ANNUAL REPORT 2019

Less risk, more memories

BAVARIAN NORDIC

LESS RISK, MORE MÉMORIES

Risk is always present in our world, but the less there is of it, the more there is to experience in life.

At Bavarian Nordic we are committed to developing, manufacturing and commercializing vaccines that effectively minimize the threat of some of the world's most deadly viruses. Because less risk means more...

More adventure, more reward, more memories, more moments to share.

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A YEAR OF TRANSFORMATION

In 2019, Bavarian Nordic embarked on a new era as a commercial vaccine company. The successful closing of the acquisition of Rabipur/RabAvert and Encepur, two market-established infectious disease vaccines from GlaxoSmithKline (GSK), and the FDA approval of JYNNEOS has created a leading infectious disease franchise. These vaccines will immediately return Bavarian Nordic to EBITDA profitability and support the continued investments in our promising pipeline to bring additional life-saving products to the market.

The asset acquisition from GSK was a natural consequence of our desire to become a leading and profitable vaccine company. While we believed our own pipeline products would have fulfilled this vision, the acquisition accelerated the journey and was only possible because of the strong reputation we have built as a leading vaccine manufacturer. Rabipur/RabAvert and Encepur have a strong strategic fit to our existing business, allowing us to exploit significant manufacturing synergies between highly complementary technologies. As we execute on our commercial and manufacturing plans, we expect to grow these sales bringing life-saving solutions to more people and patients around the world.

The FDA approval of JYNNEOS was a key step towards unlocking more value from our contracts with the U.S.

> ***It is not just on the commercial front that we have made significant progress in 2019.***

Government, but interestingly it also opened a new commercial market, as the approval also covered the indication of monkeypox, a serious and emerging disease. While the awareness around this disease is still growing, its spread into urban and highly populated areas in e.g. Nigeria, combined with the increased global mobility, provides a market opportunity for JYNNEOS and also highlights the need for a better preparedness for emerging diseases. This together with the fact that JYNNEOS was approved for the general adult population provides opportunities to assist the U.S. Government preparedness plans beyond the current stockpiling, by providing a safer alternative vaccine to protect first line responders such as military and healthcare workers.

In 2019 we made progress on other fronts. The Democratic Republic of Congo is currently facing the second-largest Ebola outbreak ever recorded, and the mobility across borders has raised the fear of spread into neighboring countries, setting demands for a broader vaccination approach. We are extremely proud that together with our partner Janssen, our combined Ebola vaccine is now being deployed in large-scale vaccination campaigns spanning several countries in Central Africa. To further support the future widespread use of this vaccine to save lives and prevent future outbreaks, we also supported Janssen in filing for European approval of the vaccine.

> ***While 2019 was a busy year full of important events, it only marked the beginning of a new journey for Bavarian Nordic.***

We remain at the forefront of RSV vaccine development for the elderly and have agreed on a future phase 3 program with the FDA and are in preparations to initiate this two-season study in 2021. This gives us the time to establish an improved commercial-scale production to meet the demands of this blockbuster indication and bring a much-needed vaccine for this high unmet medical need.

Our cancer immunotherapy pipeline also progressed with BN-Brachyury rapidly completing enrollment in a Phase 2 study in Chordoma and also showing an early efficacy signal, which we hope to confirm as final results from the study become available later in 2020. We are also now embarking upon clinical evaluation of our new immunotherapy approaches that employ intra-tumoral and intravenous administration of our cancer vaccines that potentially offer more treatment options for patients in the future.

While 2019 was a busy year full of important events, it only marked the beginning of a new journey for Bavarian Nordic. With a five-year aspiration to be one of the largest pure play vaccine companies improving and saving lives by excelling in **R&D innovation, Manufacturing** and **Commercialization**, we have extremely exciting times ahead of us and we will be inviting many new colleagues to join us on this journey as we ramp up production and build a new global commercial team.

We would like to thank all our dedicated and skilled employees, our partners and investors for their great support in the exciting times ahead where we lay the groundwork for the continued success of Bavarian Nordic.

Paul Chaplin
President & CEO

Gerard van Odijk
Chairman of the Board of Directors

BAVARIAN NORDIC AT A GLANCE

LIFE-SAVING VACCINES

By 2025 we aspire to be one of the largest pure play vaccines companies, improving and saving lives by excelling in R&D innovation, manufacturing and commercialization.

Bavarian Nordic is a fully integrated biotechnology company developing, manufacturing and commercializing vaccines for the prevention and treatment of life-threatening diseases.

We are a global leader in smallpox vaccines and following the acquisition of two commercial vaccines in 2019, we are creating a leading infectious disease franchise.

