribution from the smallpox vaccine and partnered projects.

Since I joined Bavarian Nordic, I have furthermore learned how my colleagues are setting themselves ambitious targets and constantly work to deliver on those targets. Being a smaller biotech company, you cannot compete with big pharma on financial strength and other resources, but you can compensate for some of this by staying agile and constantly adapt to circumstances and situations. I believe that Bavarian Nordic has that ability to act fast on new opportunities.

Financial strength and flexibility

In the recent years, the company has secured a cash preparedness, which enables us to withstand a period of lower revenues, while also maintaining the ability to innovate through continued investments in research and development. In addition, as part of the strategy to secure future revenues and return to profitability, we are investing in a new fill and finish facility, →

which will further expand our manufacturing capabilities and commercial opportunities.

We are in a financially healthy position enabling us to pursue our strategy and deliver on our goals, but obviously going through a period with lower revenue and higher investments in manufacturing, we need to make careful considerations on our expenditures along the way. Looking ahead we will continue having an inflow of revenue from our contracts and partnerships, and a number of additional elements will furthermore drive revenue in the years to come. →

"Aside from the exciting pipeline, the fact that Bavarian Nordic is a fully integrated company also attracted me to the job

> ***We have outlined a vision for the next five years, setting ambitious targets to become a leading and profitable biotech company and this vision is to me far from just a dream***

These include, but are not limited to the following:

- Award of a Priority Review Voucher upon the expected FDA approval of the liquid-frozen version of MVA-BN smallpox vaccine. The voucher, which could be used to accelerate the review of a future BLA, is transferrable, and we intend to sell it to a third party.
- Options under our contract framework with the U.S. government on the manufacture and supply of smallpox vaccines.
- Milestone payments from our partnership with Janssen, triggered by advancements in the clinical development and potential commercialization of vaccines for multiple diseases

Henrik Juuel

- Joined Bavarian Nordic in November 2018 from Orexo AB, a specialty pharmaceutical company listed on the Nasdaq Stockholm stock exchange, where he served as Chief Financial Officer since 2013.
- More than 25 years of experience from the pharma- and medtech industries.
- Prior positions include Group CFO of Virgin Mobile (Central and Eastern Europe), CFO of GN ReSound, CFO of NNE Pharmaplan and a 15-year tenure at Novo Nordisk holding several senior finance positions in Denmark and abroad.

A focused strategy

We have outlined a vision for the next five years, setting ambitious targets to become a leading and profitable biotech company and this vision is to me far from just a dream. It is based on a very solid foundation with strong and proven development and manufacturing expertise, combined with established and proven relationships with the U.S. Government and major pharma companies. We are leveraging these capabilities to fulfil our ambition, and to help us achieve this goal, we have laid down a clear strategy, which already is materializing as a result of our initiatives over the past years. ■

BAVARIAN NORDIC STRATEGY TRACK

Our strategy is four-fold, and aims to secure and maintain a sustainable foundation, while also expanding the commercial opportunities:

- ***MAINTAIN*** *GLOBAL LEADERSHIP OF OUR SMALLPOX VACCINE BUSINESS*
- ***EXPAND*** *AND RAPIDLY* ***ADVANCE*** *THE PIPELINE OF INFECTIOUS DISEASE PROGRAMS*
- ***ESTABLISH*** *A BROAD AND DEEP CANCER IMMUNOTHERAPY PORTFOLIO*
- ***EXPAND*** *THE COMMERCIAL FOOTPRINT AND CAPABILITIES*

STRATEGY TRACK

5 YEAR VISION

By 2023 we aspire to be a leading and profitable biotech company that through harnessing the power of the immune system will develop, manufacture and commercialize products for infectious disease and cancer.

	PRIORITIES	2019 MILESTONES	MID- AND LONG-TERM OBJECTIVES
MAINTAIN global leadership of our smallpox vaccine business	• Finalize development of smallpox vaccine • Secure broader sales	• FDA approval of liquid-frozen MVA-BN • Award of Priority Review Voucher • Initiate Phase 3 study of freeze-dried MVA-BN	• FDA approval of freeze-dried MVA-BN • Initiate deliveries of freeze-dried MVA-BN to the U.S. under current contract framework • Gain business within current use of smallpox vaccination in U.S. military personnel and first line responders • Expand sales in rest of world • Increase U.S. stockpiling requirements
EXPAND and rapidly ADVANCE the pipeline of infectious disease programs	• Launch RSV vaccine • Advance partnered programs • Advance infectious disease pipeline	• Finalize RSV development plan • Initiate Phase 1/2a study of HIV vaccine with Janssen • Initiate Phase 1 dose finding study of equine encephalitis virus vaccine	• Initiate Phase 3 trial of RSV vaccine • Seek registration of RSV vaccine in elderly • Enter license agreement with commercialization partner • Launch RSV vaccine in the U.S. and EMEA with partner • Continued support of Janssen projects (Ebola, HPV, HIV and HBV) towards licensure
ESTABLISH a broad and deep cancer immunotherapy portfolio	• Explore combination therapies with vaccines and standard of care • Explore more advanced combinations	• Initiate Phase 1 study of intra-tumoral administration of CV301 in solid tumors • Initiate Phase 1 study of intravenous administration of BN-Brachyury • Report initial ORR results from CV301 in combination with atezolizumab in bladder cancer • Report initial ORR results from Phase 2 study of BN-Brachyury in chordoma	• Seek proof-of-concept of combination treatments with CV301 and checkpoint inhibitors across multiple indications; three Phase 2 studies currently ongoing • Seek proof-of-concept for BN-Brachyury in chordoma as first indication • Explore new immunotherapy strategies and advance clinical development of new and enhanced candidates
EXPAND the commercial footprint and capabilities	• Take advantage of core manufacturing capabilities and capacity • Build commercial infrastructure to drive profitable growth	• Finalize construction of fill and finish facility	• Qualification and validation of fill and finish facility • Establish commercial operations in relevant markets when right product is available for commercialization.

FINANCIALS

FINANCIAL RESULTS FOR 2018

We achieved our planned financial goals for the year, while also managing the expenditures better than planned, contributing to result and cash preparedness at year-end better than guided.

Revenues were DKK 501 million and in line with guidance, and the result before interest and tax (EBIT) was a loss of DKK 354 million, compared to a guided loss of DKK 385 million.

The cash preparedness at year-end was DKK 2,314 million, compared to a guidance of DKK 2,100 million, and was composed of DKK 2,317 million in cash, cash equivalents and investments in securities and DKK 244 million in undrawn credit lines, offset by security lending of DKK 247 million.

For a detailed financial review, see page 64.

Financial performance for 2018 and outlook for 2019

DKK million	2018 guidance	2018 actual	2019 guidance
Revenue	500	501	600
Income before interest and tax (EBIT)	(385)	(354)	(360)
Cash preparedness, year-end	2,100	2,314	1,600

OUTLOOK FOR 2019

In 2019, we expect revenue of approximately DKK 600 million and a loss before interest and tax (EBIT) of approximately DKK 360 million. Our cash preparedness at year-end is expected to amount to approximately DKK 1,600 million, which includes cash, cash equivalents, investments in securities and the aggregate amount of undrawn credit lines.

Revenue

We only include signed contracts in our revenue expectations for 2019, which are comprised of revenue of approximately DKK 320 million from our MVA-BN smallpox vaccine business, including production and storage of MVA-BN smallpox vaccine for the U.S. Government. This is the second and final tranche of the current bulk order awarded in 2017. Furthermore, revenue of approximately DKK 280 million are expected from contract work. The majority of revenues are dollar-denominated, based on an exchange rate of DKK 6.50 per 1.00 USD.

Assumptions

In addition to factors already mentioned, the guidance is based on the following:

- Research and development costs of approximately DKK 570 million, of which DKK 150 million will be recognized as production costs.
- Investments of approximately DKK 270 million in the new fill and finish facility to secure future revenue, all in line with the original investment plan.

While the Company anticipates the award of a Priority Review Voucher upon the expected approval of liquid-frozen MVA-BN smallpox vaccine by the FDA in 2019, income from the sale of this voucher has not been included in the guidance.

Returning to profitability will be secured by the completion of our new fill and finish facility that will trigger the USD 299 million option to convert existing smallpox bulk to approximately 13 million MVA-BN doses.

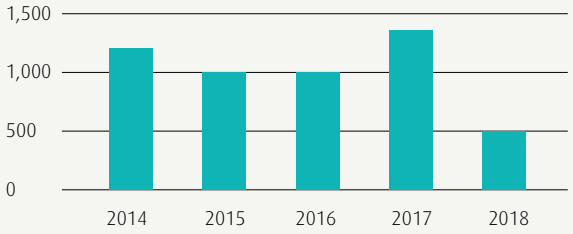
CONSOLIDATED KEY FIGURES

DKK million	2018	2017	2016	2015	2014
Income statement					
Revenue	500.6	1,370.2	1,006.7	1,020.6	1,216.8
Production costs	255.1	290.6	297.8	415.1	495.1
Research and development costs	386.3	518.4	463.2	386.8	478.9
Distribution and administrative costs	213.7	207.9	212.8	217.1	226.1
Income before interest and tax (EBIT)	(354.5)	353.2	33.0	1.6	16.7
Financial items, net	(2.2)	(50.9)	6.5	76.1	47.7
Income before company tax	(356.6)	302.3	39.5	77.6	64.4
Net profit for the year	(361.9)	181.3	30.6	59.4	25.9
Balance sheet					
Total non-current assets	552.7	382.2	541.1	585.0	568.1
Total current assets	2,508.3	2,770.5	2,282.6	1,404.3	1,319.1
Total assets	3,060.9	3,152.7	2,823.7	1,989.3	1,887.3
Equity	2,180.6	2,506.3	2,017.2	1,342.5	1,252.1
Non-current liabilities	397.6	399.8	54.7	56.6	51.9
Current liabilities	482.7	246.6	751.8	590.2	583.3

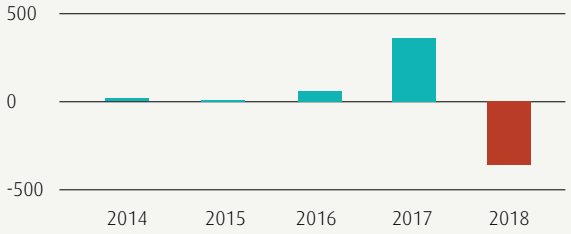
DKK million	2018	2017	2016	2015	2014
Cash flow statement					
Securities, cash and cash equivalents	2,317.2	2,583.7	1,899.9	1,058.2	979.7
Cash flow from operating activities	(288.5)	216.1	267.6	105.3	338.7
Cash flow from investment activities	17.1	(1,345.2)	(448.2)	(178.1)	(503.7)
– Investment in intangible assets	(10.2)	(22.3)	(43.7)	(28.3)	(53.6)
– Investment in property, plant and equipment	(201.8)	(56.4)	(47.8)	(31.7)	(52.4)
– Net investment in securities	229.2	(1,266.6)	(358.3)	(119.3)	(397.8)
Cash flow from financing activities	245.8	613.4	657.2	26.6	216.2
Financial ratios (in DKK) [1]					
Earnings (basic) per share of DKK 10	(11.2)	5.7	1.0	2.1	1.0
Net asset value per share	67.5	77.7	64.3	47.9	45.2
Share price at year-end	127	224	249	358	198
Share price/Net asset value per share	1.9	2.9	3.9	7.5	4.4
Number of outstanding shares at year-end (thousand units)	32,311	32,245	31,354	28,020	27,671
Equity share	71%	79%	71%	67%	66%
Number of employees, converted to full-time, at year-end	419	420	437	409	422

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

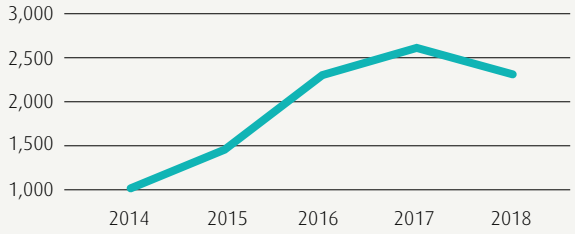
Revenue DKK million



EBIT DKK million



Cash preparedness DKK million



PRODUCT PIPELINE

Our pipeline comprises multiple product candidates addressing unmet needs in infectious diseases and cancer. Most of our programs are supported by external funding through either corporate or governmental partnerships.

Detailed descriptions of the programs, including results from clinical trials, are disclosed in company announcements and in the pipeline section on the Company's website: www.bavarian-nordic.com.

Product	Indication	Preclinical	Phase 1	Phase 2	Phase 3
INFECTIOUS DISEASES					
MVA-BN liquid-frozen [1]	Smallpox				
MVA-BN freeze-dried	Smallpox				
MVA-BN RSV	Respiratory Syncytial Virus				
MVA-BN Filo monovalent [2]	Ebola				
MVA-BN Filo multivalent [2]	Ebola/Marburg				
MVA-BN HPV + AdVac [2]	Chronic HPV infection				
MVA-BN HIV + AdVac [2]	HIV				
MVA-BN HBV + AdVac [2]	HBV				
CANCER IMMUNOTHERAPY					
CV301 + nivolumab	Colorectal cancer				
CV301 + atezolizumab	Bladder cancer				
CV301 + durvalumab	Colorectal and pancreatic cancer				
BN-Brachyury	Chordoma				
BN-Brachyury	Advanced solid tumors				

1. Approved in Canada (marketed as IMVAMUNE®) and the European Union (marketed as IMVANEX® in the EU).
2. Licensed by Janssen, who is responsible for the clinical development

INFECTIOUS DISEASE

A GLOBAL LEADER IN SMALLPOX VACCINES

Over the past decades, we have positioned ourselves as a global leader in smallpox vaccines. Our non-replicating vaccine has been developed to provide countries with an up-to-date preparedness for the general population, including those for whom replicating smallpox vaccines are contraindicated, in the event of a smallpox outbreak, whether deliberate or un-intended. Our strength and capabilities build on solid scientific progress as well as the continued expansion of our manufacturing capacity.

- MVA-BN is the only non-replicating approved smallpox vaccine in Europe and Canada
- We operate the worlds' only dedicated manufacturing facility for MVA-based vaccines, currently being expanded with a fill and finish facility.
- 28 million liquid-frozen doses supplied (now expired) to the U.S. for emergency use in people for whom replicating smallpox vaccines are contraindicated, such as people with HIV or skin allergies and their household contacts.

SMALLPOX

- Smallpox is an infectious disease caused by the variola virus
- The mortality rate is approximately 30%
- Estimated to have killed up to 300 million people in the 20th century
- Declared eradicated by WHO in 1980 after a global vaccination campaign
- Today smallpox is considered a potential bio-terror threat and as vaccination stopped in the 1970's the majority of the world's population are highly vulnerable

MVA-BN®

Approved / in registration

Based on Phase 2 data, MVA-BN has been approved as the only non-replicating smallpox vaccine in Europe (trade name IMVANEX®) for use in the general adult population and in Canada (trade name IMVAMUNE®) for use in a public health emergency for adults who are contraindicated to replicating smallpox vaccines.

In 2018, we submitted a Biologics License Application (BLA) to the U.S. Food and Drug Administration (FDA) for the liquid-frozen version of MVA-BN for active immunization against smallpox in adults age 18 years and older. The BLA was accepted in December and was granted priority review by the FDA, with completion of review in 2019. Upon approval, MVA-BN will be the first and only approved non-replicating smallpox vaccine in the U.S.

The regulatory submission for the MVA-BN smallpox vaccine is based on a comprehensive development program, comprising 22 clinical studies, including two Phase 3 studies; a lot-consistency trial in 4,000 subjects and a randomized, open-label study in 440 volunteers, comparing MVA-BN to ACAM2000, the current U.S. licensed, replicating smallpox vaccine.

The latter study showed that:

- Peak neutralizing antibodies induced by MVA-BN were two-fold higher than those stimulated by ACAM2000. This met the co-primary endpoint of non-inferiority and even showed a statistically superior immune response.
- Immune responses were shown to be non-inferior after a single MVA-BN vaccination - at a time when ACAM2000 is reported to have induced a protective response.
- No serious adverse events related to MVA-BN were reported, and the frequency of Grade 3 or higher related adverse events was less in MVA-BN (1.2%) in comparison to ACAM2000 (10.3%).

IN BRIEF

- Approved in Europe and Canada
- BLA for liquid-frozen formulation under priority review at the FDA with expected approval in 2019
- Phase 3 with freeze-dried formulation initiating in 2019

10-year contract framework with the U.S. Government

Since 2003, we have worked with the U.S. Government on the development and supply of MVA-BN as a non-replicating smallpox vaccine for people who are contraindicated to currently approved, replicating smallpox vaccines. Contracts awarded to-date represent more than USD 1.8 billion.

Most recently, in 2017, we were awarded a USD 539 million order from the U.S. Government for the supply of a longer-lasting, freeze-dried version of MVA-BN to the SNS to replace the current stockpile of liquid-frozen vaccines, which has expired.

Part of the order will ensure the completion of development of the vaccine, including a Phase 3 study, which will supplement the BLA we have already submitted to the FDA for the liquid-frozen version. Also, funds are dedicated to the transfer and validation of the freeze-drying production process.

We are also producing bulk vaccine worth of USD 100 million under this order (evenly split between 2018 and 2019), which will add to the existing stock of bulk manufactured under previous contracts (USD 233 million), collectively resulting in approximately 13 million doses for future delivery.

The majority of the initial order (USD 299 million), however, will be realized upon supply of the freeze-dried doses, which we will begin to manufacture in 2020 once our new fill-finish facility is operational.

The ten-year contract also includes pricing for additional orders of vaccine bulk and vaccine doses of either liquid-frozen or freeze-dried MVA-BN formulations to expand the U.S. stockpile, or for vaccination of first-line responders (military and healthcare workers).

AT THE FOREFRONT OF RSV VACCINE DEVELOPMENT

With no approved vaccines, RSV remains a high unmet medical need, particularly in children and elderly.

We have generated a unique vaccine candidate, which has been designed to provide broader immune responses than any other RSV vaccine candidate in development.

During 2018, we reported additional promising data from the Phase 2 development of our vaccine, which confirmed our leading position in this field. Based on discussions with the FDA, we are planning to initiate a Phase 3 study in 2020.

Respiratory syncytial virus (RSV) is a common virus that usually causes mild, cold-like symptoms, but in serious cases can cause life-threatening lower respiratory infections. Those at risk are typically young infants and elderly as well as people with weakened immune systems. RSV-induced infections result in a similar number of hospitalization and deaths in the elderly population, as influenza.

RSV

- 64 million infections annually worldwide
- Can cause severe lung infections, including bronchiolitis and pneumonia
- Approx. 177,000 older adults are hospitalized annually, and about 14,000 of them die from RSV-induced infections (U.S.)
- No approved vaccines for the prevention of RSV

MVA-BN RSV

Phase 2

MVA-BN RSV is our product candidate for the prevention of RSV. The vaccine incorporates five different RSV antigens to stimulate a broad immune response against both RSV subtypes (A and B), thus mimicking the immune response observed following a natural response to an RSV infection.

We have rapidly advanced the clinical development of the vaccine and have generated highly promising Phase 2 results, confirming both broad and durable antibody and T cell responses against RSV, as well as mucosal immune responses that may be important for protection against RSV. The Phase 2 program in elderly included a revaccination of subjects after one year, following which the immune responses were rapidly and significantly increased, notably in subjects with the weakest immunity prior to the booster vaccination.

Discussions are ongoing with the FDA about the requirements for U.S. licensure of MVA-BN RSV in elderly, and during 2019, we expect clarity on the design of Phase 3, which is planned for initiation in 2020.

IN BRIEF

- MVA-BN RSV incorporates five different RSV antigens
- Phase 2 study in 421 elderly subjects concluded, confirming a broad and durable immune response
- Favorable safety profile
- Registration trial in the planning

OUR PARTNERSHIP WITH JANSSEN

EBOLA, HIV, HPV, HBV

Spurred by the Ebola crisis in 2014, we entered a commercial partnership with Janssen who first in-licensed our MVA-BN Filo (Ebola) vaccine candidate. Since then the partnership has further evolved to include vaccines for HPV, HIV and HBV.