COMMERCIAL

Two acquired vaccines with a strong reputation and market leading positions are the stepping stones to establish our commercial organization to drive profitable growth.

R&D INNOVATION

We have a strong heritage in vaccine development and with a proven technology, we continue to make innovations to help fight existing and emerging diseases.

MANUFACTURING

We are experts in live virus vaccine manufacturing and with the addition of fill and finish capabilities for liquid and freeze-dried vaccines, we will enable end-to-end commercial-scale manufacturing.

OUR IMPACT ON GLOBAL HEALTH

At Bavarian Nordic, we are committed to developing and manufacturing life-saving vaccines, and with the recent FDA approval of our smallpox and monkeypox vaccine, as well as the acquisition of two commercial vaccines for rabies and tick-borne encephalitis, we aspire to establish ourselves as a leader in infectious disease vaccines, thus fulfilling our mission to save and improve lives by unlocking the power of the immune system.

With Janssen we have developed an investigational Ebola vaccine regimen which has been deployed in several African countries in response to the current outbreak in DRC

COMMERCIAL PRODUCTS

JYNNEOS

SMALLPOX & MONKEYPOX VACCINE

Key markets:

- USA (government stockpiling of smallpox vaccine and as travel vaccine for people travelling to regions in Africa where monkeypox is endemic)

Also approved as smallpox vaccine in EU (trade name: IMVANEX) and in Canada (trade name: IMVAMUNE)

RABIPUR/RABAVERT

RABIES VACCINE

Key markets:

- USA and Germany

ENCEPUR

TICK-BORNE ENCEPHALITIS (TBE) VACCINE

Key markets:

- Germany and Sweden

HIGHLIGHTS FROM 2019

2019 marked the 25th anniversary of Bavarian Nordic, highlighting all the great achievements, we have accomplished over the years. More importantly, it also marked the year we embarked on a new era as a commercial vaccine company as we made a transformative acquisition of two commercial vaccines and received our first FDA approval.

FDA approved

We received our first product approval in the U.S. in September, when the U.S. Food and Drug Administration (FDA) approved **JYNNEOS®** for prevention of smallpox and monkeypox. This was the culmination of fifteen years of partnership with the U.S. Government and showed that it is possible to develop a safer and effective medical countermeasure for national security threats like smallpox. The approval highlights our global leadership in smallpox vaccines and with the additional indication for monkeypox also establishes Bavarian Nordic as a leader in this field, offering a new, exciting commercial opportunity for Bavarian Nordic.

The commercial transformation has begun

We acquired the commercial and manufacturing rights to **Rabipur**®/**RabAvert**® (rabies vaccine) and **Encepur**® (tick-borne encephalitis vaccine) from GlaxoSmithKline (GSK). These established commercial vaccines hold strong positions in attractive markets and provide a strong strategic fit to our existing business, allowing us to exploit significant manufacturing synergies between highly complementary technologies. Alongside the JYNNEOS approval, this will create a leading infectious disease franchise, which will generate a solid cash flow allowing the continued investment in our promising pipeline. This acquisition is truly transformative for Bavarian Nordic as it accelerates our vision to become a leading and profitable vaccine company and creates a foundation for further growth through commercialization.

Expanding the fight against Ebola

Since the largest-ever Ebola outbreak in West Africa in 2014, we have worked closely with Janssen to develop and manufacture our **MVA-BN Filo** vaccine, which we licensed to Janssen and now is part of their investigational Ebola vaccine regimen. The vaccine regimen has been evaluated in multiple Phase 1, 2 and 3 clinical studies and in November, Janssen submitted an application to the European Medicines Agency (EMA) seeking approval for the vaccine regimen. During 2019, in response to the current and second-largest Ebola outbreak ever in the Democratic Republic of the Congo (DRC), Janssen also made donations of up to 700,000 vaccine doses to support large-scale vaccination efforts both in the DRC and the Republic of Rwanda - a neighboring country to the DRC.

Creating a full-fledged manufacturing platform

A long-time specialist in bulk manufacturing of live virus vaccines, Bavarian Nordic has made significant investments over the past years to establish itself as a world-class, full-fledged vaccine manufacturer. In 2019, the construction of a new fill and finish facility was completed, pending qualification and validation of the first commercial manufacturing in 2021. In the years to come, investments will be made to allow for seamless integration of the commercial vaccines acquired from GSK, including investments to expand vaccine bulk manufacturing capacity and flexibility.

FINANCIALS

FINANCIAL RESULTS FOR 2019

We achieved our planned financial goals for the year and performed better than expected compared to guidance on revenue and earnings before interest and tax (EBIT).

Revenues were DKK 662 million, compared to our guidance of DKK 600 million as more revenue was recognized on the BARDA funding to support qualification and validation of the new fill and finish facility. The result before interest and tax (EBIT) was a loss of DKK 328 million, compared to a guided loss of DKK 360 million.