The license agreements and related development covering all four indications total more than USD 1.2 billion of which approximately USD 1 billion are outstanding in milestone payments in addition to potential future royalties. Janssen's parent company, Johnson & Johnson is a major shareholder of Bavarian Nordic with ownership interests of more than 5%.

IN BRIEF

- Ebola vaccine currently in Phase 3 clinical trials
- HPV therapeutic vaccine for chronic disease currently in Phase 1/2a clinical trials
- HIV therapeutic vaccine for chronic disease initiating clinical trials in 2019
- USD 1 billion are outstanding in milestone payments in addition to potential future royalties

EBOLA

Until 2014, outbreaks of Ebola had been sporadic and limited to local regions in Africa. However, the large outbreak in West Africa, which became an international concern, and recurring outbreaks have made it a prioritized target for the global community. Our partner, Janssen is leading the development of a prophylactic Ebola vaccine, and has put large efforts into establishing the necessary infrastructure for production, supply, and deployment of vaccines for future outbreaks.

EBOLA

- Ebola virus disease causes severe hemorrhagic fever in humans, often leading to death. The virus is transmitted to people from wild animals and spreads in the population through human-to-human transmission.
- Average mortality rate of 50%, going up to 90% of the infected subjects
- The 2014-2015 outbreak in West Africa infected almost 30,000 people of which more than 11,000 died
- Current outbreak in DR Congo is the second-worst ever with more than 800 infected (as of March 2018) and a mortality rate over 60%
- No approved vaccines

MVA-BN FILO

Phase 3

MVA-BN Filo is a multivalent vaccine candidate designed to provide protection against the most common causes of viral hemorrhagic fever; Ebola and Marburg virus. While several sub-types of Ebola are known, our vaccine is targeting the Zaire and Sudan strains, which are considered the most important from a public health perspective.

The initial development of the vaccine was sponsored by the U.S. National Institutes of Health, and is now managed by Janssen, who licensed MVA-BN Filo for use in a prime-boost vaccine regimen together with their adenovirus–based vaccine candidate, Ad26.ZEBOV.

Clinical results so far reported indicate that Ad26.ZEBOV prime immunization readily induces an immune response which is enhanced further by MVA-BN-Filo boosting, inducing a durable immunity to Ebola Zaire, and that both the prime and boost are well tolerated with a good safety profile. While several other vaccine candidates have also shown promising efficacy signals, they lack the ability to provide long-term protection.

Janssen has rapidly advanced the development of the vaccine with multiple clinical Phase 1, 2 and 3 trials ongoing in parallel in healthy adults, children, elderly and immunocompromised populations across Europe, USA and Africa with the goal of ultimately registering the vaccine.

HPV

MVA-BN HPV

Phase 1/2a

Our HPV vaccine is the second program under our strategic partnership with Janssen to enter clinical trials. The vaccine aims to address the significant unmet need in women living with chronic HPV infections, who do not benefit from the current approved prophylactic vaccines, and thus may be at risk of developing cervical cancer.

With Janssen we are working to develop a therapeutic vaccine for women with persistent infection with HPV high-risk subtypes 16 and 18, with a focus on early disease interception. The vaccine candidate employs our MVA-BN HPV vaccine in a prime-boost vaccine regimen with Janssen's AdVac technology.

A Phase 1/2a clinical study evaluating the prime-boost vaccine regimen in female subjects with chronic infections with high risk HPV subtypes was initiated in early 2019.

HPV

- The most prevalent sexually transmitted disease in the world
- There are more than 100 types of HPV, of which two types (16 and 18) cause 70% of all cervical cancers
- Primary cause of cervical cancer and certain types of head and neck cancer
- Worldwide, cervical cancer results in more than 300,000 deaths every year
- Despite availability of prophylactic vaccines, many women are living with chronic HPV infections, which cannot be treated with current vaccines.

Source: WHO, www.who.int/news-room/fact-sheets/detail/human-papillomavirus-(hpv)-and-cervical-cancer

HIV

MVA-BN HIV

Preclinical

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

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

With Janssen we are working to develop a therapeutic vaccine for those already infected with HIV, with the aim to provide a functional cure for the patients. The vaccine candidate employs our MVA-BN HIV vaccine in a prime-boost vaccine regimen with Janssen's AdVac technology.

A Phase 1/2 to evaluate the safety, efficacy and immunogenicity of the vaccine regimen in HIV-1 infected adults has been planned for initiation during 2019.

Source: WHO, www.who.int/news-room/fact-sheets/detail/hiv-aids

HBV

MVA-BN HBV

Preclinical

While preventative vaccines have helped to reduce the worldwide incidence of HBV significantly over the years, it is estimated that more than 250 million people are living with chronic HBV infection.

HBV annually causes nearly 900,000 deaths from cirrhosis and liver cancer, with approximately 60 percent of hepatocellular carcinoma attributed to HBV infection. Current recommended therapies are unable to cure the infection, requiring most people to continue treatment for life.

With Janssen we are working to develop a therapeutic vaccine for those already infected with HBV, with the aim to provide a functional cure for the patients to address the huge burden of the disease worldwide.

The vaccine candidate employs our MVA-BN HBV vaccine in a prime-boost vaccine regimen with Janssen's AdVac technology.

Sources: WHO, www.who.int/news-room/fact-sheets/detail/hepatitis-b

→ EMPOWERING THE BODY *TO FIGHT BACK*

CANCER IMMUNOTHERAPY

We are rapidly advancing our next-generation of immuno-oncology candidates.

Leveraging our MVA-BN platform technology, we aim to activate a targeted immune response, arming the body's own immune system to seek and destroy cancer cells.

Providing the body with as many weapons as possible significantly increases its chances to eradicate the disease. This tactic includes: priming antigen-specific T cell activation; inducing T cell expansion, migration, and invasion into tumor sites; modifying tumor microenvironments to allow T cell function and killing; induction of natural killer cells to account for tumor cells that cannot be recognized by T cells; and overcoming T cell inhibitory (checkpoint) signals.

Our strategy is to incorporate as many of these tools as possible in order to produce safe, potent and sustained anticancer activity in common and rare solid tumors. We have strengthened our two most advanced immuno-oncology candidates, CV301 and BN-Brachyury, by refining them to target antigens, CEA, MUC1 and brachyury, that are overexpressed on numerous solid tumors. These changes have led to CV301 demonstrating T cell activation against the target antigens in about 90% of vaccinated patients. CV301 and BN-Brachyury also benefit from an augmented dosing regimen of 2 priming doses in 4 different areas (as compared with prior constructs), which appears to increase the quantity of antigen-specific T cells in vaccinated patients.

Preclinical data with similar constructs indicates CV301 may provide even further benefit when used with checkpoint inhibitors, which would allow those activated T cells to invade into tumors and kill tumor cells more efficiently by overcoming known mechanisms of T cell suppression at the leading edge of the tumor. Combining CV301 and BN-Brachyury with other therapies, such as checkpoint inhibitors, radiation and chemotherapy, is believed to amplify the body's ability to recognize, infiltrate and kill cancer cells.

The evolution of the Bavarian Nordic's immuno-oncology platform has expanded into developing innovative delivery methods for its drug candidates. Intra-tumoral (directly into the tumor) injections and intravenous administrations are promising approaches that stand to utilize broader aspects of the immune response while improving T cell activation and function. Both of these new approaches are expected to enter the clinic in 2019. ■

"I'm convinced it's no longer a matter of if we'll find a cure for chordoma, just a matter of when

— **Josh Sommer**
Chordoma patient,
Co-Founder and Executive Director,
Chordoma Foundation

CHORDOMA

Josh Sommer was diagnosed with chordoma in 2006. Unwilling to accept the limited treatment options available to chordoma patients, he spent the next years studying chordoma. There he experienced the very practical challenges facing chordoma researchers – insufficient funding; scarcity of tissue, cell lines and animal models needed for experiments. To address these issues and promote research for this rare, and often deadly cancer, Josh co-founded the Chordoma Foundation in 2007.

Chordoma
Chordoma is a rare tumor that forms in the spine and base of the skull.

It develops from a type of cell inside the bone called notochordal cells. During embryonic development, these cells make up an important structure, which is essentially the scaffolding on which the bones of the spine develop. In about 20% of the population they continue growing very slowly throughout one's life and form small harmless tumors in the spine called benign notochordal cell tumors (BNCTs). Very rarely one of these BNCTs becomes cancerous and turns into a malignant tumor, which is called a chordoma.

Currently, there are no approved drugs for the treatment of chordoma, and patients are truly limited in their options to control the disease, particularly in the advanced stage. The overall disease incidence of chordoma is low - with just 1,000 new cases reported in the U.S. and E.U. annually, and 10,000 people living with the disease.

We spoke with Josh about his experiences navigating the disease and his call to advance the search for a cure.

What made you start the Chordoma Foundation?
– Getting diagnosed with cancer at age 18 is challenging enough but having a tumor that virtually no one had heard of or knew anything about made the situation feel that much more daunting. Fortunately, soon after my diagnosis, I was able to connect with several other patients. They were very reassuring and provided invaluable guidance. And, eventually, after I had recovered, these conversations turned to brainstorming about what we might do together to improve the odds for those of us affected by this rare disease. That was a big part of the inspiration for starting the Chordoma Foundation. →

> **"There are two emerging treatment approaches that I am the most excited about and that I think have the greatest potential to dramatically change the treatment of chordoma**
>
> **— Josh Sommer**
> Chordoma patient, Co-Founder and Executive Director, Chordoma Foundation

When you received your diagnosis, about 12 years ago now, what were the different treatment options that your doctor discussed with you to help guide your decision?

– At that point, the standard treatment for skull base chordoma was surgery, plus or minus radiation. The consensus seemed to be a type of radiation called proton beam, which is much more precise, would be the best option.

How have treatment options evolved since your diagnosis, if at all?

– Fundamentally, treatment options for primary chordoma have not changed much since I was diagnosed. Even with state of the art care, too many patients continue to have recurrences and at that point the options are still not great. A very small number of these patients may be cured with further surgery and radiation, but in most cases recurrent chordoma remains incurable. Thankfully, there are now several new and emerging treatment options currently being tested in clinical trials which have the potential to be much more effective than any of the systemic therapies commonly used to treat recurrent or advanced chordoma.

What did you learn from your experience while studying chordoma?

- Several things. First, it opened my eyes to the incredible potential of science to enable us to understand cancer at a fundamental level and to develop highly specific and powerful treatments based on that understanding. As I learned more about the technologies at our disposal, I became convinced that it was only a matter of time before better treatments and ultimately a cure for chordoma would be found.

What kind of progress do you hope to see for chordoma patients in the next 5-10 years? What are you most excited about?

- I have a high degree of confidence that within the next 5-10 years there will be drugs available to chordoma patients that can significantly slow the progression of their disease if not turn it into a chronic disease. At first, they will be used to treat recurrent and advanced disease, but

I'm also hopeful that within that timeframe they will also turn out to provide newly diagnosed patients with an alternative to surgery and/or radiation.

There are two emerging treatment approaches that I am the most excited about and that I think have the greatest potential to dramatically change the treatment of chordoma. The first are treatments that target brachyury, which is the defining marker and Achilles heel of chordoma. The second are immunotherapies, which harness the power of the immune system to find, attack, and destroy specific diseased cells within the body. If I had to guess I would imagine that some combination of these two approaches will provide the key to curing chordoma. ■

Josh Sommer is not affiliated with, nor has he received compensation from Bavarian Nordic. Dr. Chris Heery, Chief Medical Officer at Bavarian Nordic, serves on the Medical Advisory Board of the Chordoma Foundation.

"I have a high degree of confidence that within the next 5-10 years there will be drugs available to chordoma patients that can significantly slow the progression of their disease if not turn it into a chronic disease

— **Josh Sommer**
Chordoma patient,
Co-Founder and Executive Director,
Chordoma Foundation

BN-Brachyury

Phase 2 in chordoma

Our novel immunotherapy candidate, BN-Brachyury, utilizes a prime-boost vaccination regimen that has been optimized to include the gene for brachyury and other molecules known to increase immune activation. Brachyury is a transcription factor that is believed to play a prominent role in the metastasis and progression of tumors, and a key prognostic indicator of several common (e.g. colorectal, prostate, small cell lung, and triple negative breast cancer) and rare or orphan (e.g. chordoma, thyroid, neuroendocrine) cancers. Expression of brachyury is highly correlated with metastatic disease, poor overall survival, multi-drug resistance, and decreased survival rates.

A Phase 2 clinical trial is ongoing in patients with advanced chordoma. The multi-site trial, which holds the potential to serve as a registration trial, aims to determine if the combination of BN-Brachyury and the current standard of care, radiation therapy, results in a clinically meaningful objective response rate (ORR) within 12 months of radiation therapy, a timeframe during which historical controls show an ORR of less than 5% with radiation alone.

In early 2019, the first 10 patients had been enrolled, thus completing recruitment of stage 1 of the study. First results from this stage are expected to become available in the second half of 2019. If at least one objective response occurs in the first 10 patients, the study will advance into stage 2 with enrollment of additional 19 patients with an overall goal of 4 objective responses for all patients in the study for a successful outcome.

BN-Brachyury has received orphan drug status from the FDA in the treatment of chordoma.

Orphan Drug Designation

The orphan drug designation supports the development of medicines for safe and effective treatment, diagnosis or prevention of rare diseases or disorders that affect fewer than 200,000 people in the U.S.

Orphan drug designation may provide certain benefits, including a seven-year period of market exclusivity if the drug is approved, tax credits for qualified clinical trials and an exemption from FDA application fees.

CV-301

Phase 2 in multiple cancers

Combination treatment with checkpoint inhibitors

CV301 is a cancer immunotherapy candidate that targets tumor-associated antigens, CEA and MUC1, which are overexpressed on numerous solid tumors, including bladder, colorectal and pancreatic cancers. Preclinical data suggests that CV301 may have synergistic effect with checkpoint inhibitors and the possibility of benefitting the 70-95% of patients (depending on tumor type) who do not respond to checkpoint inhibitors alone.

As planned three proof of concept Phase 2 studies were initiated in 2018 in collaboration with pharmaceutical companies and investigators to evaluate CV301 in combination with immune checkpoint inhibitors in clinical trials that employ adaptive trial designs to provide capital-efficient, rapid proof of concepts:

Bladder cancer
A Phase 2 study, sponsored by Bavarian Nordic, is evaluating CV301 and atezolizumab (TECENTRIQ®) in metastatic bladder cancer. The study will initially enroll 13 patients in each of two cohorts (total 26 patients) evaluating the combination therapy in either platinum-eligible, or platinum-refractory patients. This study was amended to include multiple efficacy thresholds and will not enroll additional patients without early indications of activity (ORR and PFS).

Colorectal cancer
A Phase 2, investigator-led study is evaluating CV301, nivolumab (OPDIVO®) and chemotherapy in resectable oligometastatic microsatellite stable colorectal cancer. The study will enroll up to 78 patients randomized between standard perioperative chemotherapy with nivolumab or chemotherapy with nivolumab plus CV301. The primary endpoint is Overall Survival (OS). Other key endpoints (secondary and exploratory) include early indicators of clinical benefit, including pathologic complete response rate (pCR) at the time of surgery, as well as biologic mechanistic evaluations on resected tumor tissue, including gene expression profiling, T cell infiltration, T cell clonal expansion, and multiplex immunofluorescence to evaluate TME modification.

Pancreatic and Colorectal cancer
A Phase 1/2, investigator-led study is evaluating CV301 and durvalumab (IMFINZI®) in pancreatic and colorectal cancer. The study will enroll up to 26 patients in each disease if early indicators of efficacy are reached, with a primary endpoint of Progression Free Survival (PFS).

→ GIVING CANCER TREATMENT *A NEW LIFE*

CORPORATE INFORMATION

THE BAVARIAN NORDIC SHARE

Bavarian Nordic is listed on the Nasdaq Copenhagen exchange under the symbol BAVA. The Company's share capital was DKK 323,105,650 by year-end 2018, comprising 32,310,565 shares with a nominal value of DKK 10 each. Each share carries one vote. During the year, 65,500 new shares were issued as a result of warrant exercise by employees.

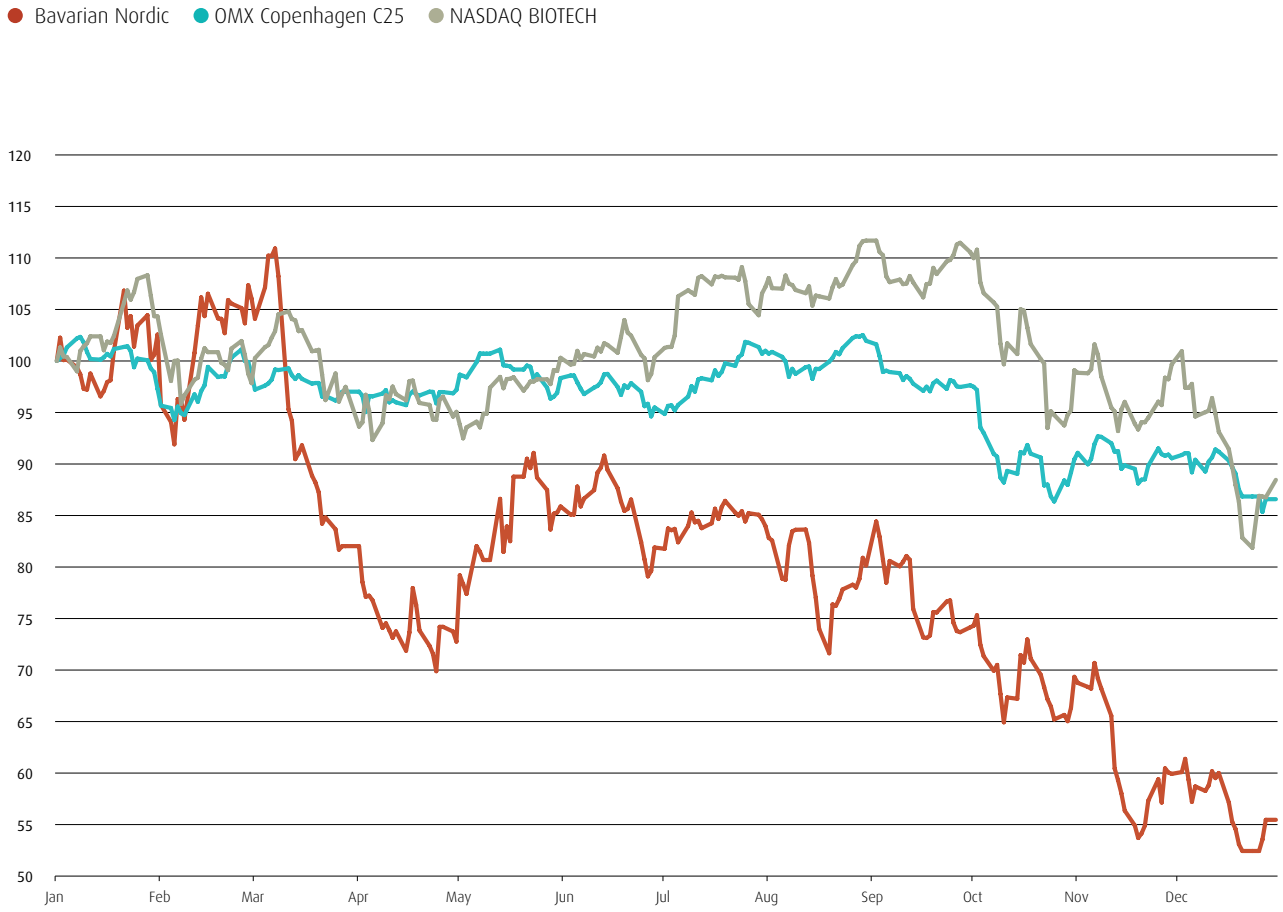
By December 31, 2018, there were 1,837,671 outstanding warrants, which entitle warrant holders to subscribe for 1,837,671 shares of DKK 10 each. Thus, the fully diluted share capital amounted to DKK 341,482,360 at year-end.

Ownership

As of December 31, 2018, Bavarian Nordic had 52,702 registered shareholders owning 29,467,645 shares. The following shareholders had publicly informed Bavarian Nordic that they own five per cent or more of the Company's shares:

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

Share price development compared to indices 2018



Bavarian Nordic held 50,673 own shares as treasury shares, corresponding to 0.16% of the share capital. The shares have been repurchased to hedge obligations under incentive scheme for the Company's Board and Executive Management. See note 27 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 on Wednesday, April 24, 2019 at 4:00 PM CET, at:

Comwell Borupgaard
Nørrevej 80
DK-3070 Snekkersten

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

Investor relations

Bavarian Nordic maintains an active dialogue with shareholders, analysts, prospective investors and other stakeholders by providing relevant, timely and correct communication about relevant strategic, economic, financial, operational and scientific affairs of the Company. Management and Investor Relations are widely available to existing as well as potential shareholders via participation in investor conferences, roadshows, investor meetings and conference calls. A list of the current analysts covering Bavarian Nordic can be found at our website along with financial reports, company announcements, investor presentations, and more: www.bavarian-nordic.com/investor.

Are you a shareholder?

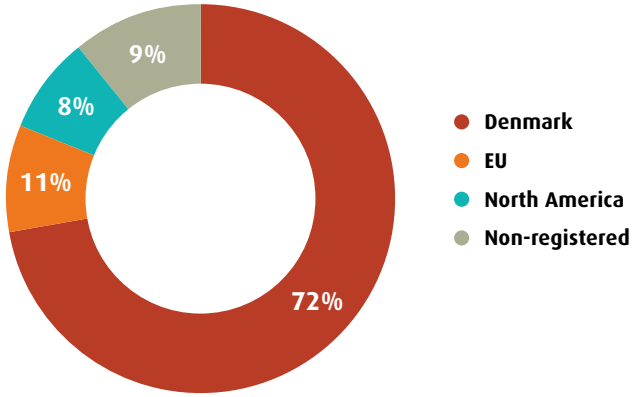
Registered shareholders are offered a range of electronic information services through the shareholder portal, which can be accessed from the Company's website. The portal also offers the opportunity to request admission cards and/or vote by proxy for the general meetings. Shareholders are encouraged to have their shares registered with the Company; registration must be through the holder's custodian bank. Shareholders are also encouraged to sign-up for receiving company announcements via e-mail from the Company: www.bavarian-nordic.com/investor.

Our investor relations team can be contacted on investor@bavarian-nordic.com.

Financial calendar 2019

April 24, 2019	Annual General Meeting
May 22, 2019	Financial Statements for the first quarter of 2019 (Q1)
August 15, 2019	Financial Statements for the first half of 2019 (Q2)
November 7, 2019	Financial Statements for the first nine months of 2019 (Q3)

Distribution of share capital



CORPORATE SOCIAL RESPONSIBILITY

No other health intervention touches so many lives as vaccines. The development of new vaccines and increased vaccination efforts, particularly in developing countries, have helped to significantly reduce the incidence of major communicable, life-threatening diseases. It is estimated, that vaccines have reduced these diseases by more than 90% over the past three centuries[1].

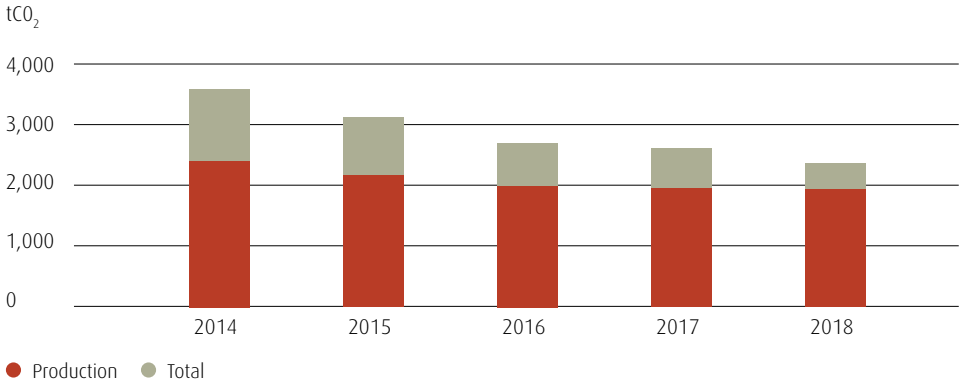
Vaccines work, and they contribute to the United Nations sustainable development goal[2] (SDG) number 3, "Good health and well-being" all around the world. However, according to Gavi[3] , the Vaccine Alliance, immunization positively impacts, directly or indirectly, 14 of the 17 SDGs that support the 2030 Agenda for Sustainable Development, adopted by United Nations in 2015.

Our contribution, as a vaccines company, may seem small in the global perspective, but we are here to help achieve the goal for securing good health and well-being of all humans.

While pursuing this goal, we recognize the importance of protecting the world around us, and act responsibly in all matters. We seek to communicate openly and transparently about our CSR efforts, which particularly focus on minimizing the environmental impact from our production, but also concentrate on the safety and well-being of our employees, as well as other areas of relevance to our business. We account annually for the development in these areas in our CSR report which constitutes an independent part of the annual report, and also covers sections 99a and 99b of the Danish Financial Statements Act.

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

Emissions



Other non-financial key figures

	2018	2017	2016	2015	2014
Production					
Energy consumption (mWh)	9,035	8,916	9,602	8,449	7,905
Waste water (m^3)	8,543	7,486	8,689	7,660	7,856
Waste (metric tons)	130	151	154	145	117
Recycling of waste	42%	40%	43%	9%	11%
Employees					
Employees, total at year-end	433	435	457	426	437
Sickness absence	2.9%	3.7%	3.6%	3.9%	3.1%
Accidents (frequency per million working hours)	2.7	3.9	1.3	8.2	1.4
Ratio of men to women in management positions	50%/50%	51%/49%	48%/52%	51%/49%	47%/53%

1. www.who.int/immunization/monitoring_surveillance/data/gs_gloprofile.pdf
2. www.un.org/sustainabledevelopment/sustainable-development-goals/
3. www.gavi.org/about/ghd/sdg/

→ HARNESSING THE POWER OF HUMANS

CORPORATE GOVERNANCE

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

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

In accordance with Section 107 b of the Danish Financial Statements Act, Bavarian Nordic has published a statutory report on Corporate Governance for the financial year 2018 on the Company's website: www.bavarian-nordic.com/corporategovernance.

The Board of Directors

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

The Board consists of 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.

Board Committees

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

Diversity in the Board

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

Evaluation of the Board

The Board and its subcommittees conduct every year a self-evaluation of the Board's and subcommittee's work, accomplishments and composition. The Chairman heads the annual evaluation, which is conducted at least every third year by an external consultant. The process, whether it is facilitated internally or by external consultants, evaluates topics such as board dynamics, board agenda, quality of the material that is submitted to the Board, discussions at the Board meetings, the chairman's leadership of the Board, strategy, Board composition and Board competencies. Typically, the process is further facilitated by each Board member filling out a detailed questionnaire, and the Board members are asked to score to which extent they agree to the individual questions. The results of the questionnaire are then discussed at a subsequent Board meeting, and the individual comments submitted are used in the planning and handling of future Board meetings. In 2018, the self-evaluation was facilitated by an external consultant and, in general, key conclusions were positive with a continued satisfaction with the Board's work as well as the work in the committees. Continued optimization of Board meeting structures will also be a focus area in 2019.

For more details on the work and composition of the Board and its committees, reference is made to the statutory report on Corporate Governance on the Company's website: www.bavarian-nordic.com/corporategovernance.

RISK MANAGEMENT

Bavarian Nordic sees risk management as an integrated part of the Company's operations and applies a bottom-up/top-down approach to identify and manage risks. Key risks are at first identified via a bottom-up process and reported to management with description of mitigating actions being taken to reduce risk or mitigate potential impact. Residual risk is mitigated by insurance cover where relevant and possible. Major risks are reported to the Finance, Risk & Audit Committee (FRAC) and discussed at FRAC meetings. The Board of Directors regularly receives reports on these initiatives, which then form part of the Board's overall assessment and decisions about the Company's activities and future. The table below summarizes some of the key risks that are important to Bavarian Nordic's business including examples of mitigating actions.

Risk area	Risks	Mitigating actions
Development	The development of a product can be delayed or even abandoned. The process involves pre-clinical and clinical tests as well as regulatory approval and even approval of manufacturing facilities in some cases. All steps through development are associated with risks and can fail.	· Close dialogue with authorities (e.g. FDA) to secure optimal path to approval and compliance with GMP etc. · Strong quality system in place to ensure compliance with standards agreed with and required by authorities. · Use of adaptive trial designs to minimize financial risk and impact of failure.
Laws and regulations	Not complying with laws and regulations could damage the Company's reputation, result in significant fines and impede the Company's ability to operate.	· Internal legal resources available. · Monitor development in relevant laws and regulations. · Allocation of internal resources to secure adaptation of new rules and regulations.
Financing	Long periods with negative cash-flow will reduce the cash preparedness and could eventually make it difficult for the company to pursue the strategy involving a.o. investments in development and manufacturing facilities.	· Ensure good financial visibility by forecasting. · Secure optimal timing of income from partner agreements. · Keep spending and investment level at appropriate levels to stretch liquidity runway.
Cybersecurity	Disruptions to IT systems, e.g. caused by virus attack, may happen and could have significant impact on the company's ability to operate effectively.	· Internal procedures for continuous security monitoring and vulnerability assessment. · Continuous development of preventative measures. · Continuous internal IT security training to build awareness. · Annual security penetration tests and audits by third party.
Supply and manufacturing	Disruptions to the supply chain caused by break-downs in facilities, third party supply and/or manufacturing issues or similar could have a significant impact on the ability to supply products and could impact both customer relations and financial performance.	· Internal quality audits, including mock inspections. · Secure adequate inventory strategy including dual sourcing. · Shelf-life extension initiatives. · Disaster recovery plans and back-up strategies.
Partnering	Partnering with other companies and government bodies in the industry is a central element of the Company's strategy. Loss of partnerships, e.g. due to collaboration issues, failed projects or similar, could have a significant impact on the Company's reputation and future performance.	· Frequent interactions with partners to build and maintain common understanding. · Processes in place to resolve potential issues.
Attraction and retention of talent	Not being able to attract and retain sufficient talents could impact the company's ability to perform at high standards and compete against other companies.	· Perform employer branding. · Provide training and development. · Offer competitive remuneration package. · Identifying and working with key talents.
Intellectual property rights (IP)	The validity of patents is crucial for the Company to secure future revenues and return on the investments made in development. Patents might be challenged by competitors.	· Dedicated and experienced resources involved in the filing of patent applications to minimize vulnerability to future invalidity actions, and with ability to defend patents if such actions are filed.
Currency exposure and tax disputes Currency risks and additional financial risks are further explained in note 23 in the consolidated financial statements.	Significant fluctuations in the DKK/USD exchange rate will impact financial statements and potential disputes with tax authorities could result in additional tax payments.	· Aim to create natural hedges by matching income and expenses in USD. · Material net USD exposure is hedged using FX contracts or options. · Taxes are paid where the Company operates, and intercompany transactions are priced and governed by agreements in compliance with OECD's transfer pricing guidelines. · Proactive work with tax authorities to ensure alignment on tax situation and avoidance of negative surprises.

REMUNERATION REPORT

Bavarian Nordic A/S' remuneration policy contains principles for remuneration, as well as the general guidelines for incentive remuneration, of the Board of Directors (the "Board") and the Executive Management. The remuneration policy has been published on the Company's website: www.bavarian-nordic.com/corporategovernance.

General principles
The policy of the Company is that remuneration of the Board and Executive Management must be competitive and comparable to remuneration in relevant peer companies. It is important to be able to recruit, retain and motivate competent and loyal members to the Company's Board and Executive Management. In the opinion of the Company, remuneration, including incentive remuneration of the Board and the Executive Management, is an essential element of this.

It is important that incentive-based remuneration of the Board and the Executive Management contributes positively to motivating the recipient to deliver that extra performance needed to achieve short-term and long-term goals. Share-based schemes create shared interests between the Board member, the Executive Management and shareholders, which helps to secure the shareholders' interest in increased value creation in the Company.

Cash bonus schemes for achieving short term goals
The Board has assessed that incentive remuneration in the form of cash bonus can be offered to the Executive Management for promoting specific and measurable short-term results within the business area in which the member has an influence.

The cash bonus schemes are defined on an annual basis by setting the financial and operational targets to be met for bonuses to be paid out. The maximum bonus that can be paid to individual members of the Executive Management corresponds to six-month base salary if all financial and operational targets are met for the financial year.

Targets for the President & CEO are set by the Board, and for other members of the Executive Management by the President & CEO and the Chairman of the Board. Bonus targets are set by the end of the year for the following year but can, in exceptional cases, be linked to targets, which extend over a longer period of time.

The bonus level for 2018, which will pay out in 2019, is based on achievement of key milestones for the year, including examples like the fulfilment of the Company's financial guidance, the FDA acceptance and priority review of the BLA for the Company's MVA-BN liquid-frozen smallpox vaccine candidate, finalization of the RSV booster study, initiation of three Phase 2 trials of CV301 in multiple cancers, initiation of Phase 2 study of Brachyury in Chordoma, and the progress in the construction of the new fill and finish facility.

The Board may decide to defer the payment of all or part of an achieved cash bonus for three years by converting the deferred bonus into a number of restricted stock units.

In exceptional cases, separate agreements may be entered with members of the Executive Management, which can result in payment of a bonus of up to an additional one year's base salary for that member of the Executive Management.

Share-based schemes for achieving long term goals
With the purpose of promoting and achieving long-term goals for the Company, and thereby contributing to the Company's development and growth, incentive remuneration in the form of share-based schemes can be offered to the Board and to the Executive Management.

For Executive Management share-based schemes are designed as either a grant of warrants free of charge or the grant of restricted stock units in connection with the deferral of payment of a cash bonus which includes matching shares. Members of the Board may only receive share-based incentive remuneration in the form of restricted stock units. →

Remuneration of individual members of the Executive Management

DKK thousand	2018	2017	2016
Paul Chaplin			
Salary	5,680	5,245	5,548
Bonus	869	993	969
Other employee benefits	671	704	958
Share-based payment [1]	1,097	2,153	4,100
Total remuneration	**8,317**	**9,095**	**11,575**
Henrik Juuel [2]			
Salary	444	-	-
Bonus	73	-	-
Contribution based pension	44	-	-
Share-based payment [1]	1,154	-	-
Total remuneration	**1,715**	**-**	**-**
Henrik Birk [3]			
Salary	2,374	2,160	-
Bonus	416	432	-
Other employee benefits	157	157	-
Contribution based pension	237	216	-
Share-based payment [1]	444	794	-
Total remuneration	**3,628**	**3,759**	**-**

DKK thousand	2018	2017	2016
Tommi Kainu [4]			
Salary	2,546	1,193	-
Bonus	471	264	-
Other employee benefits	192	96	-
Contribution based pension	255	119	-
Share-based payment [1]	488	264	-
Total remuneration	**3,952**	**1,936**	**-**
Ole Larsen [5]			
Salary	2,035	3,474	3,388
Bonus	-	1,395	680
Other employee benefits	115	180	176
Contribution based pension	204	347	339
Share-based payment [6]	115	903	3,379
Salary and benefits in notice period	3,611	-	-
Total remuneration	**6,080**	**6,299**	**7,962**
Total remuneration of Executive Management	**22,692**	**21,089**	**19,537**

1. The amount vested for the year measured at the current market value at the end of the respective year.
2. Joined on November 1, 2018
3. Appointed member of Executive Management on January 17, 2017
4. Joined on July 1, 2017
5. Resigned on July 31, 2018
6. The amount vested for the year measured at the current market value at July 31, 2018

Remuneration of the Executive Management
The remuneration of the Executive Management consists of base salary, pension contribution, company car, certain other benefits and post-employment compensation, cash bonus scheme, participation in share-based incentive schemes, and remuneration for achieving certain milestones within certain deadlines.

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

Executive Management's ownership interests in Bavarian Nordic

	Holding as of January 1, 2018	Purchased/ granted	Sold/exer-cised	Holding as of December 31, 2018	Market value DKK million
Paul Chaplin					
Shares	39,800	30,000	-	69,800	8.9
Restricted Stock Units	11,517	6,095	-	17,612	2.2
Warrants	234,841	57,749	(30,000)	262,590	- [1]
Total					**11.1**
Henrik Juuel					
Shares	-	250 [2]	-	250	-
Restricted Stock Units	-	10,150 [3]	-	10,150	1.3
Warrants	-	53,625	-	53,625	- [1]
Total					**1.3**
Henrik Birk					
Shares	-	-	-	-	-
Restricted Stock Units	-	2,651	-	2,651	0.3
Warrants	43,996	29,212	-	73,208	- [1]
Total					**0.3**
Tommi Kainu					
Shares	-	-	-	-	-
Restricted Stock Units	-	1,620	-	1,620	0.2
Warrants	59,881	34,458	-	94,339	- [1]
Total					**0.2**
Total Executive Management					**12.9**

1. No value, as the warrants had a higher exercise price than the Company's share price at December 31,2018.

2. Shares were purchased during 2018, before Henrik Juuel took up the position as CFO on November 1, 2018

3. Henrik Juuel was granted a sign-on bonus of 10,150 restricted stock units, including matching shares.

Further information on the incentive programs for Executive Management are disclosed in note 27 in the consolidated financial statements.

Remuneration of the Board

The remuneration of the Board consists of fixed fees for Board and board committee membership, reimbursement of certain expenses, an overseas-travel fee or a fixed attendance fee, and restricted stock units with a value equivalent to 50% of the fixed fee for Board membership.

In 2018, the fixed fee for board membership was DKK 300,000. The chairman and deputy chairman receive a fee that is two and a half times and one and a half time the fixed fee respectively.

The fixed fee for membership of a board committee was DKK 100,000. The chairman of a committee receives a fee that is one and a half time the fixed fee. →

Remuneration of individual members of the Board of Directors

DKK thousand	2018	2017	2016
Gerard van Odijk (Chairman)			
Board and committee fees	900	900	900
Attendance fees	63	30	25
Share-based payment	375	375	170
Total	**1,338**	**1,305**	**1,095**
Anders Gersel Pedersen (Deputy chairman)			
Board and committee fees	550	550	550
Attendance fees	68	35	40
Share-based payment	225	225	170
Total	**843**	**810**	**760**
Claus Braestrup [1]			
Board and committee fees	133	400	400
Attendance fees	10	25	25
Share-based payment	-	150	170
Total	**143**	**575**	**595**

DKK thousand	2018	2017	2016
Erik Gregers Hansen			
Board and committee fees	450	450	450
Attendance fees	68	40	45
Share-based payment	150	150	170
Total	**668**	**640**	**665**
Peter Kürstein			
Board and committee fees	400	400	400
Attendance fees	58	30	20
Share-based payment	150	150	170
Total	**608**	**580**	**590**
Frank Verwiel [2]			
Board and committee fees	400	400	300
Attendance fees	197	105	20
Share-based payment	150	150	-
Total	**747**	**655**	**320**
Elizabeth McKee Anderson [3]			
Board and committee fees	350	250	-
Attendance fees	133	62	-
Share-based payment	150	150	-
Total	**633**	**462**	**-**
Total remuneration of Board of Directors	**4,980**	**5,027**	**4,025**

1. Resigned on April 17, 2018
2. Joined on April 19, 2016
3. Joined on April 25, 2017

The disclosed remuneration for board members excludes reimbursed expenses that board members have incurred in connection with board meetings, such as travel and accommodation, but includes attendance fees.