The cash preparedness at year-end was DKK 716 million, compared to a guidance of DKK 700 million, and was composed of DKK 472 million in cash, cash equivalents and investments in securities and DKK 244 million in undrawn credit lines.

For a detailed financial review, see page 60.

OUTLOOK FOR 2020

In 2020, Bavarian Nordic expects revenue of approximately DKK 1,900 million and an EBITDA (non-IFRS) of approximately DKK 675 million. Cash and cash equivalents at year-end are expected to be approximately DKK 1,350 million.

Key assumptions:

Revenue

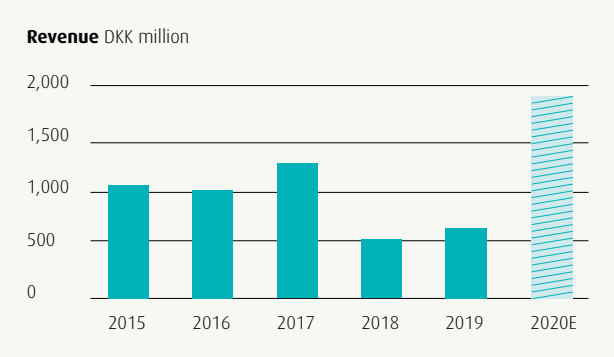
Bavarian Nordic's estimated revenue growth for the year 2020 is based upon and assumes:

- Rabipur/RabAvert and Encepur combined revenue demonstrating low-to-mid single digit growth from the previous estimated 2019 combined revenue of approximately DKK 1,300 million.
- Revenue from the smallpox vaccine business, mainly related to sales from uncommitted contracts, but also from committed contract work related to the ongoing Phase 3 study of the freeze-dried smallpox vaccine and validation of the new fill and finish facility.
- Janssen milestone payment related to expected EMA approval of the Ebola vaccine.
- Currency exchange rates of DKK 6.6 per 1 USD and DKK 7.45 per 1 EUR.

The above expectations do not assume any material impact from changes in the market landscape, competitive situation (and any additional impact this may have on pricing) or regulatory changes in existing product areas or markets. Any negative development of this nature may have a material adverse impact on revenue growth.

Other operating income

Sale of the Priority Review Voucher, granted to the Company by the FDA in connection with the approval of JYNNEOS, was announced in December 2019 and final closing of the transaction occurred in January 2020. The net proceeds received in January 2020 amounted to DKK 620 million and will be presented as other operating income in the consolidated financial statements for 2020.



Research and development costs
Research and development costs of approximately DKK 500 million is expected for 2020 of which approximately DKK 150 million is expected to be recognized as production costs as the investment is deployed towards contract work.

EBITDA (non-IFRS measure)
In addition to the assumptions as to revenue, other operating income and research and development costs, the Company's expectations regarding EBITDA (non-IFRS measure) are based on the following assumptions:

- Supply of Rabipur/RabAvert and Encepur from GSK at cost plus a margin.
- Supply of other services from GSK, e.g. distribution, during 2020.
- Gradual establishment of a commercial organization.
- Initiation of expansion of the manufacturing facility in Kvistgaard in 2020 to start the work on the technology transfer process moving manufacturing of Rabipur/ RabAvert and Encepur from GSK to Bavarian Nordic.
- Including other operating income of DKK 620 million from sale of the Priority Review Voucher.
- Other non-recurring transition costs of approximately DKK 75 million related to the acquired vaccines Rabipur/ RabAvert and Encepur.

Cash preparedness
Assumptions relate to:

- Cash flow from operations.
- Net proceeds from a planned, fully underwritten rights issue in first half of 2020 of approximately DKK 2,600 million.
- Repayment of the DKK 1,380 million bridge loan (plus accrued interest and customary breakage costs) following the completion of the rights issue.
- Payment of DKK 375 million milestones to GSK once submission for transfer or re-registration of the marketing authorizations for the three main markets for Rabipur/RabAvert and Encepur respectively has taken place during 2020.
- Investments of approximately DKK 300 million of which approximately DKK 180 million is related to the acquired vaccines Rabipur/RabAvert and Encepur.

MID -TO LONG-TERM FINANCIAL GOALS

While the commercial market for JYNNEOS is still in the establishing phase, Rabipur/RabAvert and Encepur are mature products with established markets, which are expected to deliver low- to mid-single-digit annual sales growth and mid- to high-single-digit annual sales growth, respectively.

The EBITDA margin, excluding non-recurring transition costs, from the combined business from these two new products are expected to increase gradually from 30-40% during the transition period 2020-2024 to above 50% upon full transition in 2025.

From 2025, Bavarian Nordic targets, on a normalized basis, to deliver strong cash generation and profitability in line with the relevant vaccine peer group average.

OUR STRATEGY

Following the acquisition of Rabipur/RabAvert and Encepur from GSK, Bavarian Nordic has revised its vision and adjusted its strategy.

Bavarian Nordic's mission remains to save and improve lives by unlocking the power of the immune system.

The Company has set out the following vision:

By 2025 we aspire to be one of the largest pure play vaccines companies, improving and saving lives by excelling in R&D innovation, manufacturing and commercialization.

This vision is carried by three strategic pillars:

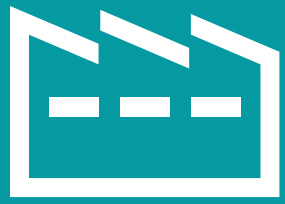
- a company driven by commercial excellence
- to develop innovative life-saving vaccines
- best in class vaccine manufacturer.

COMMERCIAL

Establish a full-scale commercial operation to expand the business and drive profitable growth

R&D INNOVATION

Expand and advance portfolio of pipeline projects



MANUFACTURING

Expand manufacturing expertise and capacity

COMMERCIAL

Establish a full-scale commercial operation to expand the business and drive profitable growth
Following the acquisition of Rabipur/RabAvert and Encepur, and the FDA approval of JYNNEOS, Bavarian Nordic has an ambition to expand its operations to include a full commercial organization. The acquisition creates the opportunity to establish a scaled commercial organization that is synergistic to JYNNEOS for the monkeypox indication.

The mid- to long term goals are to:
- Secure profitable growth of the commercial business,
- Establish JYNNEOS/IMVANEX/IMVAMUNE as the global leader for the prevention of smallpox and JYNNEOS with respect to monkeypox
- Become a preferred partner to healthcare professionals for the prevention and treatment of rabies and prevention of tick-borne encephalitis, smallpox and monkeypox
- Further expand the portfolio of commercial stage products either organically or through acquisitions.

R&D INNOVATION

Expand and advance portfolio of pipeline projects
Bavarian Nordic sees the continued progression of the development pipeline as of strategic importance with the aim to develop lifesaving vaccines. Key pipeline priorities are development and approval of the freeze-dried version of the smallpox vaccine, development and approval of an RSV vaccine, and to advance other infectious diseases and immunotherapy projects.

The mid- to long term goals are to:
- Secure approval of three vaccines: the freeze-dried version of the smallpox vaccine, the RSV vaccine, to be launched together with a partner and the Janssen partnered Ebola vaccine
- Secure proof-of-concept of new immuno-therapy approaches
- Introduce at least one more infectious disease pipeline project.

MANUFACTURING

Expand manufacturing expertise and capacity
Bavarian Nordic wants to further leverage its expertise within manufacturing of live virus vaccines. This involves completing the manufacturing footprint to encompass the full value chain from bulk manufacturing to fill and finish, as well as increasing bulk capacity and introducing the flexibility to manufacture different bulk vaccines in parallel. All of this with the strategic aim to be a best-in-class vaccine manufacturer.

The mid- to long term goals are to:
- Establish Bavarian Nordic capabilities to fill and finish liquid and freeze-dried products
- Expand bulk manufacturing to introduce new technologies and manufacture multiple products in parallel
- To successfully complete the transfer of the manufacturing of Rabipur/RabAvert and Encepur from GSK, in order to deliver on the anticipated synergies of the transaction.

DRIVEN BY ***COMMERCIAL*** *EXCELLENCE*

→ *COMMERCIAL*

The acquisition of two commercial vaccines, Rabipur/RabAvert and Encepur from GlaxoSmithKline (GSK) was a transformative event that will require a stringent focus on execution, particularly by establishing a commercial organization to support the new business and drive profitable growth. The acquired products are already established in the market and as Bavarian Nordic will gradually take over the distribution and marketing of the products, this provides an opportunity to establish a commercial organization that is synergistic to JYNNEOS for the monkeypox indication.

Strategic priorities

Our current strategic focus for manufacturing mid-to long term is to:

- Secure profitable growth of the commercial business
- Establish JYNNEOS/IMVANEX/IMVAMUNE as the global leader for the prevention of smallpox and JYNNEOS with respect to monkeypox
- Become a preferred partner to healthcare professionals for the prevention and treatment of rabies and prevention of tick-borne encephalitis, smallpox and monkeypox
- Further expand the portfolio of commercial stage products either organically or through acquisitions.