The share-based payment in 2017 and 2018 for members of the Board of Directors covers the grant of restricted stock units as per the table below. For further description of restricted stock units see note 27. The share-based payment in 2016 relates to warrants previously granted, which have now been fully vested.

Board's ownership interests in Bavarian Nordic

	Holding as of January 1, 2018	Purchased/ granted	Sold/ exercised	Holding as of December 31, 2018	Market value DKK million
Gerard van Odijk					
Shares	11,000	5,000	-	16,000	2.0
Restricted Stock Units	1,027	2,143	-	3,170	0.4
Warrants [1]	5,000	-	(5,000)	-	-
Total					**2.4**
Anders Gersel Pedersen					
Shares	3,500	5,000	-	8,500	1.1
Restricted Stock Units	616	1,286	-	1,902	0.2
Warrants [1]	5,000	-	(5,000)	-	-
Total					**1.3**
Erik Gregers Hansen					
Shares	29,000	5,000	-	34,000	4.3
Restricted Stock Units	410	857	-	1,267	0.2
Warrants [1]	5,000	-	(5,000)	-	-
Total					**4.5**
Peter Kürstein					
Shares	11,250	5,000	-	16,250	2.1
Restricted Stock Units	410	857	-	1,267	0.2
Warrants [1]	5,000	-	(5,000)	-	-
Total					**2.3**

	Holding as of January 1, 2018	Purchased/ granted	Sold/ exercised	Holding as of December 31, 2018	Market value DKK million
Frank Verwiel					
Shares	-	-	-	-	-
Restricted Stock Units	410	857	-	1,267	0.2
Total					**0.2**
Elizabeth McKee Anderson					
Shares	-	-	-	-	-
Restricted Stock Units	410	857	-	1,267	0.2
Total					**0.2**
Total Board of Directors					**10.9**

1. Warrants granted in 2013 were vested in 2018. Member of the Board are no longer granted warrants.

MANAGEMENT OF BAVARIAN NORDIC

BOARD OF DIRECTORS

Gerard van Odijk

Gerard van Odijk, M.D. is a Dutch national, born in 1957. Independent member of the board since 2008 and chairman since 2014. Current term expires in 2019. 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 Curaeos B.V.

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

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 2019. Member of the Finance, Risk and Audit Committee since 2015.

Positions: Former executive vice president of research and development at H. Lundbeck A/S. Member of the board of Genmab A/S and Hansa Biopharma AB.

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

Board and board committees – meeting attendance 2018

	Board of Directors	Audit Committee	Nomination and Compensation Committee
Anders Gersel Pedersen	11/11	6/7	
Erik G. Hansen	10/11	7/7	
Frank Verwiel	10/11	6/7	
Elizabeth McKee Andersen	11/11		6/8
Gerard van Odijk	11/11		8/8
Peter Kürstein	11/11		8/8
Meetings in total	**11**	**7**	**8**

Elizabeth McKee Anderson

Elizabeth McKee Anderson, M.B.A. is an American national, born in 1957. Independent member of the board since 2017. Current term expires in 2019. Member of the Nomination and Compensation Committee since 2018.

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

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

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 2019. Chairman of the Finance, Risk and Audit Committee since 2015.

Positions: Chairman of the board of Polaris Management A/S, TTIT A/S, TTIT Ejendomme A/S, TTIT Landbrug A/S and Sirius Holding ApS. Deputy chairman of the board of Okono A/S, Lauritzen Fonden and Bagger-Sørensen & Co. A/S and its five subsidiaries, Member of the board of Bagger-Sørensen Fonden, Saga Private Equity ApS, Lesanco ApS, Ecco Sko A/S, Farumgade 2B Holding ApS and its subsidiary and Wide Invest ApS. Member of the executive board of Rigas Invest ApS and its subsidiary, BFB ApS, Haslevej 3 ApS, Sirius Holding ApS, Tresor Asset Advisers ApS, Polaris Invest II ApS and Hansen Advisers ApS.

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

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 2019. Member of the Finance, Risk and Audit Committee since 2016.

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

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

Peter Kürstein

Peter Kürstein, MBA is a Danish national, born in 1956. Independent member of the board since 2012. Current term expires in 2019. Member of the Nomination and Compensation Committee since 2015.

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

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

MANAGEMENT OF BAVARIAN NORDIC

EXECUTIVE MANAGEMENT

Paul Chaplin

President and Chief Executive Officer

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

Henrik Juuel

Executive Vice President, Chief Financial Officer

Henrik Juuel, M.Sc. in Economics & Finance is a Danish national, born in 1965. He joined Bavarian Nordic in November 2018 from Orexo AB, a specialty pharmaceutical company listed on the Nasdaq Stockholm exchange, where he served as Chief Financial Officer since 2013. Prior to Orexo, Mr. Juuel held senior positions at several large and diverse organizations including Group CFO of Virgin Mobile (Central and Eastern Europe), CFO of GN ReSound, and CFO of NNE Pharmaplan. Mr. Juuel began his career at Novo Nordisk in 1992, and during his 15-year tenure with the company held several senior finance positions in Denmark and abroad.

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 2017.

Tommi Kainu

Executive Vice President, Chief Business Officer

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

FINANCIAL REVIEW 2018

The financial review is based on the Group's consolidated financial information for the year ended December 31, 2018, with comparative figures for the Group in 2017 in brackets. There is no significant difference in the development of the Group and the Parent Company.

In 2018, we generated revenues of DKK 501 million (DKK 1,370 million). The income before interest and taxes (EBIT) was a loss of DKK 354 million (profit of DKK 353 million).

The cash preparedness as of December 31, 2018 amounted to DKK 2,314 million (DKK 2,604 million) compared to a guidance of DKK 2,100 million. The improvement is mainly due to lower spend on costs and investments.

The cash preparedness consists of cash and cash equivalents of DKK 267 million (DKK 283 million), investments in securities of DKK 2,051 million (DKK 2,301 million) and credit lines of DKK 244 million (DKK 20 million), offset by security lending of DKK 247 million (DKK 0 million). As of December 31, 2018, the credit lines were undrawn.

Income statement

Revenue
Revenue for the year was DKK 501 million (DKK 1,370 million).

Revenue from product sales was DKK 361 million (DKK 874 million) and was composed of DKK 323 million (DKK 823 million) from sale of MVA-BN smallpox bulk drug substance to the U.S. Government and DKK 38 million (DKK 51 million) from the sale of MVA-BN smallpox final drug product to other customers.

Revenue from ongoing development contracts amounted to DKK 140 million (DKK 97 million) with the majority generated by the Janssen agreements.

In 2017 the PROSTVAC upfront option payment of DKK 399 million was recognized as revenue.

Production costs
Production costs amounted to DKK 255 million (DKK 291 million). Costs related directly to revenue amounted to DKK 169 million (DKK 283 million). Other production costs totaled DKK 86 million (DKK 8 million) of which write-down on inventory amounted to DKK 55 million (DKK 23 million). The increased write-down in 2018 is primarily explained by a provision for remaining PROSTVAC bulk and finished products as well as a provision for four MVA-BN smallpox bulk batches that failed first validation. In fourth quarter 2017 the production schedule was changed to include further batches, which led to a higher allocation of production overheads and thereby an extraordinary reduction in other production costs.

Research and development costs
The total research and development spending was DKK 461 million (DKK 519 million) and includes contract costs recognized as production costs. Accrued project costs of DKK 33 million (DKK 0 million) recognized in the balance sheet (see note 21) are not included in the above amount. Research and development costs shown under production costs were DKK 74 million (DKK 62 million).

In the outlook for 2018 we expected a total research and development spending of DKK 510 million, which

is in line with actual spending plus the accrued project costs (total DKK 494 million).

Distribution and administrative costs
The distribution costs were DKK 34 million (DKK 40 million) and the administrative costs were DKK 180 million (DKK 168 million). The higher administrative costs were mainly related to consultancy.

Financial income and financial expenses
Financial income was DKK 35 million (DKK 56 million) and consisted of interest income on securities of DKK 22 million (DKK 21 million) and net foreign exchange gain of DKK 12 million (net loss of DKK 89 million).

Financial expenses were DKK 37 million (DKK 107 million) and consisted of net negative fair value adjustments on securities of DKK 19 million (DKK 12 million), interest expenses on debt of DKK 15 million (DKK 6 million) and net loss on derivative financial instruments of DKK 4 million (net gain of DKK 13 million).

Tax on income for the year
Tax on the income for the year was an expense of DKK 5 million compared to an expense of DKK 121 million in 2017 when the tax asset was fully written-down. In 2018 no further tax asset has been recognized leading to a negative effective tax rate of 1.5% (40.0%).

Liquidity and capital resources
As of December 31, 2018, we had cash and cash equivalents of DKK 267 million (DKK 283 million) and held investments in securities of DKK 2,051 million (DKK 2,301 million), of which security lending amounted to DKK 247 million (DKK 0 million). We also maintained unutilized credit lines of DKK 244 million as of such date.

Cash flows
Net cash spend on operating activities totaled DKK 289 million (net contribution of DKK 216 million), mainly driven by the net loss for the year.

Cash flow from investment activities was positive by DKK 17 million (net spend DKK 1,345 million), as the net sale of securities, amounting to DKK 229 million, offset the investment in property, plant and equipment and intangible assets, of DKK 212 million (DKK 79 million).

Net cash provided by financing activities totaled DKK 246 million (DKK 613 million), primarily from security lending.

The net cash flow for 2018 was negative by DKK 26 million (DKK 516 million). Adjusted for net sale of securities the net cash flow was negative by DKK 255 million (DKK 751 million positive).

Balance sheet

The balance sheet total was DKK 3,061 million as of December 31, 2018 (DKK 3,153 million).

Assets
Property, plant and equipment stood at DKK 519 million (DKK 348 million) and included asset under construction of DKK 262 million, primarily related to the fill and finish manufacturing facility in Kvistgaard.

Inventories stood at DKK 79 million (DKK 112 million), of which MVA-BN smallpox bulk drug substance and final drug product amounted to DKK 36 million (DKK 59 million) net of write-down.

Receivables stood at DKK 90 million (DKK 53 million), of which trade receivables amounted to DKK 31 million (DKK 19 million) and accrued project costs amounted to DKK 33 million (DKK 0 million).

As of December 31, 2018, cash and securities stood at DKK 2,317 million (DKK 2,584 million), of which DKK 246 million (DKK 0 million) related to securities used for security lending. 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 2,181 million (DKK 2,506 million).

Liabilities
Debt to credit institutions included security lending of DKK 247 million (DKK 0 million).

FINANCIAL STATEMENTS

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FINANCIAL STATEMENTS – GROUP

CONSOLIDATED FINANCIAL STATEMENTS

NOTES

Consolidated Income Statements
For the years ended December 31, 2018 and 2017

DKK thousand	Note	2018	2017
Revenue	3	500,617	1,370,151
Production costs	4,8,9	255,117	290,617
Gross profit		**245,500**	**1,079,534**
Research and development costs	5,8,9	386,299	518,405
Distribution costs	6,8	33,725	39,878
Administrative costs	7,8,9,10	179,958	168,057
Total operating costs		**599,982**	**726,340**
Income before interest and tax (EBIT)		**(354,482)**	**353,194**
Financial income	11	34,973	56,426
Financial expenses	12	37,126	107,340
Income before company tax		**(356,635)**	**302,280**
Tax on income for the year	13	5,292	120,937
Net profit for the year		**(361,927)**	**181,343**
Earnings per share (EPS) – DKK			
Basic earnings per share of DKK 10	14	(11.2)	5.7
Diluted earnings per share of DKK 10	14	(11.2)	5.7

Consolidated Statements of Comprehensive Income
For the years ended December 31, 2018 and 2017

DKK thousand	Note	2018	2017
Net profit for the year		**(361,927)**	**181,343**
Items that may subsequently be reclassified to the income statement:			
Exchange rate adjustments on translating foreign operations		93	50,896
Change in fair value of financial instruments entered into to hedge future cash flows		(228)	130
Tax on other comprehensive income	13	–	(57)
Other comprehensive income after tax		**(135)**	**50,969**
Total comprehensive income		**(362,062)**	**232,312**

Consolidated Statements of Cash Flow
For the years ended December 31, 2018 and 2017

DKK thousand	Note	2018	2017
Net profit for the year		**(361,927)**	**181,343**
Adjustment for non-cash items:			
Financial income		(34,973)	(56,426)
Financial expenses		37,126	107,340
Tax on income for the year		5,292	120,937
Depreciation and amortization	9	41,639	37,529
Expensing (amortization) of IMVAMUNE development project		–	69,515
Share-based payment	27	33,913	26,797
Adjustment for other non-cash items		–	45,164
Changes in inventories		33,159	35,136
Changes in receivables		(39,990)	114,088
Changes in current liabilities		(10,973)	(462,262)
Cash flow from operations (operating activities)		**(296,734)**	**219,161**
Received financial income		27,662	19,707
Paid financial expenses		(15,642)	(16,498)
Paid company taxes		(3,815)	(6,305)
Cash flow from operating activities		**(288,529)**	**216,065**

	Note	2018	2017
Investments in intangible assets	15	(10,186)	(22,341)
Investments in property, plant and equipment	16	(201,775)	(56,357)
Investments in financial assets		(156)	87
Investments in securities		(1,228,709)	(2,162,790)
Disposal of securities		1,457,915	896,192
Cash flow from investment activities		**17,089**	**(1,345,209)**
Payment on loans	24	(2,151)	(2,133)
Proceeds from loans	24	246,729	372,195
Proceeds from warrant programs exercised		5,415	40,858
Proceeds from private placement		–	207,482
Costs related to issue of new shares		(25)	(707)
Purchase of treasury shares		(4,124)	(4,254)
Cash flow from financing activities		**245,844**	**613,441**
Cash flow of the year		**(25,596)**	**(515,703)**
Cash and cash equivalents as of January 1		282,521	853,596
Currency adjustments		9,733	(55,372)
Cash and cash equivalents as of December 31		**266,658**	**282,521**

Consolidated Statements of Financial Position – Assets
December 31, 2018 and 2017

DKK thousand	Note	2018	2017
Non-current assets			
Software		32,381	27,288
Other intangible assets in progress		119	5,704
Intangible assets	15	**32,500**	**32,992**
Land and buildings		179,442	194,155
Leasehold improvements		1,047	1,329
Plant and machinery		54,311	56,986
Other fixtures and fittings, other plant and equipment		21,894	20,531
Assets under construction		262,114	74,977
Property, plant and equipment	16	**518,808**	**347,978**
Other receivables	20	1,372	1,216
Financial assets		**1,372**	**1,216**
Total non-current assets		**552,680**	**382,186**

	Note	2018	2017
Current assets			
Development projects for sale	17	**22,200**	**22,200**
Inventories	18	**78,688**	**111,847**
Trade receivables	19	31,227	19,396
Tax receivables		–	5,396
Other receivables	20	21,345	22,916
Prepayments	21	37,582	5,012
Receivables		**90,154**	**52,720**
Securities	23	2,050,556	2,301,197
Cash and cash equivalents		266,658	282,521
Securities, cash and cash equivalents		**2,317,214**	**2,583,718**
Total current assets		**2,508,256**	**2,770,485**
Total assets		**3,060,936**	**3,152,671**

Consolidated Statements of Financial Position – Equity and Liabilities

December 31, 2018 and 2017

DKK thousand	Note	2018	2017
Equity			
Share capital		323,106	322,451
Treasury shares		(507)	(233)
Retained earnings		1,797,122	2,156,883
Other reserves		60,907	27,196
Equity		**2,180,628**	**2,506,297**
Liabilities			
Debt to credit institutions	24	397,613	399,760
Non-current liabilities		**397,613**	**399,760**
Debt to credit institutions	24	248,877	2,152
Prepayment from customers	25	41,818	79,617
Trade payables		93,962	82,901
Company tax		1,108	139
Other liabilities	22	96,930	81,805
Current liabilities		**482,695**	**246,614**
Total liabilities		**880,308**	**646,374**
Total equity and liabilities		**3,060,936**	**3,152,671**

Consolidated Statements of Changes in Equity
December 31, 2018

DKK thousand	Share capital	Treasury shares	Retained earnings	Reserves for currency adjustment	Reserves for fair value of financial instruments	Share-based payment	Equity
Equity as of January 1, 2018	**322,451**	**(233)**	**2,156,883**	**(37,502)**	**(129)**	**64,827**	**2,506,297**
Comprehensive income for the year							
Net profit for the year	–	–	(361,927)	–	–	–	(361,927)
Other comprehensive income							
Exchange rate adjustments on translating foreign operations	–	–	–	93	–	–	93
Change in fair value of financial instruments entered into to hedge future cash flows, net	–	–	–	–	(228)	–	(228)
Total comprehensive income for the year	**–**	**–**	**(361,927)**	**93**	**(228)**	**–**	**(362,062)**
Transactions with owners							
Share-based payment	–	–	–	–	–	35,127	35,127
Warrant programs exercised	655	–	5,945	–	–	(1,185)	5,415
Warrant programs expired	–	–	96	–	–	(96)	–
Costs related to issue of new shares	–	–	(25)	–	–	–	(25)
Purchase of treasury shares	–	(274)	(3,850)	–	–	–	(4,124)
Total transactions with owners	**655**	**(274)**	**2,166**	**–**	**–**	**33,846**	**36,393**
Equity as of December 31, 2018	**323,106**	**(507)**	**1,797,122**	**(37,409)**	**(357)**	**98,673**	**2,180,628**

The share capital comprises a total of 32,310,565 shares of DKK 10 as of December 31, 2018 (32,245,065 shares). The shares are not divided into share classes, and each share carries one vote.

Treasury shares

In November 2018, the Board of Directors decided to launch a share buy-back program, under which the Company bought back 27,373 of its own shares (12,156 shares in 2017). The purpose of the share buy-back program was to meet the Company's obligations arising from the share-based incentive program for the Executive Management and the Board of Directors. Under the share-based incentive program, payment of half of the achieved cash bonus for 2017 for members of the Executive Management was postponed for 3 years, converting the postponed bonus into restricted stock units to further increase the long-term shared interests between the Executive Management and the Company's shareholders. The Board of Directors is granted restricted stock units corresponding to 50% of the annual fee (excl. committee fee).

Treasury shares represent 0.16% (0.07%) of the total share capital.

For further information about share-based payment, see note 27.

Consolidated Statements of Changes in Equity
December 31, 2017

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

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

Transactions on the share capital

DKK thousand	2018	2017	2016	2015	2014
Share capital as of January 1	322,451	313,539	280,197	276,712	260,944
Issue of new shares	655	8,912	33,342	3,485	15,768
Share capital as of December 31	**323,106**	**322,451**	**313,539**	**280,197**	**276,712**

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.

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 2017 are shown in brackets.

The accounting policies are unchanged from last year except for changes due to implementation of new and revised standards that were effective January 1, 2018 and the voluntary change in accounting policy for measurement of raw materials, described below.

Changes in accounting policies

Previously raw materials were measured at cost based on the FIFO method and determined as direct acquisition costs incurred. As from January 1, 2018 raw materials are measured at cost using the weighted average cost formula method and determined based on a standard cost approach. This method and related approach are deemed more appropriate for internal management purposes. The change has not had any material impact on the opening balance at January 1, 2018 or loss for the current year.

Implementation of new and revised standards and interpretations

The International Accounting Standards Board (IASB) has issued new standards and revisions to existing standards (IFRS) and new interpretations (IFRIC) which are mandatory for accounting periods commencing on or after January 1, 2018. Except for the implementation of IFRS 9 "Financial instruments" and IFRS 15 "Revenue from Contracts with Customers" described below, 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.