BUILDING THE COMMERCIAL ORGANIZATION

Following the acquisition from GSK, Bavarian Nordic announced the appointment of Jean-Christophe (JC) May as Chief Commercial Officer. A long-time commercial executive at GSK, and most recently in charge of a broad portfolio of vaccines including Encepur and Rabipur, he brings a wealth of experience to Bavarian Nordic, providing the opportunity to quickly establish the new commercial leg of the Company.

Recognizing the importance of the commercial business for Bavarian Nordic going forward, JC has taken a seat in the executive management of the Company and will head up the commercial organization from a newly established office in Switzerland, which has been chosen due to its proximity to key markets as well as access to experienced and talented professionals from the pharma and biotech industry.

– After 25 years in the biopharmaceutical industry leading commercial teams at local, regional and global level, becoming part of the transformational journey at Bavarian Nordic was very appealing to me and I was thrilled to be offered the opportunity to lead the commercial transformation of the company, JC says.

JC took up his new position in January 2020, when Bavarian Nordic had closed the acquisition from GSK and taken over the ownership of the products. While the complete transition of the products will last for the next 4-5 years, primarily due to manufacturing being transferred stepwise, the commercial responsibility was transferred to Bavarian Nordic on January 1 and setting the priorities right has been of high importance to kickstart the establishment of the new organization.

– My objective as Chief Commercial Officer is clearly to drive sustained profit and growth while protecting patients' lives. With that in mind, setting a high performing and lean commercial organization is my priority and we have already made good progress. There are markets which are critical for the future commercial success of Bavarian Nordic and others that might represent future growth opportunities and we will make sure we have the right go-to-market strategy for these different markets, he continues.

The commercial success, however, relies as much on execution as it does on the strategy, and hence JC has a clear view of what it takes to create a high-performing team. Alignment, focus and pace are three key elements he believes will be essential throughout the commercial transformation to ensure that the Company reaches its ambitions.

– Ensuring that everyone at Bavarian Nordic understand the vision and are fully aligned behind our priorities will be key to ensure flawless execution of our plan. This commercial transformation will require teamwork across different departments. Therefore, I will pay lot of attention in conjunction with my teammates from the executive management team to ensure great alignment behind priorities in the organization. Driving execution of key priorities is going to be essential and this will

JEAN-CHRISTOPHE (JC) MAY

Joined Bavarian Nordic in January 2020 from GlaxoSmithKline (GSK), where he worked for 25 years, holding various commercial roles, most recently as Vice President and Global Vaccines Commercialization Leader with responsibility for global strategic leadership and performance of several lifesaving vaccines, including Rabipur/RabAvert and Encepur.

"My objective as Chief Commercial Officer is clearly to drive sustained profit and growth while protecting patients' lives

require focus across the organization. As you can imagine, with such a transformative project, there will be many potential disruptions popping-up and having the discipline for everyone to take full accountability to deliver on her/his priorities and to push back on distractions will be important. Establishing a high performing, lean and agile organization where roles and responsibilities are well defined is vital to allow for this organization to keep moving at pace. Speed of decision-making and of execution are going to be important for Bavarian Nordic to compete successfully in the marketplace, he ends.

Established products, yet with an untapped potential

While Rabipur/RabAvert and Encepur have been around for many years, and both enjoy leading positions in the market, JC strongly believes there is more value to be unlocked from these products. His ambition is to explore this untapped potential, which will also benefit the promotion of the recently approved JYNNEOS for monkeypox.

"Risk is always present in our world, but the less there is of it, the more there is to experience in life

– The markets for Rabipur/RabAvert and Encepur are well established, but for various reasons still offer growth opportunities that we are in a favorable position to pursue. For rabies, tick-borne encephalitis and monkeypox, risk awareness amongst travelers to endemic areas is very low, leading to an extremely low coverage and this issue could be addressed with appropriate disease awareness programs. For monkeypox, we are in a unique position, having the world's only approved vaccine to prevent this disease. Furthermore, for tick-borne encephalitis, we also see markets growing as a result of climate change and its impact on the expansion of endemic areas, JC says.

With a unique vaccine portfolio, the Company's ambition is to create a leading infectious disease franchise, leveraging the synergies in manufacturing as well as commercially. According to JC, this provides Bavarian Nordic a strong competitive edge. However, it also provides reason and purpose on a personal level.

– Risk is always present in our world, but the less there is of it, the more there is to experience in life. With JYNNEOS, Rabipur/RabAvert and Encepur, we have a great portfolio of vaccines that effectively minimize the threat of some of the world's most deadly viruses. Vaccinations with our assets would lower risks of contracting certain diseases which would allow for more people to enjoy more adventures, more memories, more moments to share. That is a fantastic purpose which everyone at Bavarian Nordic will contribute to and should feel very proud of, he ends.