IFRS 9 "Financial Instruments" supersedes IAS 39 "Financial Instruments: Recognition and Measurement" with effect January 1, 2018. The new standard changes the classification, presentation and measurement of financial instruments and hedging requirements. Under the new standard classification and measurement of financial assets is based on the business model for managing the assets on their contractual cash flow. As the Group's securities solely consist of bonds that are managed and whose performance is evaluated on a fair value basis, under IFRS 9 they are measured at fair value through profit and loss as under IAS 39. Furthermore, the new standard requires impairment of financial assets to be measured under an expected credit loss model opposed to an incurred credit loss model under IAS 39. The Company applied the simplified method upon adoption of IFRS 9 on January 1, 2018 and records lifetime expected losses on all trade receivables. As the Group's customers are predominantly public authorities and renowned pharmaceutical companies, the credit risk on the Group's receivables is very low and no loss allowance has been recognized. The adoption of the new standard did not have any impact on the Group's consolidated financial statements and therefore no effect on retained earnings at January 1, 2018. No other elements from the adoption of the standard have affected recognition and measurement, but new disclosures have been implemented.

IFRS 15 "Revenue from Contracts with Customers" supersedes the previous revenue standards IAS 11 "Construction Contracts" and IAS 18 "Revenue" with effect January 1, 2018. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which the Group expects to be entitled in exchange for transferring goods or services to the customer. In general, revenue is recognized when control is transferred to the customer. This can be either at a point in time or over time. Implementation of IFRS 15 has no impact on recognition and measurement as the Company already in 2015 started taking the IFRS 15 revenue recognition criteria into consideration when revenue from major partnership agreements were recognized. New disclosures have been added in the notes to comply with the requirements in IFRS 15.

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 standard is in general expected to change the current accounting regulation most significantly:

IFRS 16 "Leases" was issued in January 2016 and is effective for annual periods beginning on or after January 1, 2019. IFRS 16 is expected to have an impact on the Group as a lessee, as all leases (except for short term leases and leases of asset of low value) shall be recognized on the balance sheet as the right-of-use asset with a corresponding 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. As lessee, the Company will be required to account for lease modifications such as changes to the lease term as well as changes to the future lease payments resulting from a change in an index or rate used to determine those payments. The amount of the re-measurement will be recognized as an adjustment to the lease liability and right-of-use asset.

Note 1
Significant accounting policies – continued

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 million and increase total assets and total liabilities by approximately DKK 83 million based on the lease contracts in effect as of December 31, 2018. The material part of leases relates to rent facility. The measured discounted value of lease liabilities is calculated applying incremental borrowing rates, which average around 2.5-5.0%.

The Group will apply the simplified transition approach without restating comparative figures when adopting the standard on January 1, 2019.

All other new or amended standards and interpretations (including IFRIC 23 "Uncertainty over Income Tax Treatments") not yet effective are not expected to have a material impact on the consolidated financial statements.

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

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

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

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

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

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

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

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

On recognition in the consolidated financial statements of subsidiaries whose financial statements are presented in a functional currency other than Danish kroner (DKK), the income statements are translated at the average exchange rates of the respective months. Balance sheet items are translated at the exchange rates at the balance sheet date. Exchange differences arising on the translation of foreign subsidiaries' opening balance sheet items to the exchange rates at the balance sheet date and on the translation of the income statements from average exchange rates of the respective months to exchange rates at the balance sheet date are recognized as other comprehensive income.

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

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

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

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

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

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

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

Net asset value per share:

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

Share price/Net asset value per share:

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

Equity share, %:

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

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

Note 2

Significant accounting estimates and judgments

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 estimates and judgments which significantly affect the amounts recognized in the consolidated financial statements:

- Revenue recognition (note 3)
- Inventories, including impairment and production overheads (note 18)

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

Note 3

Revenue

DKK thousand	2018	2017
MVA-BN® smallpox vaccine sale	360,523	874,307
Sale of goods	360,523	874,307
Upfront payment, PROSTVAC	–	398,538
Contract work	140,094	97,306
Sale of services	140,094	495,844
Revenue	**500,617**	**1,370,151**
Total revenue includes:		
Fair value adjustment concerning financial instruments entered into hedge revenue	907	–
Geographic split of revenue:		
USA	356,209	1,252,592
The Netherlands	107,078	66,202
Canada	32,545	31,994
Other geographic markets	4,785	19,363
Revenue	**500,617**	**1,370,151**

No revenue has been achieved on the Danish market in 2018 and 2017.

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

- Biomedical Advanced Research and Development Authority (BARDA), USA, DKK 342.3 million (DKK 840.3 million).
- Janssen Vaccines & Prevention B.V., The Netherlands, part of Johnson & Johnson Group, DKK 107.1 million (DKK 66.2 million).

Note 3
Revenue – continued

Accounting policies

Revenue comprises the fair value of the consideration received or receivable for sales of goods and income derived from development services. 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.

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.

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 allocated consideration is recognized as revenue in accordance with the principles described above. Further details regarding recognition of revenue on the main contracts with Biomedical Advanced Research and Development Authority (BARDA) and Janssen Vaccines & Prevention B.V. are described below. ■

Significant accounting estimates

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

Accounting for contract with Biomedical Advanced Research and Development Authority (BARDA)

In September 2017 the Company secured a contract award from Biomedical Advanced Research and Development Authority (BARDA) for supply of freeze-dried MVA-BN® smallpox vaccine. The potential value of the initial base and optional awards is in excess of USD 539 million. Initial base award secures additional MVA-BN® smallpox bulk contract of USD 100 million and initial options valued at USD 439 million. The initial options are divided between two distinct areas, the first of which is the filling and freeze-drying of MVA-BN® smallpox bulk products, with total potential value of USD 299 million. The second part of the contract contains provisions for clinical development, regulatory commitments, and parts of the establishment and validation of fill/finish activities, with potential value of up to USD 140 million. The award also contains options to acquire additional vaccine bulk and/or freeze-dried doses of MVA-BN® smallpox in the future.

As of December 31, 2018 the bulk procurement contract of USD 100 million has been awarded under which the Company shall produce and deliver 40 bulk drug substance (BDS) batches. Recognition of revenue occurs in concurrence with release of the BDS batches. Payment is due within 30 days after invoicing. The BDS products remain in the Company's physical possession as the procurement contract includes filling and freeze-drying of the BDS batches (a bill-and-hold arrangement). The Company is paid for the custodial service as part of the contract. As of December 31, 2018 20 out of the 40 BDS batches have been released and recognized as revenue. The remaining 20 BDS batches will be produced and recognized as revenue during 2019. The filling activities are going to take place in Kvistgaard in 2021-2022 when the new fill-finish manufacturing facility is operational.

The Company has also been awarded funding for development work related to "Clinical activities to support licensure" of the freeze-dried version of MVA-BN® smallpox vaccine. The contract is funded based on cost occurred plus a fixed margin. Recognition of revenue follows the timing of cost incurred. Payment is due within 30 days after invoicing.

A new award was obtained in January 2019, see further details in note 29.

Accounting for license and collaboration agreements with Janssen Vaccines & Prevention B.V.

The Company has concluded three license and collaboration agreements with Janssen Vaccines & Prevention B.V. for development of vaccines against cancers induced by human papillomavirus (HPV), hepatitis B virus (HBV) and the human immunodeficiency virus (HIV). All three contracts contain an upfront payment and subsequent milestone payments following the progress in the clinical development program.

Each contract has two performance obligations, both paid for by the upfront and milestone payments in the contracts: 1) Conduct development work according to the development plan and 2) Grant of a license for use of MVA-BN® vector. Revenue for the development work is recognized over time using the "expected cost plus a margin approach", i.e. recognized over time based on cost incurred plus a margin. Allocation of revenue for the license grant is calculated using the "residual approach" by estimating the stand-alone selling price by reference to the total transaction price less the sum of the revenue allocated to the development work. When

Note 3
Revenue – continued

assessing residual value available for allocation to the license grant, expected costs for future development work are taken into consideration to ensure enough revenue is deferred to ensure an appropriate margin on the development work over the period until the next milestone payment event. The residual value is calculated and recognized as revenue for the license grant when a milestone payment is received. Revenue related to the license grant will increase over time if and when the next clinical milestone is reached, reflecting that the value of the license is expected in concurrence with the progress in the clinical development program.

Janssen Vaccines & Prevention B.V. obtains control of the development work in concurrence with work performed and therefore the recognition of revenue follows the timing of cost incurred.

As of December 31, 2018 prepayments under the contracts amount to DKK 10 million - corresponding to the work outstanding towards the next milestone events. Most of the work will be conducted in 2019.

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

The upfront payment was recognized as income in September 2017, when the Company followed the recommendation from the independent Data Monitoring Committee to discontinue the PROSPECT study due to futility. Bristol-Myers Squibb terminated the Option and License Agreement during 2018.

Note 4
Production costs

DKK thousand	2018	2017
Cost of goods sold, MVA-BN® smallpox vaccine sale	94,557	221,210
Contract costs	74,269	61,772
Other production costs	86,291	7,635
Production costs	**255,117**	**290,617**

Other production costs amounted to DKK 86.3 million (DKK 7.6 million), of which write-downs of inventory totaled DKK 55.0 million (DKK 23.2 million). The level of other production costs was very low in 2017 due to better utilization of the facility. During fourth quarter 2017, the production schedule was changed to include further batches, which led to a higher allocation of production overheads.

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	2018	2017
Research and development costs incurred this year	460,568	519,226
Of which:		
Contract costs recognized as production costs (note 4)	(74,269)	(61,772)
Capitalized development costs regarding the IMVAMUNE development project	–	(8,564)
	386,299	448,890
Expensing (amortization) of prior-year costs attributable to the IMVAMUNE development project	–	69,515
Research and development costs recognized in the income statement	**386,299**	**518,405**

Research and development costs include expenses for external clinical research organizations, or CRO's, of DKK 129.2 million in 2018 (DKK 153.8 million).

As per December 31, 2017 the IMVAMUNE development project was fully expensed.

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

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	2018	2017
Wages and salaries	294,727	293,191
Contribution based pension	22,556	23,599
Social security expenses	12,462	12,153
Other staff expenses	24,848	25,619
Share-based payment, see specification in note 27	33,913	26,797
Staff costs	**388,506**	**381,359**
Staff expenses are distributed as follows:		
Production costs	123,036	145,153
Research and development costs	150,210	116,092
Distribution costs	19,058	18,041
Administrative costs	96,202	98,061
Capitalized salaries	–	4,012
Staff costs	**388,506**	**381,359**
Average number of employees converted to full-time	421	439
Number of employees as of December 31 converted to full-time	419	420

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

Note 8
Staff costs – continued

DKK thousand	2018	2017
Staff costs include the following costs:		
Board of Directors:		
Remuneration	3,779	3,677
Share-based payment	1,200	1,350
Remuneration to Board of Directors	**4,979**	**5,027**
Executive Management:		
Salary	7,715	8,719
Paid bonus	2,388	1,649
Other employee benefits	787	884
Contribution based pension	204	347
Share-based payment	9,120	7,724
Salary and benefits in the notice period	3,611	–
Corporate Management	23,825	19,323
Salary	5,364	3,353
Paid bonus	696	400
Other employee benefits	350	253
Contribution based pension	536	335
Share-based payment	5,166	1,513
Other Executive Management	12,112	5,854
Remuneration to Executive Management	**35,937**	**25,177**
Total management remuneration	**40,916**	**30,204**

Restricted stock units

In March 2018 Corporate Management was granted 4,063 restricted stock units (excl. matching shares) (5,642 restricted stock units) corresponding to a value of DKK 1.0 million (DKK 1.6 million) at grant. Other Executive Management was granted 2,847 restricted stock units (excl. matching shares) corresponding to a value of DKK 0.7 million at grant. In November 2018 the new CFO was granted a sign-on bonus of 6,767 restricted stock units (excl. matching shares) corresponding to a value of DKK 1.1 million at grant.

In April 2018, the members of the Board of Directors were granted in total 6,857 restricted stock units (3,693 restricted stock units) corresponding to 50% of their fixed fee amounting to DKK 1.2 million.

For further description of restricted stock units see note 27.

Warrants

In November 2018 Corporate Management was granted 57,749 warrants (87,068 warrants) with a fair value of DKK 3.0 million (DKK 7.0 million). Other Executive Management was granted 117,295 warrants (79,277 warrants) with a fair value of DKK 6.1 million (DKK 6.8 million). Fair value calculated based on Black-Scholes, cf. note 27.

Incentive programs for the Executive Management and other employees are disclosed in note 27.

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

Note 9

Depreciation and amortization

DKK thousand	2018	2017
Depreciation and amortization included in:		
Production costs	30,223	31,919
Research and development costs	2,564	2,694
Administrative costs	8,852	2,916
Depreciation and amortization	**41,639**	**37,529**
Hereof (profit)/loss from disposed fixed assets	–	239

Depreciations have increased as significant IT-investments have been capitalized during 2017 and 2018.

Note 10

Fees to auditor appointed at the annual general meeting

DKK thousand	2018	2017
Audit of financials statements	1,100	1,500
Other assurance services	135	66
Tax advisory	605	1,640
Other services	274	656
Fees	**2,114**	**3,862**

The fee for non-audit services provided to the Group by Deloitte Statsautoriseret Revisionspartnerselskab, Denmark, amounted to DKK 0.7 million in 2018 (DKK 1.7 million) and consisted of assistance with compliance reviews, and other accounting and tax advisory services. In 2017 the tax advisory included assistance related to filing of an Advanced Price Agreement (APA).

Note 11

Financial income

DKK thousand	2018	2017
Financial income from bank and deposit contracts	842	644
Interest income from financial assets measured at amortized cost	842	644
Financial income from securities	21,765	20,817
Net gains on derivative financial instruments at fair value through the income statement	–	12,720
Adjustment of net present value of provisions	–	22,245
Net foreign exchange gains	12,366	–
Financial income	**34,973**	**56,426**

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, and adjustment of the net present value of provisions, and net currency gains. ■

Note 12

Financial expenses

DKK thousand	2018	2017
Interest expenses on debt	14,531	5,678
Interest expenses on financial liabilities measured at amortized cost	14,531	5,678
Fair value adjustments on securities	18,667	12,319
Net loss on derivative financial instruments at fair value through the income statement	3,928	–
Net foreign exchange losses	–	89,343
Financial expenses	**37,126**	**107,340**

Net foreign exchange losses for 2017 were mainly related to the decreasing USD and included DKK 45.0 million of unrealized losses related to intercompany receivable with Bavarian Nordic, Inc.

Accounting policies

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

Note 13

Tax for the year

DKK thousand	2018	2017
Tax recognized in the income statement		
Current tax on profit for the year	4,004	2,876
Adjustments to current tax for previous years	1,288	613
Current tax	**5,292**	**3,489**
Change in deferred tax	–	120,244
Adjustments to deferred tax for previous years	–	(2,796)
Deferred tax	**–**	**117,448**
Tax for the year recognized in the income statement	**5,292**	**120,937**
Tax on income for the year is explained as follows:		
Income before company tax	(356,635)	302,280
Calculated tax (22.0%) on income before company tax	(78,460)	66,502
Tax effect on:		
Different tax percentage in foreign subsidiaries	9	(1,405)
Non-recognized deferred tax asset on current year losses in foreign subsidiaries	3,835	5,675
(Income)/expenses that are not taxable/deductible for tax purposes	1,100	(5,465)
Change in non-recognized deferred tax asset	–	(30,927)
Write-down of deferred tax asset	77,520	88,740
Adjustments to deferred tax for previous years	–	(2,796)
Adjustments to current tax for previous years	1,288	613
Tax on income for the year	**5,292**	**120,937**
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	–	12,968

Tax on income is an expense of DKK 5.3 million (DKK 120.9 million), corresponding to a negative effective tax rate of 1.5% (40.0%). The effective tax rate for both 2018 and 2017 is impacted by the write-down of the tax asset. The effective tax rate for 2017 was also impacted by the change in non-recognized tax asset.

Accounting policies

Income tax for the year comprises current tax and deferred tax for the year. The part relating to the profit for the year is recognized in the income statement, and the part attributable to items in the comprehensive income is recognized in the comprehensive income statement.

The tax effect of costs that have been recognized directly in equity is recognized in equity under the relevant items.

Current tax receivable is recognized in the balance sheet under current tax.

Current tax payable but not yet paid is recognized in the balance sheet under current liabilities.

Deferred tax is measured using the balance sheet liability method on all temporary differences between accounting values and tax values. Deferred tax liabilities arising from temporary tax differences are recognized in the balance sheet as a liability.

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

Deferred income tax is provided on temporary taxable differences arising on investments in subsidiaries, unless the parent company is able to control the timing when the deferred tax is to be realized and it is likely that the deferred tax will not be realized within the foreseeable future.

Deferred tax is calculated at the tax rates applicable on the balance sheet date for the income years in which the tax asset is expected to be utilized. ■

Note 13

Tax for the year – continued

2018

DKK thousand	January 1, 2018	Adjustment to previous year	Recognized in the income statement	Recognized in equity	December 31, 2018
Intangible assets	5,366	–	(1,663)	–	3,703
Property, plant and equipment	6,602	2,419	6,494	–	15,515
Development projects for sale	17,420	–	–	–	17,420
Accrued project costs	–	–	(7,335)	–	(7,335)
Financial instruments	28	–	–	50	78
Share-based payment	10,441	–	4,661	(10,948)	4,154
Tax losses carried forward	241,859	(6,863)	75,363	–	310,359
Write-down	(281,716)	4,444	(77,520)	10,898	(343,894)
Recognized deferred tax assets	**–**	**–**	**–**	**–**	**–**

2017

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

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 Aktieselskabet af 1. juni 2011 II.

The tax value of non-recognized tax losses carried forward in Bavarian Nordic A/S and the two Danish subsidiaries amounts to DKK 310.4 million (DKK 241.9 million), whereas the tax value of non-recognized temporary deductible differences amounts to DKK 33.5 million (DKK 39.8 million) as a result of the write-down. Tax rate used for Danish entities is 22%.

The tax value of non-recognized tax losses carried forward in subsidiary Bavarian Nordic, Inc. amounts to DKK 88.1 million (DKK 87.7 million) of which DKK 9.4 million (DKK 9.9 million) relates to state tax and DKK 78.7 million (DKK 77.8 million) relates to federal tax (tax rate of 21%). The tax value of non-recognized tax credits carried forward in subsidiary Bavarian Nordic, Inc. amounts to DKK 70.3 million (DKK 69.0 million) of which DKK 34.7 million (DKK 33.4 million) relates to state tax and DKK 35.6 million (DKK 35.6 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 has no tax losses carried forward.

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

Tax audit

Bavarian Nordic A/S has an ongoing tax audit regarding the allocation of the PROSTVAC development costs between Bavarian Nordic A/S and its U.S. subsidiary, Bavarian Nordic, Inc. See further description in note 28.

Note 14

Earnings per share (EPS)

DKK thousand	2018	2017
Net profit for the year	(361,927)	181,343
Earnings per share of DKK 10	(11.2)	5.7
Diluted earnings per share of DKK 10	(11.2)	5.7
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)	32,282	31,649
Weighted average number of treasury shares (thousand units)	(27)	(19)
Weighted average number of outstanding ordinary shares used in the calculation of basic earnings per share (thousand units)	32,255	31,630
Average dilutive effect of outstanding warrants under incentive schemes	–	252
Weighted average number of outstanding ordinary shares used in the calculation of diluted earnings per share (thousand units)	32,255	31,882
Outstanding warrants that may have an effect on the calculation of diluted earnings per share in the future.		
2018-programs	520,411	–
2017-program	364,340	397,860
2016-program	408,690	438,759
2015-program	297,230	304,663
2014-program	247,000	257,000
2013-programs	–	61,400
Outstanding warrants, cf. note 27	**1,837,671**	**1,459,682**

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.

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. ■

			2018
DKK thousand	**Software**	**Other intangible assets in progress**	**Total**
Costs as of January 1, 2018	86,875	5,704	92,579
Additions	10,067	119	10,186
Transfer	3,678	(3,678)	–
Transfer to/from property, plant and equipment	–	(2,026)	(2,026)
Exchange rate adjustments	6	–	6
Cost as of December 31, 2018	**100,626**	**119**	**100,745**
Amortization as of January 1, 2018	59,587	–	59,587
Amortization	8,651	–	8,651
Exchange rate adjustments	7	–	7
Amortization as of December 31, 2018	**68,245**	**–**	**68,245**
Carrying amount as of December 31, 2018	**32,381**	**119**	**32,500**

Geographical split of intangible assets – 2018

Denmark	32,109
Germany	391
Total intangible assets	**32,500**

Note 15

Intangible assets – continued

DKK thousand	Software	Other intangible assets in progress	Total
			2017
Costs as of January 1, 2017	62,338	16,903	79,241
Additions	8,073	5,704	13,777
Transfer	16,903	(16,903)	–
Disposals	(388)	–	(388)
Exchange rate adjustments	(51)	–	(51)
Cost as of December 31, 2017	**86,875**	**5,704**	**92,579**
Amortization as of January 1, 2017	57,173	–	57,173
Amortization	2,853	–	2,853
Disposals	(388)	–	(388)
Exchange rate adjustments	(51)	–	(51)
Amortization as of December 31, 2017	**59,587**	**–**	**59,587**
Carrying amount as of December 31, 2017	**27,288**	**5,704**	**32,992**

Other intangible assets in progress include investments in software.

Geographical split of intangible assets – 2017

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

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.

Borrowing costs directly attributable to the construction of property, plant and equipment are included in cost. Other borrowing costs are recognized in the income statement.

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

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

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

Impairment

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

Note 16

Property, plant and equipment – continued

DKK thousand	Land and buildings	Leasehold improve-ment	Plant and machinery	Other fixtures and fittings, other plant and equipment	Assets under construction	Total
						2018
Costs as of January 1, 2018	320,059	10,946	294,046	80,025	74,977	780,053
Additions	485	–	1,302	1,687	198,301	201,775
Transfer	1,654	136	4,835	4,524	(11,232)	(83)
Transfer to/from intangible assets	299	–	1,220	507	–	2,026
Disposals	–	–	(229)	–	–	(229)
Exchange rate adjustments	3	25	–	152	68	248
Cost as of December 31, 2018	**322,500**	**11,107**	**301,174**	**86,895**	**262,114**	**983,790**
Depreciation and impairment losses as of January 1, 2018	125,904	9,617	237,060	59,494	–	432,075
Depreciation	17,152	419	10,032	5,385	–	32,988
Disposals	–	–	(229)	–	–	(229)
Exchange rate adjustments	2	24	–	122	–	148
Depreciation and impairment losses as of December 31, 2018	**143,058**	**10,060**	**246,863**	**65,001**	**–**	**464,982**
Carrying amount as of December 31, 2018	**179,442**	**1,047**	**54,311**	**21,894**	**262,114**	**518,808**

Geographical split of property, plant and equipment – 2018

Denmark	507,210
Germany	10,208
USA	1,390
Total property, plant and equipment	**518,808**

Assets under construction relates to the fill-finish manufacturing facility in Kvistgaard.

The Company has not occurred any borrowing costs directly attributable to the construction of the fill-finish manufacturing facility, hence no borrowing costs have been capitalized.

Mortgage loans of DKK 27.6 million are secured by mortgages totaling DKK 50.0 million on the property Bøgeskovvej 9/Hejreskovvej 10A, Kvistgaard. In addition, as of December 31, 2018, 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 233.8 million.

Note 16

Property, plant and equipment – continued

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

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

Geographical split of property, plant and equipment – 2017

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

Note 17

Development projects for sale

DKK thousand	2018	2017
Development projects for sale January 1	22,200	70,069
Write-down	–	(47,869)
Development projects for sale December 31	**22,200**	**22,200**
Specification:		
CV301	22,040	22,040
BN-Brachyury	160	160
Development projects for sale	**22,200**	**22,200**

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

Following the discontinuation of the PROSPECT study the asset was written down by DKK 47.9 million in 2017. The write-down was recognized as research and development costs.

As further described in the Management Commentary, Management are optimistic about the clinical strategy for CV301 and BN-Brachyury with multiple combination studies having been initiated in 2018.

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	2018	2017
Raw materials and supply materials	28,391	31,805
Work in progress	156,232	129,607
Manufactured goods and commodities	1,757	3,140
Write-down on inventory	(107,692)	(52,705)
Inventories	**78,688**	**111,847**
Write-down on inventory as of January 1	(52,705)	(110,697)
Write-down for the year	(54,987)	(23,199)
Use of write-down	–	81,191
Write-down on inventory as of December 31	**(107,692)**	**(52,705)**
Cost of goods sold amounts to, cf. note 4	94,557	221,210

The increased write-down compared with 2017 is primarily explained by a provision for the remaining PROSTVAC bulk and finished products as well as a provision for MVA-BN® smallpox bulk batches that failed first validation.

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

Accounting policies

Inventories are measured at the lower of cost using a weighted average cost formula method and net realisable value. For raw materials, cost is determined based on a standard cost approach.

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	2018	2017
Trade receivables from MVA-BN® smallpox vaccine sale	–	5,587
Trade receivables from contract work	31,227	13,809
Trade receivables	**31,227**	**19,396**

With the implementation of IFRS 9 "Financial Instruments", the Group has applied the simplified approach to measure the expected credit loss and a lifetime expected loss allowance for all trade receivables. Historically the Group hasn't recognized losses on receivables. The Group's customers are predominantly public authorities and renowned pharmaceutical companies and therefore the credit risk is very low. There are no overdue receivables as of December 31, 2018. No losses are expected on trade receivables and therefore no loss allowance for trade receivables has been recognized as of December 31, 2018. No loss allowance was recognized as of January 1, 2018 or January 1, 2017. Management continues to assess the credit risks in order to ensure the credit risk never exceeds the loss allowance 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, based on expected credit losses. ■

Note 20

Other receivables

DKK thousand	2018	2017
Deposits	1,372	1,216
Receivable VAT and duties	10,669	10,715
Interest receivables	10,676	12,201
Other receivables	**22,717**	**24,132**
Classified as:		
Non-current assets	1,372	1,216
Current assets	21,345	22,916
Other receivables	**22,717**	**24,132**

Accounting policies

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

Note 21

Prepayments

DKK thousand	2018	2017
Accrued project costs	33,343	491
Other prepayments	4,239	4,521
Prepayments	**37,582**	**5,012**

Accrued project costs for 2018 relates mainly to production activities conducted in 2018 under the contract with the United States Department of Defense for the development of a prophylactic vaccine against the equine encephalitis virus, DKK 18.2 million, and the sub-contractor agreement with Janssen supporting the development and potential licencure of the Ebola vaccine regimen, DKK 14.8 million (further described in note 25). The project costs will be expensed in 2019 along with revenue recognition once the products have been released.

No accrued project costs were recognized as of January 1, 2017.

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	2018	2017
Derivative financial instruments at fair value	388	129
Liability relating to phantom shares	275	2,723
Payable salaries, holiday accrual etc.	58,403	59,960
Deposit and prepaid rent from sub-tenants	1,379	1,640
Other accrued costs	36,485	17,353
Other liabilities	**96,930**	**81,805**

For a further description of financial instruments see note 23. The phantom share programs are described in note 27.

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 27.

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	2018	2017
Categories of financial instruments		
Trade receivables	31,227	19,396
Other receivables	22,717	24,132
Cash and cash equivalents	266,658	282,521
Financial assets measured at amortized cost	**320,602**	**326,049**
Securities	1,804,124	2,301,197
Transferred securities that are not derecognized	246,432	–
Financial assets measured at fair value through the income statement	**2,050,556**	**2,301,197**
Debt to credit institutions	399,761	401,912
Security lending (repo transactions)	246,729	–
Trade payables	93,962	82,901
Other liabilities	96,267	78,953
Financial liabilities measured at amortized cost	**836,719**	**563,766**
Derivative financial instruments at fair value through the income statement (repo transactions)	31	–
Liability relating to phantom shares	275	2,723
Financial liabilities measured at fair value through the income statement	**306**	**2,723**
Derivative financial instruments to hedge future cash flows (interest)	357	129
Financial liabilities used as hedging instruments	**357**	**129**

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 effective hedges of future transactions (cash flow hedges) 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.

The Company has designated certain derivative financial instruments as cash flow hedges as defined under IFRS 9 "Financial Instruments". Hedge accounting is classified as a cash flow hedge when the hedges of a particular risk is associated with the cash flows of highly probable forecast transactions. The Company designates and documents all hedging relationships between commodity contracts and purchase transactions.

Securities

Securities consist of listed bonds, which are measured at fair value on initial recognition and as of the balance sheet date. 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. Management determines the economic relationship between the hedged item and the hedging instrument to ensure a high hedge effectiveness. 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 management expects 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
2018				
EUR	17,633	695	(19,144)	(816)
USD	108,631	60,630	(35,867)	133,394
2017				
EUR	12,489	1,158	(29,487)	(15,840)
USD	204,170	17,976	(27,883)	194,263

Sensitivity analysis on exchange rates

DKK thousand	Likely change in exchange rate	Hypothetical change in equity	Hypothetical change in profit
2018			
Change if higher USD-rate than actual rate	15%	(44,483)	17,272
Change if higher EUR-rate than actual rate	1%	34	(994)
2017			
Change if higher USD-rate than actual rate	15%	21,446	78,466
Change if higher EUR-rate than actual rate	1%	(52)	(994)

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 financial assets/liabilities measured at fair value with value adjustments recognized through the income statement.

There were no open currency contracts as per December 31, 2018 or as per December 31, 2017.

Hedging of expected future cash flows

In 2016 the Company refinanced the old mortgage loans (fixed rate) and obtained a new mortgage loan with floating rate. The Company also concluded an interest rate swap to convert the floating rate loan to a fixed rate loan. The interest rate swap has the same maturity date and nominal amount as the mortgage loan to secure high effectiveness of the hedge.

Cash flow hedge

DKK thousand	Contract amount based on agreed rates	Fair value as of December 31	Fair value adjustment recognized in other comprehensive income
2018			
Interest rate swap			
DKK – fixed rate 0.9625% p.a. (expiry 2031)	27,685	(357)	(228)
		(357)	**(228)**
2017			
Interest rate swap			
DKK – fixed rate 0.9625% p.a. (expiry 2031)	29,782	(129)	130
		(129)	**130**

Cash risks

The Group´s bank deposits are placed in deposit accounts without restrictions. The Group's cash and cash equivalents totaled DKK 266.7 million as of December 31, 2018 (DKK 282.5 million).

The Group's fixed rate bond portfolio expires as shown on the next page. Amounts are stated excluding interest.

Note 23

Financial risks and financial instruments – continued

Bond portfolio	2018		2017	
DKK thousand	Fair value as of December 31	Effective interest	Fair value as of December 31	Effective interest
Within 0-2 years	1,130,776	-0.3%	866,277	- 2.4%
Within 3-5 years	408,684	-0.2%	922,573	0.0%
After 5 years	511,096	1.2%	512,347	1.6%
Total	**2,050,556**	**0.1%**	**2,301,197**	**-0.6%**

Fluctuations in interest rate levels affect the Group's bond portfolio. An increase in the interest rate level by 1 percentage point relative to the interest rate level on the balance sheet date would have had a negative impact of DKK 33 million on the Group´s profit and equity (negative impact of DKK 32 million). A corresponding decrease in the interest rate level would have had a positive impact of DKK 33 million on profit and equity (positive impact of DKK 32 million).

Maturity of financial liabilities (including interest)				2018
DKK thousand	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
Credit institutions	15,564	421,135	17,531	454,230
Security lending (repo transactions)	246,729	–	–	246,729
Trade payables	93,962	–	–	93,962
Other liabilities	97,681	–	–	97,681
Non-derivative financial liabilities	**453,936**	**421,135**	**17,531**	**892,602**
Derivative financial liabilities	**357**	**–**	**–**	**357**

Maturity of financial liabilities (including interest)				2017
Credit institutions	15,578	434,329	19,827	469,734
Trade payables	82,901	–	–	82,901
Other liabilities	81,815	–	–	81,815
Non-derivative financial liabilities	**180,294**	**434,329**	**19,827**	**634,450**
Derivative financial liabilities	**129**	**–**	**–**	**129**

With respect to the Group´s debt to credit institutions, an increase in the applicable interest rate by 1 percentage point would have had a negative impact on the Group's profit and equity of DKK 4.0 million (DKK 4.0 million). A corresponding decrease in the interest rate would have had an equivalent positive impact.

In May 2015, the Group secured a loan facility of EUR 50 million from the European Investment Bank (EIB) in support of the Group's research and development of vaccines against Ebola and other infectious diseases as well as cancer immunotherapies. The loan facility was fully utilized in October 2017 with a net proceed of DKK 372.2 million. The loan is a five year bullet loan with expiry in 2022 and with a fixed interest of 3.532%.

In August 2018 the Company was granted an unsecured loan facility of EUR 30 million from the European Investment Bank to support the Company's investments into a new fill-finish manufacturing facility, which is currently under construction. The loan facility, which is unsecured, may be utilized in up to three tranches. Under the terms of the agreement, the Group will have up to 18 months to draw on the loan. The repayment period may be up to seven years from disbursement of the tranches. The loan could potentially carry a fixed or variable interest payment. The margin associated with the loan facility is 3.21%. As of December 31, 2018 the balance remains unused.

The Group has a credit facility of DKK 20 million (DKK 20 million) at Nordea Denmark. As of December 31, 2018, 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. With the implementation of IFRS 9 "Financial instruments", the Group assesses the expected credit losses also considering changes in the macro environment that might impose an increased risk of losses. This is compared to the previous model where indications of credit losses were needed for the Group to recognize an expected loss. 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, 2018 and December 31, 2017, none of the receivables were overdue and no loss allowance has been recognized.

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

Transferred financial assets that are not derecognized

The Company has entered into transactions that transfer ownership of securities to a counterparty, while the Company retains the risks associated with the holding of the securities. If the Company retains all risks, the securities remain in the balance sheet, and the transactions are accounted for as loans received against collateral. Such transactions are repo transactions and security lending. The transactions involve selling the securities to be repurchased at a fixed price at a later date. Counterparties are entitled to sell the securities or deposit them as collateral for loans.

Net position repo transactions

DKK thousand	2018	2017
Transferred securities that are not derecognized	246,432	–
Security lending (repo transactions)	(246,729)	–
Net position	**(297)**	**–**

Fair value hierarchy for financial instruments measured at fair value **2018**

DKK thousand	Level 1	Level 2	Total
Securities	1,804,124	–	1,804,124
Transferred securities that are not derecognized	246,432	–	246,432
Financial assets measured at fair value through the income statement	**2,050,556**	**–**	**2,050,556**
Derivative financial instruments to hedge future cash flow (interest)	–	(357)	(357)
Financial liabilities used as hedging instruments	**–**	**(357)**	**(357)**
Liability relating to phantom shares	–	(275)	(275)
Financial liabilities measured at fair value through the income statement	**–**	**(275)**	**(275)**

Fair value hierarchy for financial instruments measured at fair value **2017**

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

Securities (level 1)

The portfolio of publicly traded government bonds, publicly traded mortgage bonds and bank bonds is valued at listed prices and price quotas.

Derivative financial instruments (level 2)

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

Note 24

Debt to credit institutions

DKK thousand	Due within 1 year	Due between 1 and 5 year	Due after 5 years	Total
2018				
Mortgage[1]	2,148	8,601	16,817	27,566
European Investment Bank (loan in DKK)[2]	–	372,195	–	372,195
Security lending (repo transactions)	246,729	–	–	246,729
Total	**248,877**	**380,796**	**16,817**	**646,490**
2017				
Mortgage [1]	2,152	8,610	18,955	29,717
European Investment Bank (loan in DKK) [2]	–	372,195	–	372,195
Total	**2,152**	**380,805**	**18,955**	**401,912**

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

The fair value of the debt amounts to DKK 646.7 million (DKK 402.3 million). The fair value of mortgage debt is based on the market value of the underlying bonds set by the bank (level 2), whereas the fair value of the European Investment Bank and the security lending is based on a discounted cash analysis flow of future payments of interest and principal by applying a market based discount rate (level 2).

Accounting policies

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

Cash flow from financing activities

DKK thousand	January 1, 2018	Cash movement	December 31, 2018
2018			
Mortgage	29,717	(2,151)	27,566
European Investment Bank (loan in DKK)	372,195	–	372,195
Security lending (repo transactions)	–	246,729	246,729
Total liabilities from financing activities	**401,912**	**244,578**	**646,490**

Cash flow from financing activities

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

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

Note 25

Prepayment from customers

DKK thousand	2018	2017
Prepayment from customers as of January 1	79,617	530,645
Prepayments received during the year	29,075	704,813
Recognized as revenue during the year	(66,874)	(1,155,841)
Prepayment from customers as of December 31	**41,818**	**79,617**

Accounting policies

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

In March 2018, the Company signed a new contract with the United States Department of Defense for the development of a prophylactic vaccine against the equine encephalitis virus - a rare but potentially deadly mosquito-borne illness. The multi-year collaboration includes total considerations of up to USD 36 million. As per December 31, 2018, the Company has received prepayments of DKK 14.7 million related to production activities conducted in 2018. The prepayment will be recognized as revenue in 2019 when the products are released. See also description in note 21. There is no repayment obligation.

In September 2017, Janssen Vaccines & Prevention B.V. (Janssen) was awarded a contract from BARDA of USD 44.7 million, with options for additional funding over 5 years to help support the development and potential licencure of the Ebola vaccine regimen. The company supports Janssen in this process with a number of activities relating to MVA-BN® Filo, which are also being funded under the contract with BARDA. As per December 31, 2018, the Company has received prepayments of DKK 14.4 million related to production activities conducted in 2018. The prepayment will be recognized as revenue in 2019 when the products are released. See also description in note 21. There is no repayment obligation.

In May 2016, Biomedical Advanced Research and Development Authority (BARDA) placed the second bulk supply order of IMVAMUNE valued at USD 100 million. Revenue was recognized in 2017. Under this contract BARDA also prepaid DKK 5.6 million for storage of the BDS batches. As per December 31, 2018, recognition of DKK 2.7 million in revenue is outstanding. There is no repayment obligation.

In December 2015, the Company signed a license and collaboration agreement with Janssen Vaccines & Prevention B.V. (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. As per December 31, 2018, recognition of DKK 4.4 million in revenue is outstanding. The recognition of revenue will occur in concurrence with work performed towards the next milestone event expected in 2019. There is no repayment obligation.

In August 2017, the Company signed a license and collaboration agreement with Janssen Vaccines & Prevention B.V. (Janssen). The collaboration grants Janssen the exclusive rights to Bavarian Nordic's MVA-BN® technology for vaccine agains hepatitis B virus (HBV) and the human immunodeficiency virus (HIV). Under the terms of the agreement, the Group received an upfront payment of DKK 62.9 million (USD 10 million) in September 2017. As per December 31, 2018, recognition of DKK 5.6 million in revenue is outstanding. The recognition of revenue will occur in concurrence with work performed towards the next milestone event under each program. Although the next milestone event is not expected until earliest 2021, the main part of the development work is expected to occur in 2019. There is no repayment obligation.

The recognition of revenue is described in note 3.

Note 26

Related party transactions

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

Besides the remuneration of the Board of Directors and the Executive Management, cf. note 8, and the share-based payments, cf. note 27, there are no transactions with related parties.

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

Note 27

Share-based payment

Accounting policies

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

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

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

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

Incentive plans

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

Warrants

The Board of Directors has been granting warrants to the Company's management and selected employees of the Company and its subsidiaries.