→ *COMMERCIAL*

PRODUCTS

JYNNEOS/IMVAMUNE/IMVANEX
SMALLPOX/ MONKEYPOX

RABIPUR/RABAVERT
RABIES

ENCEPUR
TICK-BORNE ENCEPHALITIS

SMALLPOX/ MONKEYPOX
JYNNEOS/IMVAMUNE/ IMVANEX

JYNNEOS is the U.S. trade name for MVA-BN, which was approved by the FDA in 2019 for prevention of smallpox and monkeypox. IMVANEX is the European trade name for MVA-BN, approved by the European Medicines Agency in 2013 for prevention of smallpox. IMVAMUNE is the trade name for MVA-BN in Canada, approved by Health Canada in 2013 for prevention of smallpox.

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. Our strength and capabilities build on solid scientific progress as well as the continued expansion of our manufacturing capacity.

→ COMMERCIAL

SMALLPOX

Smallpox is a contagious, disfiguring and often deadly disease. Naturally occurring smallpox was eradicated worldwide by 1980 as a result of an unprecedented global immunization campaign. Samples of the smallpox virus have been kept for research purposes, which has led to concerns that smallpox could someday be used as a biological weapon. In the U.S., smallpox is considered, along with a range of other lethal viruses, to be a material threat to national security and the development and stockpiling of medical countermeasures to mitigate this threat is a high priority for the U.S. Government.

Since 2003, Bavarian Nordic has been collaborating with the U.S. Government to develop MVA-BN as a stand-alone non-replicating smallpox vaccine to ensure all adult populations can be protected from smallpox, including people with weakened immune systems or who are at high risk of adverse reactions to traditional smallpox vaccines, which are based on replicating vaccinia virus strains.

In addition, Bavarian Nordic has entered into contracts with governments in Canada and Europe, regarding the sale of its smallpox vaccine.

Typical severe adverse reactions known for replicating vaccinia virus strains, such as myocarditis, encephalitis, generalized vaccinia or eczema vaccinatum, were not observed during the clinical development program of MVA-BN.

In September 2019, the FDA approved MVA-BN (under the trade name JYNNEOS) for prevention of smallpox and monkeypox in adults (18 years and older) who are determined to be at high risk for smallpox or monkeypox infection. JYNNEOS is supplied in a liquid-frozen formulation and is the only approved non-replicating smallpox vaccine in the U.S. A full vaccination course requires two doses of the vaccine four weeks apart.

The results of the Phase 3 of Bavarian Nordic's smallpox vaccine have been published in the New England Journal of Medicine, one of the world's leading medical journals. The Phase 3 study compared indicators of efficacy of MVA-BN to ACAM2000®, the FDA approved, replicating smallpox vaccine, and successfully achieved both co-primary endpoints, while also demonstrating an improved safety profile versus ACAM2000. The results demonstrated that peak neutralizing antibodies induced by MVA-BN were statistically higher than those stimulated by ACAM2000 and that primary vaccination with MVA-BN resulted in a highly attenuated take (reduction in lesion size), and in fact prevented the vaccine take in the majority of subjects re-vaccinated with ACAM2000. Importantly, a single dose of MVA-BN induced neutralizing antibody titers comparable

→ *COMMERCIAL*

with ACAM2000 at Day 14, indicating the potential for use of the vaccine to protect the general population.

Bavarian Nordic has received contracts to-date worth more than USD 1.8 billion for the development and supply of the vaccine. Prior to FDA approval in 2019, Bavarian Nordic had delivered 28 million doses of the vaccine to the U.S. Strategic National Stockpile. The initial requirement for MVA-BN as an unapproved non-replicating smallpox vaccine was 20 million doses to cover 10 million immunocompromised people in the event of an emergency. To cover all immunocompromised populations and their household contacts, the U.S. Government has previously stated a need for 132 million doses to cover 66 million people.

MVA-BN, in a liquid-frozen formulation, has also been approved as the only non-replicating smallpox vaccine in Europe (under the trade name IMVANEX) for adults in the general public, and in Canada (under the trade name IMVAMUNE) for use in a public health emergency for adults who are contraindicated to replicating smallpox vaccines. The vaccine is distributed in liquid-frozen formulation suitable for use in people for whom replicating smallpox vaccines are contraindicated.

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

As part of Bavarian Nordic's contract framework with the U.S. Government, a freeze-dried version of the vaccine is under development. Due to an anticipated longer shelf life than the current liquid-frozen version, Bavarian Nordic believes that its freeze-dried formulation is well positioned to fulfil the U.S. Government's long-term stockpiling requirements for a smallpox vaccine to cover 66 million U.S. citizens.

The initial contract for development of the freeze-dried version was awarded in 2009, and in 2017 Bavarian Nordic was awarded a USD 539 million order for the supply of freeze-dried MVA-BN to the SNS to replace the current stockpile of liquid-frozen vaccines, which has expired. The base contract of USD 100 million relates to the manufacturing of bulk vaccine, which was revenue recognized in 2018 and 2019, in addition to bulk vaccine worth USD 233 million manufactured under previous contracts. The contract further includes options of up to USD 140 million related to the clinical development, regulatory commitments and validation and subsequent approval of the fill and finish facilities. The remaining USD 299 million under the contract relates to the future supply of freeze-dried vaccine doses. The 10-year contract also contains agreed pricing for additional bulk and final doses of both liquid-frozen and freeze-dried formulation of the vaccine.

→ COMMERCIAL

MONKEYPOX

Monkeypox is a rare viral zoonotic disease (transmission from animals to humans) and similar variola virus, the causative agent of smallpox in humans, is also a member of the Orthopoxvirus genus. Monkeypox is considered the deadliest existing orthopox virus in humans with a mortality rate estimated at up to 11%. In contrast to smallpox, which is eradicated, monkeypox still infects thousands of people every year. The understanding of the epidemiology of the disease is evolving, and few data are available regarding the mid- and long-term impact on those who survive the disease

The countries with the highest number of new cases are the Democratic Republic of Congo (>5,000 cases in 2019) and Nigeria, but many other countries in central and western Africa have detected cases in the last 2 years. Previously, the main route of transmission was thought to be from contact or consumption of infected animals. However, the number of new cases that are a result of human-to-human transmission is rising. In fact, in Nigeria fewer than 10% of the documented cases the last couple of years had a prior history of animal contact, and no cases had a prior history of dead or sick animal contact.

In the global society with high mobility the risks of international spread of monkeypox is high. In the last two years, several cases have been contracted by travelers to Nigeria and then later detected in Europe and Asia. In the UK, one case resulted in subsequent transmission to a healthcare worker. Despite these cases, there is a critical lack of awareness about the nature of the disease, its transmissibility and the potential risks of contracting monkeypox.

Given this evolving situation, the first step for Bavarian Nordic is to raise awareness about the disease with travel vaccine specialists and multinational corporations that send workers to areas with increased risk, including urban settings such as Lagos, Nigeria. Outreach activities to raise awareness have included the development of a brand campaign and its rollout to key conferences where these specialists attend in addition to supporting key data presentations. These activities will continue and increase throughout 2020 with the addition of new digital assets and digital awareness campaign.

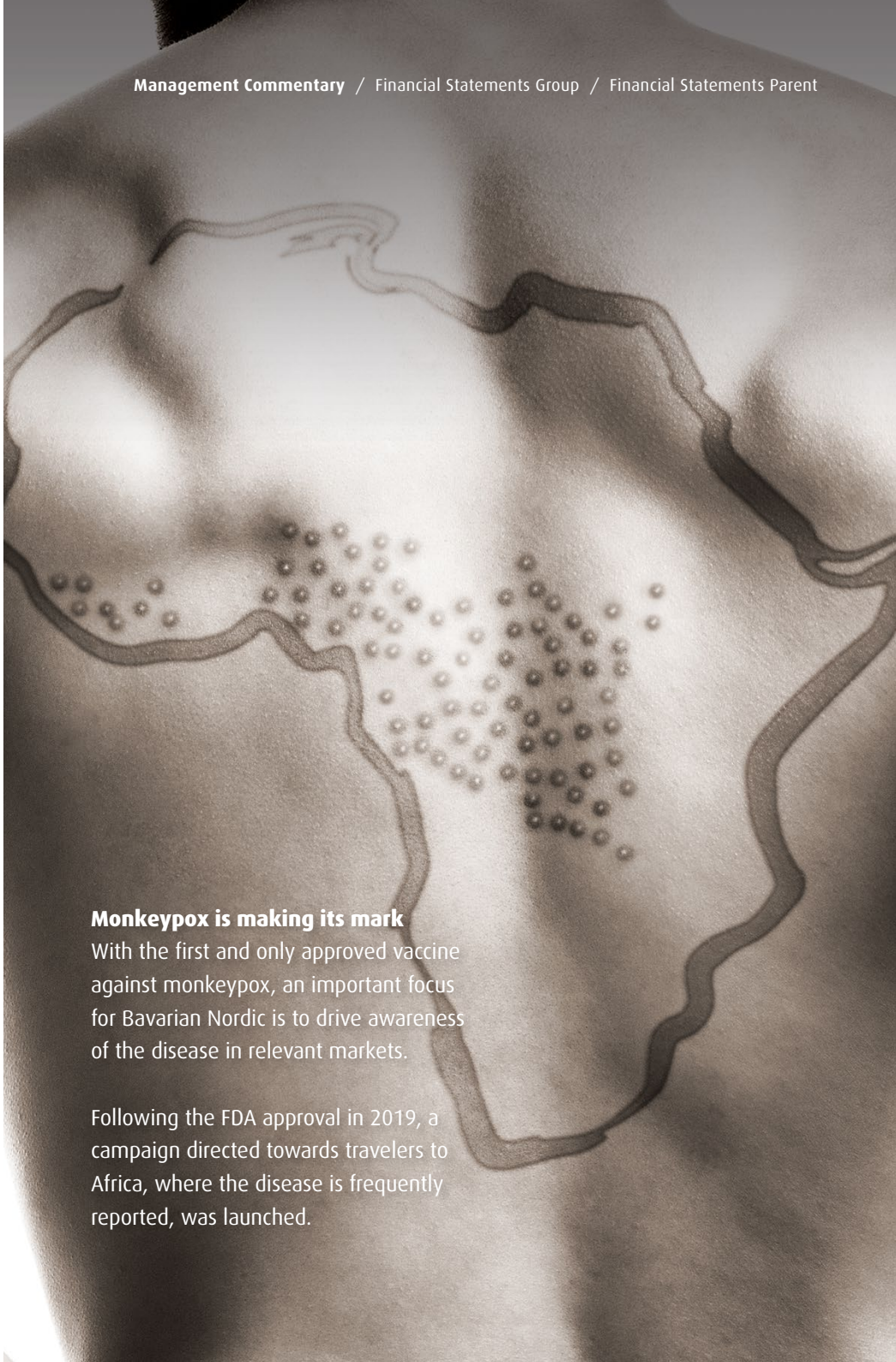
Monkeypox – a significant new business opportunity