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 27

Share-based payment – continued

Warrant overview **2018**

	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 2013	58,400	–	(55,500)	–	(2,900)	–	–	74
December 2013	3,000	–	–	–	(3,000)	–	–	97
August 2014	257,000	–	(10,000)	–	–	247,000	247,000	131
December 2015	304,663	–	–	(7,433)	–	297,230	–	367
December 2016	438,759	–	–	(30,069)	–	408,690	–	260
July 2017	26,955	–	–	–	–	26,955	–	430
November 2017	370,905	–	–	(33,520)	–	337,385	–	303
November 2018	–	535,136	–	(14,725)	–	520,411	–	180
Total	**1,459,682**	**535,136**	**(65,500)**	**(85,747)**	**(5,900)**	**1,837,671**	**247,000**	

	Outstanding as of January 1	Additions	Exercised	Annulled	Terminated	Transferred	Outstanding as of December 31
Board of Directors	20,000	–	(20,000)	–	–	–	–
Corporate Management	375,770	57,749	(30,000)	(29,610)	–	(111,319)	262,590
Other Executive Management	103,877	117,295	–	–	–	–	221,172
Other employees	842,572	360,092	(4,500)	(56,137)	–	(76,560)	1,065,467
Resigned employees	117,463	–	(11,000)	–	(5,900)	187,879	288,442
Total	**1,459,682**	**535,136**	**(65,500)**	**(85,747)**	**(5,900)**	**–**	**1,837,671**
Weighted average exercise price (DKK)	**266**	**–**	**83**	**272**	**85**	**–**	**248**
Weighted average share price at exercise (DKK)			**200**				

Number of warrants which can be exercised as of December 31, 2018	247,000
at a weighted average exercise price of DKK	131

Note 27

Share-based payment – continued

Warrant overview

	Outstanding as of January 1	Additions	Exercised	Annulled	Terminated	Transferred	Outstanding as of December 31
							2017
Board of Directors	35,000	–	(15,000)	–	–	–	20,000
Corporate Management	318,702	87,068	(30,000)	–	–	–	375,770
Other Executive Management	–	79,277	(20,000)	–	–	44,600	103,877
Other employees	887,073	234,466	(155,667)	(23,653)	(1,500)	(98,147)	842,572
Resigned employees	243,777	–	(158,450)	–	(21,411)	53,547	117,463
Total	**1,484,552**	**400,811**	**(379,117)**	**(23,653)**	**(22,911)**	**–**	**1,459,682**
Weighted average exercise price (DKK)	**211**	**–**	**108**	**307**	**56**	**–**	**266**
Weighted average share price at exercise (DKK)			**281**				
Number of warrants which can be exercised as of December 31, 2017							318,400
at a weighted average exercise price of DKK							121

Specification of parameters for Black-Scholes model

	Aug. 2014	Dec. 2015	Dec. 2016	Jul. 2017	Nov. 2017	Nov. 2018
Average share price	117.50	334.00	222.50	383.50	259.50	159.00
Average exercise price at grant	131.40	366.85	260.20	430.45	303.03	179.60
Expected volatility rate	39.7%	53.8%	44.6%	44.1%	52.4%	53.3%
Expected life (years)	3.3	3.3	3.0	3.0	3.0	3.0
Expected dividend per share	–	–	–	–	–	–
Risk-free interest rate p.a.	0.63%	0.25%	–0.48%	–0.46%	–0.55%	–0.43%
Fair value at grant [1]	29	115	54	98	80	52

1. Fair value of each warrant at grant date applying the Black-Scholes model

The expected volatility is based on the historical volatility.

Recognized costs in 2017 DKK 30.2 million compared to DKK 22.8 million in 2018.

Note 27

Share-based payment – continued

Exercise periods	Can be exercised wholly or partly in a period of 14 days commencing from the day of publication of:			
November 2018	Annual Report 2021	Interim Report Q1 2022	Interim Report Q2 2022	Interim Report Q3 2022
	Annual Report 2022	Interim Report Q1 2023	Interim Report Q2 2023	Interim Report Q3 2023
November 2017	Annual Report 2020	Interim Report Q1 2021	Interim Report Q2 2021	Interim Report Q3 2021
	Annual Report 2021	Interim Report Q1 2022	Interim Report Q2 2022	Interim Report Q3 2022
July 2017	Interim Report Q2 2020	Interim Report Q3 2020	Annual Report 2020	Interim Report Q1 2021
	Interim Report Q2 2021	Interim Report Q3 2021	Annual Report 2021	Interim Report Q1 2022
December 2016	Annual Report 2019	Interim Report Q1 2020	Interim Report Q2 2020	Interim Report Q3 2020
	Annual Report 2020	Interim Report Q1 2021	Interim Report Q2 2021	Interim Report Q3 2021
December 2015	Annual Report 2018	Interim Report Q1 2019	Interim Report Q2 2019	Interim Report Q3 2019
	Annual Report 2019	Interim Report Q1 2020	Interim Report Q2 2020	Interim Report Q3 2020
August 2014	Interim Report Q3 2017 Interim Report Q3 2018	Annual Report 2017 Annual Report 2018	Interim Report Q1 2018 Interim Report Q1 2019	Interim Report Q2 2018 Interim Report Q2 2019

Phantom shares

In 2014, the Company established a three-year phantom share program covering all employees in the Group. The employees received up to six phantom shares per month free of charge during the period from January 1, 2015 to December 31, 2017. Each employee who was a full-time employee during the entire term of the plan was eligible to receive a maximum of 216 phantom shares. The program was exercised in January 2018.

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 management and other employees receiving warrants. The employees receive up to four phantom shares per month free of charge during the period from January 1, 2017 to December 31, 2019. Each employee who is a full-time employee during the entire term of the plan will be eligible to receive a maximum of 144 phantom shares.

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

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

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

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

Note 27

Share-based payment – continued

2018-2020 phantom share program	2018
Outstanding as of January 1	–
Granted during the year	17,644
Expired during the year	–
Outstanding phantom shares as of December 31	**17,644**
Liability in DKK thousand as of December 31	**145**
Specification of parameters for Black–Scholes model	
Share price December 31	127
Average share exercise price	303
Expected volatility rate	52%
Expected life (years)	2.0
Expected dividend per share	–
Risk-free interest rate p.a.	0.02%

The expected volatility is based on the historic volatility.

The expense in respect of phantom shares granted in 2018 provided a cost of DKK 0.1 million.

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

2017-2019 phantom share program	2018	2017
Outstanding as of January 1	18,234	–
Granted during the year	17,538	18,234
Expired during the year	–	–
Outstanding phantom shares as of December 31	**35,772**	**18,234**
Liability in DKK thousand as of December 31	**130**	**953**
Specification of parameters for Black–Scholes model		
Share price December 31	127	224
Average share exercise price	260	260
Expected volatility rate	52%	52%
Expected life (years)	1.0	2.0
Expected dividend per share	–	–
Risk-free interest rate p.a.	-0.07%	0.05%

The expected volatility is based on the historic volatility.

Phantom shares granted in 2018 provided an expense of DKK 0.1 million, whereas the revaluation of previously granted phantom shares provided an income of DKK 0.9 million, net income DKK 0.8 million (net expense 2017: DKK 1.0 million).

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

Note 27

Share-based payment – continued

2016-2018 phantom share program	2018	2017	2016
Outstanding as of January 1	59,002	29,082	–
Granted during the year	29,258	29,920	29,082
Outstanding phantom shares as of December 31	**88,260**	**59,002**	**29,082**
Liability in DKK thousand as of December 31	**–**	**770**	**1,027**
Specification of parameters for Black–Scholes model			
Share price December 31	127	224	249
Average share exercise price	367	367	367
Expected volatility rate	52%	52%	48%
Expected life (years)	–	1.0	2.0
Expected dividend per share	–	–	–
Risk-free interest rate p.a.	0.11%	-0.09%	0.03%

The expected volatility is based on the historic volatility.

Phantom shares granted in 2018 provided an expense of DKK 0.0 million, whereas the revaluation of previously granted phantom shares provided an income of DKK 0.8 million, net income DKK 0.8 million (net income 2017: DKK 0.3 million).

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

The 2016-2018 program will exercise in January 2019 if the average share price for the period January 1 - January 15, 2019 will exceed the exercise price of DKK 366.85. Otherwise the program will expire without exercise.

2015-2017 phantom share program	2018	2017	2016	2015
Outstanding as of January 1	87,888	57,894	29,140	–
Granted during the year	–	29,994	28,754	29,140
Exercised during the year	(83,022)	–	–	–
Expired during the year	(4,866)	–	–	–
Outstanding phantom shares as of December 31	**–**	**87,888**	**57,894**	**29,140**
Liability in DKK thousand as of December 31		**1,059**	**3,727**	**5,110**
Specification of parameters for Black–Scholes model				
Share price December 31		224	249	358
Average share exercise price		212	212	212
Expected volatility rate		–	48%	54%
Expected life (years)		–	1.0	2.0
Expected dividend per share		–	–	–
Risk-free interest rate p.a.		–	-0.12%	0.20%

The 2015-2017 program was exercised January 2018 at a share price of DKK 228.

Revaluation of granted phantom shares and reversal of not exercised phantom shares provided a net cost of DKK 0.2 million (net income 2017: DKK 2.7 million).

Note 27

Share-based payment – continued

Restricted stock units

In March 2018, the Board of Directors decided to postpone the payment of half of the achieved cash bonus for members of the Executive Management for 3 years, converting the postponed bonus of DKK 1.7 million into 6,910 unconditional restricted stock units using the share price of the Company at grant date (DKK 244). The Board of Directors decided to grant additional restricted stock units free of charge on expiry of a 3 years period (so-called "matching shares") upon the recipient still being employed in March 2021. One matching share is granted for each two acquired restricted stock units. The maximum number of matching shares is 3,456. The initial granted restricted stock units and the potential matching shares total 10,366 shares. At the annual general meeting in April 2018, the Board of Directors were granted a total of 6,857 unconditional restricted stock units corresponding to 50% of the annual fixed fee of DKK 1.2 million (excl. committee fee). The restricted stock units will be delivered after 3 years in April 2021. As sign-on bonus the new CFO was granted a total of 6,767 unconditional restricted stock units in November 2018 and 3,383 additional restricted stock units on expiry of a 3 years period ("matching shares") upon the CFO still being employed in November 2021.

In November 2018, the Company bought back 27,373 of its own shares to meet the obligation to deliver up to 27,373 shares to the members of the Executive Management and the Board of Directors in March/April/November 2021.

Outstanding restricted stock units **2018**

	Outstanding as of January 1	Granted during the year	Outstanding as of December 31	Value at grant date (DKK)	Vesting date
Executive Management					
Sign-on bonus CFO	–	6,767	6,767	156	Nov. 2021
Matching shares – sign-on CFO	–	3,383	3,383	156	Nov. 2021
Conversion of cash bonus for 2017	–	6,910	6,910	244	Mar. 2021
Matching shares – bonus 2017	–	3,456	3,456	244	Mar. 2021
Conversion of cash bonus for 2016	5,642	–	5,642	292	Mar. 2020
Matching shares – bonus 2016	2,821	–	2,821	292	Mar. 2020
Conversion of cash bonus for 2015	7,430	–	7,430	270	Mar. 2019
Matching shares – bonus 2015	3,714	–	3,714	270	Mar. 2019
Executive Management	**19,607**	**20,516**	**40,123**		
Board of Directors					
Fee 2018	–	6,857	6,857	175	Apr. 2021
Fee 2017	3,693	–	3,693	365	Apr. 2020
Board of Directors	**3,693**	**6,857**	**10,550**		
Total	**23,300**	**27,373**	**50,673**		

Outstanding restricted stock units **2017**

	Outstanding as of January 1	Granted during the year	Outstanding as of December 31	Value at grant date (DKK)	Vesting date
Executive Management					
Conversion of cash bonus for 2016	–	5,642	5,642	292	Mar. 2020
Matching shares – bonus 2016	–	2,821	2,821	292	Mar. 2020
Conversion of cash bonus for 2015	7,430	–	7,430	270	Mar. 2019
Matching shares – bonus 2015	3,714	–	3,714	270	Mar. 2019
Executive Management	**11,144**	**8,463**	**19,607**		
Board of Directors					
Fee 2017	–	3,693	3,693	365	Apr. 2020
Board of Directors	**–**	**3,693**	**3,693**		
Total	**11,144**	**12,156**	**23,300**		

Note 27

Share-based payment – continued

The grant of the initial restricted stock units to the Executive Management (6,910 shares) had no impact on the income statement for 2018, as the corresponding cash bonus (DKK 1.7 million) was accrued in 2017, though the amount has been reclassified from "Salary and wages" to "Share-based payment" in the staff cost note (note 8). The obligation related to the matching shares amount to DKK 0.8 million measured at the same fair value as the initial restricted stock units (DKK 244). The obligation will be expensed over the three year vesting period. During 2018, DKK 1.1 million has been expensed and recognized as share-based payment (incl. grants of matching shares for prior years). The grant of restricted stock units to the Board of Directors (6,857 shares - DKK 1.2 million) and the sign-on bonus to the CFO (6,767 shares - DKK 1.1 million) were fully expensed at grant. The matching share for the sign-on will be expensed over the following 3 years.

Total share-based payments

Below a specification of all share-based payments expensed in 2018 and 2017. The amounts reconcile to note 8.

DKK thousand	2018	2017
Warrants	30,229	22,786
2018-2020 phantom share program	145	–
2017-2019 phantom share program	(823)	953
2016-2018 phantom share program	(770)	(257)
2015-2017 phantom share program	234	(2,668)
2014-2016 phantom share program	–	2,432
Restricted stock units	4,898	3,551
Total	**33,913**	**26,797**

Note 28

Contingent liabilities and other contractual obligations

DKK thousand	2018	2017
Operational leasing		
Leasing obligations for cars and office equipment.		
The operational leasing agreements are irrevocable up to 30 months.		
– Due within 1 year	1,937	2,543
– Due between 1 and 5 years	1,042	2,972
Minimum leasing cost recognized in net profit for the year	1,940	2,156
Rental commitments		
Rental agreements for laboratory and offices facilities.		
The rental agreements are irrevocable from 3 to 48 months.		
– Due within 1 year	16,406	16,392
– Due between 1 and 5 years	29,171	34,075
Minimum rental cost recognized in net profit for the year	20,337	19,901

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 12.4 million (DKK 15.7 million). The sub-lease agreement covers the remaining lease period and will contribute with an income of a similar amount.

Note 28

Contingent liabilities and other contractual obligations – continued

DKK thousand	2018	2017
Collaborative agreements		
Contractual obligations with research partners for long-term research projects.		
– Due within 1 year	29,646	56,418
– Due between 1 and 5 years	7,826	63,239
Other contractual obligations		
– Due within 1 year	12,055	13,201
– Due between 1 and 5 years	8,118	9,237

The Group has license agreements with the National Cancer Institute (NCI) and Public Health Service (PHS) in the U.S. for PROSTVAC, CV301 and BN-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.

Company mortgage

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

Tax audit

The Danish tax authority ("Skattestyrelsen") has notified the Company that Skattestyrelsen is proposing an adjustment of the allocation of the PROSTVAC development costs between Bavarian Nordic A/S and its U.S. subsidiary, Bavarian Nordic, Inc. for the income years 2012-2016. The Company is in dialogue with Skattestyrelsen regarding the proposal. The Company finds it more likely than not, that the results of the dialogue with Skattestyrelsen will not have any material adverse effect on the consolidated financial statements.

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 29

Significant events after the balance sheet date

On March 11, 2019, the Company announced that the U.S. Food and Drug Administration would extend the review of the Company's Biologics License Application for the liquid-frozen formulation of the MVA-BN smallpox vaccine by three months.

On February 21, 2019, the Company announced that the first patient had been dosed in a Phase 1/2a clinical study evaluating a prime-boost HPV vaccine regimen based on Janssen's AdVac technology and Bavarian Nordic's MVA-BN technology.

On January 25, 2019, the Company announced that the first stage of a Phase 2 study of BN-Brachyury in the treatment of advanced chordoma had completed recruitment of the planned 10 patients ahead of schedule.

On January 24, 2019, the Company reported further progress in the development of a prophylactic vaccine against the equine encephalitis virus. On January 18, 2019, the Company announced that the U.S. Biomedical Advanced Research and Development Authority had awarded an additional USD 44 million under the existing contract framework to support qualification of the new fill and finish facility, as well as transfer and validation of the freeze-drying production process.

Except as noted above, there have been no significant events between December 31, 2018 and the date of approval of these financial statements that would require a change to or additional disclosure in the financial statements.

Note 30

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 21, 2019.

CONTENTS

FINANCIAL STATEMENTS – PARENT

FINANCIAL STATEMENTS OF THE PARENT COMPANY

NOTES

Income Statements

For the years ended December 31, 2018 and 2017

DKK thousand	Note	2018	2017
Revenue	2	500,550	1,370,151
Production costs	4, 5	255,731	290,734
Gross profit		**244,819**	**1,079,417**
Research and development costs	3, 4 ,5	405,084	671,359
Distribution costs	4	34,058	40,242
Administrative costs	4 ,5	183,272	205,717
Total operating costs		**622,414**	**917,318**
Income before interest and tax (EBIT)		**(377,595)**	**162,099**
Income from investments in subsidiaries	11	13,870	7,457
Financial income	6	71,090	69,894
Financial expenses	7	45,844	473,430
Income before company tax		**(338,479)**	**(233,980)**
Tax on income for the year	8	–	109,788
Net profit for the year	20	**(338,479)**	**(343,768)**

Notes with reference to the consolidated financial statements	**Note**
Revenue	3
Production costs	4
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Statements of Financial Position – Assets

December 31, 2018 and 2017

DKK thousand	Note	2018	2017
Non-current assets			
Software		31,990	26,838
Other intangible assets in progress		119	5,704
Intangible assets	9	**32,109**	**32,542**
Land and buildings		178,895	193,556
Leasehold improvements		72	363
Plant and machinery		54,311	56,986
Other fixtures and fittings, other plant and equipment		11,817	12,192
Assets under construction		262,114	71,812
Property, plant and equipment	10	**507,209**	**334,909**
Investments in subsidiaries	11	120,015	105,661
Other receivables		1,182	1,035
Financial assets		**121,197**	**106,696**
Total non-current assets		**660,515**	**474,147**

	Note	2018	2017
Current assets			
Development projects for sale	12	**68,300**	**68,300**
Inventories	13	**78,037**	**111,038**
Trade receivables		30,532	19,396
Tax receivables		–	5,396
Other receivables		20,650	23,757
Prepayments		37,490	4,566
Receivables		**88,672**	**53,115**
Securities		2,050,556	2,301,197
Cash and cash equivalents		255,880	267,805
Securities, cash and cash equivalents		**2,306,436**	**2,569,002**
Total current assets		**2,541,445**	**2,801,455**
Total assets		**3,201,960**	**3,275,602**

Statements of Financial Position – Equity, provisions and liabilities

December 31, 2018 and 2017

DKK thousand	Note	2018	2017
Equity			
Share capital		323,106	322,451
Treasury shares		(507)	(233)
Retained earnings		1,835,326	2,169,222
Reserve for development costs		21,039	22,189
Other reserves		81,024	47,406
Equity		**2,259,988**	**2,561,035**
Liabilities			
Credit institutions		397,613	399,760
Non-current liabilities		**397,613**	**399,760**
Credit institutions		248,877	2,152
Prepayment from customers	15	27,116	79,617
Trade payables		91,226	67,646
Payables to subsidiaries		114,267	101,792
Other liabilities	14	62,873	63,600
Current liabilities		**544,359**	**314,807**
Total liabilities		**941,972**	**714,567**
Total equity, provisions and liabilities		**3,201,960**	**3,275,602**

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Notes with reference to the consolidated financial statements	Note
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Statements of Changes in Equity

December 31, 2018

DKK thousand	Share capital	Treasury shares	Retained earnings	Reserve for development costs	Other reserves	Equity
Equity as of January 1, 2018	322,451	(233)	2,169,222	22,189	47,406	2,561,035
Net profit for the year	–	–	(338,478)	–	–	(338,478)
Exchange rate adjustments	–	–	484	–	–	484
Change in fair value of financial instruments entered into to hedge future cash flows	–	–	–	–	(228)	(228)
Share-based payment	–	–	–	–	35,127	35,127
Warrant program exercised	655	–	5,945	–	(1,185)	5,415
Warrant recharged	–	–	782	–	–	782
Warrant program expired	–	–	96	–	(96)	–
Costs related to issue of new shares	–	–	(25)	–	–	(25)
Purchase of treasury shares	–	(274)	(3,850)	–	–	(4,124)
Reserve for development costs	–	–	1,150	(1,150)	–	–
Equity as of December 31, 2018	**323,106**	**(507)**	**1,835,326**	**21,039**	**81,024**	**2,259,988**

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

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

Note 1

Significant accounting policies and significant accounting estimates and judgments

Accounting policies

The financial statements of the Parent Company Bavarian Nordic A/S have been prepared in accordance with the Danish Financial Statements Act (Class D) and other accounting regulations for companies listed on Nasdaq Copenhagen. The financial statements are presented in Danish kroner (DKK), which also is the functional currency of the Parent Company. The accounting policies are unchanged from previous year.

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

The accounting policies are the same as for the consolidated financial statements with the following additions. See description of the accounting policies in the consolidated financial statements. In the narrative sections of the financial statements comparative figures for 2017 are shown in brackets.

Supplementary accounting policies for the Parent Company

Accounting policies for investments in subsidiaries are described in note 11.

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

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

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

Significant accounting estimates and judgments

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

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

- Investments in subsidiaries (note 11)
- Receivables from subsidiaries (note 11)

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

Note 2

Revenue

DKK thousand	2018	2017
MVA-BN® smallpox vaccine sale	360,523	874,307
Sale of goods	360,523	874,307
Upfront payment, PROSTVAC	–	398,538
Contract work	140,027	97,306
Sale of services	140,027	495,844
Revenue	**500,550**	**1,370,151**
Total revenue includes:		
Fair value adjustment concerning financial instruments entered into to hedge revenue	907	–

The contract with the United States Department of Defense for the development of a prophylactic vaccine against the equine encephalitis virus is concluded with Bavarian Nordic, Inc., whereas all costs related to the contract are covered by Bavarian Nordic A/S. Bavarian Nordic A/S re-invoice those costs to Bavarian Nordic, Inc. Net Bavarian Nordic, Inc. earns a mark-up, reducing the revenue in the Parent Company compared to the revenue in the Group.

For further disclosures see the consolidated financial statements note 3.

Note 3

Research and development costs

DKK thousand	2018	2017
Research and development costs incurred this year	478,756	672,180
Of which:		
Contract costs recognized as production costs	(73,672)	(61,772)
Capitalized development costs	–	(8,564)
	405,084	601,844
Amortization of prior-year costs attributable to the IMVAMUNE development project	–	69,515
Research and development costs recognized in the income statement	**405,084**	**671,359**

Write-down of the PROSTVAC development project for sale was included by DKK 188.4 million in 2017 following the discontinuation of the PROSPECT study, cf. note 12.

Accounting policies

See consolidated financial statements note 5. ■

Note 4

Staff costs

DKK thousand	2018	2017
Wages and salaries	186,518	198,926
Contribution based pension	15,934	17,440
Social security expenses	1,702	1,728
Other staff expenses	19,417	20,756
Share-based payment	34,074	24,707
Staff costs	**257,645**	**263,557**
Staff expenses are distributed as follows:		
Production costs	110,097	137,228
Research and development costs	46,294	28,105
Distribution costs	16,884	15,812
Administrative costs	84,370	81,879
Capitalized salaries	–	533
Staff costs	**257,645**	**263,557**
Average number of employees converted to full-time	252	280
Number of employees as of December 31 converted to full-time	259	252

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

Remuneration to Corporate Management and the Board of Directors is diclosed in the consolidated financial statements note 8.

Incentive programs for management and other employees are disclosed in the consolidated financial statements note 27.

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.

Accounting policies

See consolidated financial statements note 8. ■

Note 5

Depreciation and amortization

DKK thousand	2018	2017
Depreciation and amortization included in:		
Production costs	29,950	31,699
Research and development costs	1,052	1,243
Administrative costs	8,286	2,418
Depreciation and amortization	**39,288**	**35,360**
Hereof (profit)/loss from disposed fixed assets	–	244

Note 6

Financial income

DKK thousand	2018	2017
Financial income from bank and deposit contracts	842	644
Financial income from subsidiaries	16,850	13,468
Financial income from securities	21,765	20,817
Net gain on derivative financial instruments at fair value in the income statement	–	12,720
Adjustment of net present value of provisions	–	22,245
Net foreign exchange gains	31,633	–
Financial income	**71,090**	**69,894**

Accounting policies

See consolidated financial statements note 11. ■

Note 7

Financial expenses

DKK thousand	2018	2017
Interest expenses on debt	14,163	5,673
Financial expenses to subsidiaries	1,979	1,630
Fair value adjustments on securities	18,667	12,319
Net loss on derivative financial instruments at fair value in the income statement	3,929	–
Net foreign exchange losses	–	79,078
Write-down of receivables from subsidiaries, cf. note 11	7,106	374,730
Financial expenses	**45,844**	**473,430**

Accounting policies

See consolidated financial statements note 12. ■

Note 8

Tax for the year

DKK thousand	2018	2017
Tax recognized in the income statement		
Current tax on profit for previous years	–	7
Currrent tax	**–**	**7**
Change in deferred tax	–	112,580
Adjustments to deferred tax for previous years	–	(2,799)
Deferred tax	**–**	**109,781**
Tax for the year recognized in the income statement	**–**	**109,788**
Tax on income for the year is explained as follows:		
Income before company tax	(338,479)	(233,980)
Calculated tax (22.0%) on income before company tax	(74,465)	(51,476)
Tax effect on:		
Income from investments in subsidiaries	(3,051)	(1,641)
Write-down of receivables from subsidiaries - not deductable for tax purposes	12,901	71,103
(Income)/expenses that are not taxable/deductable for tax purposes	(1,535)	(5,462)
Current tax on profit for previous years	–	7
Write-down of tax assets	66,150	100,056
Adjustments to deferred tax for previous years	–	(2,799)
Tax on income for the year	**–**	**109,788**
Tax recognized in equity		
Tax on change in fair value of financial instruments entered into hedge future cash flows	–	57
Tax on share based payment	–	20,619
Tax for the year recognized in equity	**–**	**20,676**

DKK thousand	January 1, 2018	Adjustment to previous year	Recognized in the income statement	Recognized in equity	December 31, 2018
Intangible assets	5,366	–	(1,663)	–	3,703
Property, plant and equipment	6,602	2,419	6,494	–	15,515
Development projects for sale	17,420	–	–	–	17,420
Accrued project costs	–	–	(7,335)	–	(7,335)
Receivable from subsidiary	11,338	–	(11,338)	–	–
Financial instruments	28	–	–	50	78
Share-based payment	10,441	–	4,661	(10,948)	4,154
Tax losses carried forward	241,837	(6,863)	75,331	–	310,305
Write-down of deferred tax assets	(293,032)	4,444	(66,150)	10,898	(343,840)
Recognized deferred tax assets	**–**	**–**	**–**	**–**	**–**

Accounting policies

See consolidated financial statements note 13. ■

Deferred tax

Recognized deferred tax assets relate to temporary differences between valuations for accounting and taxation purposes and tax losses carried forward. For further disclosures see the consolidated financial statements note 13.

Tax audit

Bavarian Nordic A/S has an ongoing tax audit regarding the allocation of the PROSTVAC development costs between Bavarian Nordic A/S and its U.S. subsidiary, Bavarian Nordic, Inc. See further description in note 18.

Note 9

Intangible assets

			2018
DKK thousand	**Software**	**Other intangible assets in progress**	**Total**
Costs as of January 1, 2018	84,723	5,704	90,427
Additions	9,872	119	9,991
Transfer	3,678	(3,678)	–
Transfer to/from property, plant and equipment	–	(2,026)	(2,026)
Cost as of December 31, 2018	**98,273**	**119**	**98,392**
Amortization as of January 1, 2018	57,885	–	57,885
Amortization	8,398	–	8,398
Amortization as of December 31, 2018	**66,283**	**–**	**66,283**
Carrying amount as of December 31, 2018	**31,990**	**119**	**32,109**
Carrying amount as of December 31, 2017	**26,838**	**5,704**	**32,542**

Accounting policies

See consolidated financial statements note 15. ■

Note 10

Property, plant and equipment

2018

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, 2018	319,106	2,702	294,046	35,610	71,812	723,276
Additions	444	–	1,300	1,119	198,301	201,164
Transfer	1,654	–	4,835	1,510	(7,999)	–
Transfer to/from intangible assets	299	–	1,220	507	–	2,026
Disposals	–	–	(227)	–	–	(227)
Cost as of December 31, 2018	**321,503**	**2,702**	**301,174**	**38,746**	**262,114**	**926,239**
Depreciation as of January 1, 2018	125,550	2,339	237,060	23,418	–	388,367
Depreciation	17,058	291	10,030	3,511	–	30,890
Disposals	–	–	(227)	–	–	(227)
Depreciation as of December 31, 2018	**142,608**	**2,630**	**246,863**	**26,929**	**–**	**419,030**
Carrying amount as of December 31, 2018	**178,895**	**72**	**54,311**	**11,817**	**262,114**	**507,209**
Carrying amount as of December 31, 2017	**193,556**	**363**	**56,986**	**12,192**	**71,812**	**334,909**

For collateral see the consolidated financial statements note 16.

Accounting policies
See consolidated financial statements note 16. ■

Note 11

Investment in subsidiaries

	2018	
DKK thousand	**Investments in subsidiaries**	**Receivables from subsidiaries**
Costs as of January 1, 2018	186,609	374,730
Additions	–	(11,849)
Exchange rate adjustments	–	18,955
Cost as of December 31, 2018	**186,609**	**381,836**
Net revaluation as of January 1, 2018	(80,948)	(374,730)
Net share of profit/loss for the year	13,870	–
Write-down	–	(7,106)
Exchange rate adjustments	484	–
Net revaluation as of December 31, 2018	**(66,594)**	**(381,836)**
Carrying amount as of December 31, 2018	**120,015**	**–**
Carrying amount as of December 31, 2017	**105,661**	**–**

The carrying amount of investments in subsidiaries mainly relates to Bavarian Nordic GmbH (DKK 115.8 million) and the net share of profit from this subsidiary amounts to DKK 14.0 million.

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%
Aktieselskabet af 1. juni 2011 II	Denmark	100%	100%

Bavarian Nordic Washington DC, Inc. was dissolved as per September 30, 2018.

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 and such liability is expected to result in a loss, the remaining amount is recognized under provisions if the Company has a legal or constructive obligation to cover the liabilities of the relevant subsidiary.

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

Goodwill is calculated as the difference between cost of the investments and the fair value of the assets and liabilities acquired which have been measured at fair value at the date of acquisition. The amortization period for goodwill is usually five years.

Investments in subsidiaries are written down to the lower of recoverable amount and carrying amount. Income from investments in subsidiaries' contains pro rata share of subsidiaries profits or losses after elimination of unrealized intra-group profits and losses. ■

Significant accounting estimates

As of December 31, 2018, Bavarian Nordic, Inc. had a negative equity of DKK 415 million (DKK 383 million). Following the discontinuation of the PROSPECT study in September 2017 the Parent Company's receivable from Bavarian Nordic, Inc. was fully written-down as Management assessed that there would be no significant cash flows from sale in the coming years. Management maintains this assessment as of December 31, 2018. ■

Note 12

Development projects for sale

DKK thousand	2018	2017
Development projects for sale January 1	68,300	256,747
Write-down	–	(188,447)
Development projects for sale December 31	**68,300**	**68,300**

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

The development project related to PROSTVAC was fully written-down in September 2017 following the discontinuation of the PROSPECT study. The expense was recognized as research and development costs.

Accounting policies

See consolidated financial statements note 17. ■

Note 13

Inventories

DKK thousand	2018	2017
Raw materials and supply materials	27,739	30,996
Work in progress	156,232	129,607
Manufactured goods and commodities	1,758	3,140
Write-down on inventory	(107,692)	(52,705)
Inventories	**78,037**	**111,038**
Write-down on inventory as of January 1	(52,705)	(110,697)
Write-down for the year	(54,987)	(23,199)
Use of write-down	–	81,191
Write-down on inventory as of December 31	**(107,692)**	**(52,705)**
Cost of goods sold amounts to	94,557	221,210

Accounting policies and significant accounting estimates

See consolidated financial statements note 18. ■

Note 14

Other liabilities

DKK thousand	2018	2017
Derivative financial instruments at fair value in the income statement	388	129
Liability relating to phantom shares	275	2,086
Payable salaries, holiday accrual etc.	44,358	47,514
Other accrued costs	17,852	13,871
Other liabilities	**62,873**	**63,600**

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 27.

Accounting policies

See consolidated financial statements note 22. ■

Note 15

Prepayment from customers

DKK thousand	2018	2017
Prepayment from customers as of January 1	79,617	530,645
Prepayments received during the year	14,373	704,813
Recognized as revenue during the year	(66,874)	(1,155,841)
Prepayment from customers as of December 31	**27,116**	**79,617**

The prepayment from United States Department of Defense for the development of a prophylactic vaccine against the equine encephalitis virus is paid to Bavarian Nordic, Inc. (cf. note 2) and therefore not part of the prepayments in the Parent Company.

For further details of prepayment from customers, see consolidated financial statements note 25.

Accounting policies

See consolidated financial statements note 25. ■

Note 16

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.

Bavarian Nordic, Inc. provides research and development services to Bavarian Nordic A/S.

Bavarian Nordic, Inc. also 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. In 2017 these services were provided by Bavarian Nordic Washington DC, Inc.

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

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

Apart from intra-group transactions mentioned above and the remuneration of the Board of Directors and Corporate Management, cf. note 8 and note 27 in the consolidated financial statements, there are no transactions with related parties.

Note 17

Lease and rent commitments

DKK thousand	2018	2017
Due within 1 year	3,630	4,486
Due between 1 and 5 years	777	3,018
Commitments according to rent and lease agreements until expiry	**4,407**	**7,504**

Note 18

Contingent liabilities and other contractual obligations

DKK thousand	2018	2017
Collaborative agreements		
Contractual obligations with research partners for long-term research projects.		
– Due within 1 year	25,733	52,693
– Due between 1 and 5 years	–	2,404
Other contractual obligations		
– Due within 1 year	11,998	13,059
– Due between 1 and 5 years	8,119	9,180

Repayment obligation
Repayment obligation regarding received prepayments see the consolidated financial statements note 25.

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 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, 2018. Any adjustments of the taxable joint taxation income or taxes withheld at source may have the effect that the Company's liability increases.

Tax audit
The Danish tax authority ("Skattestyrelsen") has notified the Company that Skattestyrelsen is proposing an adjustment of the allocation of the PROSTVAC development costs between Bavarian Nordic A/S and its U.S. subsidiary, Bavarian Nordic, Inc. for the income years 2012-2016. The Company is in dialogue with Skattestyrelsen regarding the proposal. The Company finds it more likely than not, that the results of the dialogue with Skattestyrelsen will not have any material adverse effect on the consolidated financial statements.

Incentive agreements, Company mortgage, Lawsuits
See the consolidated financial statements note 28.

Note 19

Mortgages and collateral

DKK thousand	2018	2017
Guarantees for subsidiaries		
The Parent Company stands surety for a credit facility to a subsidiary of a maximum of	3,805	4,034
The Parent Company stands surety for letter of credit to subsidiaries of a maximum of	2,688	3,947

Bavarian Nordic A/S has signed a guarantee in favor of Bavarian Nordic, Inc.'s landlord in North Carolina. As guarantor Bavarian Nordic A/S guarantees the full and complete payment by Bavarian Nordic, Inc. of the rent and all other sums payable under the lease contract. The rent for the lease period (until August 2022) amounts to DKK 4.6 million (DKK 5.5 million).

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

Note 20

Proposed appropriation of net profit/(loss)

DKK thousand	2018	2017
Retained earnings	(338,479)	(343,768)
Total	**(338,479)**	**(343,768)**

Note 21

Significant events after the balance sheet date

See description in note 29 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, 2018.

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, 2018 as well as of the results of their operations and the Group's cash flows for the financial year January 1 - December 31, 2018.

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 21, 2019

Corporate Management

Paul John Chaplin
President and CEO

Board of Directors

Gerard W. M. van Odijk
Chairman of the Board

Anders Gersel Pedersen
Deputy chairman

Erik Gregers Hansen

Peter H. Kürstein-Jensen

Frank A. G. M. Verwiel

Elizabeth M. Anderson

INDEPENDENT AUDITOR'S REPORTS

To the shareholders of Bavarian Nordic A/S

Opinion
We have audited the consolidated financial statements and the parent financial statements of Bavarian Nordic A/S for the financial year January 1 – December 31, 2018, which comprise the income statement, statement of financial position, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent, and the statement of comprehensive income and the cash flow statement of the Group. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at December 31, 2018 and of the results of its operations and cash flows for the financial year January 1 – December 31, 2018 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements under the Danish Financial Statements Act.

Further, in our opinion, the parent financial statements give a true and fair view of the Parent's financial position at December 31, 2018 and of the results of its operations for the financial year January 1 – December 31, 2018 in accordance with the Danish Financial Statements Act.

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

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements section of this auditor's report. We are independent of the Group in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
To the best of our knowledge and belief, we have not provided any prohibited non-audit services as referred to in Article 5(1) of Regulation (EU) No 537/2014.

After Bavarian Nordic A/S was listed on Nasdaq OMX Copenhagen in 1998, we were appointed auditors at the Annual General Meeting held on May 27, 1999 for the 1999 financial year. We have been reappointed annually at the annual general meeting for a total consecutive engagement period of 20 years up to and including the 2018 financial year.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent financial statements for the financial year January 1 – December 31, 2018. These matters were addressed in the con-text 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

Revenue under the BARDA contracts for IMVAMUNE

Revenue recognized under the Biomedical Advanced Research and Development Authority (BARDA) contracts with the U.S. Government related to MVA-BN smallpox vaccine amounted to DKK 342 million in 2018 (DKK 840 million in 2017).

Contracts with BARDA include multiple elements, and recognition of revenue is significant and requires subjective evaluations. Management therefore exercises judgement in determining whether the Group has fulfilled all of its performance obligations.

Management's assessment includes whether it is probable that future economic benefits from the sale of MVA-BN smallpox vaccine bulk drug substance will flow to the Group, the benefits can be measured reliably, ownership of the goods and services is transferred to BARDA, and the Group no longer retains managerial responsibility for, or control of, the goods sold and services delivered to BARDA.

Refer to notes 2 and 3 in the consolidated financial statements.

How the matter was addressed in the audit

Revenue under the BARDA contracts for IMVAMUNE

Based on our risk assessment procedures on the Group's business process and internal controls for revenue under the BARDA contracts, we tested the appropriateness of the Group's revenue recognition.

We read the BARDA contracts, discussed them with Management and evaluated the related accounting treatment. During the audit, we tested whether the performance obligations for revenue recognized under the BARDA contracts were met in 2018.

We also evaluated the financial statements disclosures related to revenue.

INDEPENDENT AUDITOR'S REPORTS
– continued

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 other-wise appears to be materially misstated.

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reason-able assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and these parent financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we

exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and 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.

INDEPENDENT AUDITOR'S REPORTS
– continued

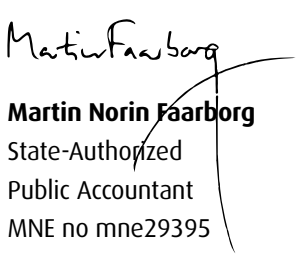
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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 21, 2019

Deloitte
Statsautoriseret
Revisionspartnerselskab
Business Registration No 33 96 35 56



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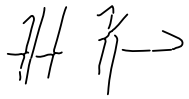

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FORWARD-LOOKING STATEMENT

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

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