The FDA approval of JYNNEOS for monkeypox offers a new opportunity for the protection of those at high risk for exposure to this emerging infectious disease. Potential recipients of the vaccine would be travelers to central and western Africa, including the highly populated and economically improving country of Nigeria where at least 180 cases have been confirmed since 2017. Nigeria was also the origin of several cases detected in Europe and Asia, presenting a huge challenge, as the disease awareness is still growing, and healthcare systems are not properly equipped to deal with infected subjects.

→ *COMMERCIAL*

Monkeypox is currently considered the deadliest orthopox virus in humans, second only to smallpox.

The market for JYNNEOS for the prevention of monkeypox in adults as a travel vaccine is expected to gradually increase along with an increase in the disease awareness. Sales are expected to initially come from multinational corporations with a significant presence in Nigeria, and these sales are expected to follow a limited growth over time since the number of new employees going to the region is expected to be stable from year to year. Market growth would mainly be expected in the private traveler market, business and leisure, assuming future recommendations from governmental bodies as well as increased awareness on the need for protection. In the case of a severe epidemic, the vaccine could be expected to have substantially increased usage compared to the travel vaccine market.



Monkeypox is making its mark
With the first and only approved vaccine against monkeypox, an important focus for Bavarian Nordic is to drive awareness of the disease in relevant markets.

Following the FDA approval in 2019, a campaign directed towards travelers to Africa, where the disease is frequently reported, was launched.

RABIES

RABIPUR/RABAVERT

Rabies is a viral infection transmitted via the saliva of infected mammals. The virus enters the central nervous system of the host, causing an encephalomyelitis that is almost invariably fatal. The incubation period for rabies is typically 2-3 months but may vary from 1 week to 1 year or more.

Each year, rabies causes approximately 59,000 deaths worldwide according to the U.S. Centers for Disease Control and Prevention (CDC). Bavarian Nordic estimates that most incidents occur in non-developed markets where Bavarian Nordic does not market its vaccine. Despite evidence that control of canine rabies through animal vaccination programs and elimination of stray dogs can reduce the incidence of human rabies, canine rabies remains common in many countries and exposure to rabid dogs is still the cause of over 90% of human exposures to rabies and of 99% of human rabies deaths worldwide according to the CDC.

Trends in both human and animal rabies in the United States have changed dramatically over the last century. Approximately 5,000 animal rabies cases are reported annually to CDC, and more than 90% of those cases now occur in wildlife. The principal rabies hosts in the United States today include bats, raccoons, skunks, and foxes.

The number of rabies-related human deaths in the United States has also declined, from more than 100 annually in the early 1900's to just one or two per year. This decline can be attributed to successful pet vaccination programs and availability of post-exposure prophylaxis for rabies. The CDC estimates that approximately 55,000 people are treated in the United States each year for potential rabies exposure.

In Western countries, human fatalities associated with rabies typically occur in people who fail to seek medical assistance, usually because they were unaware of their exposure. This is particularly common with bat bites, which are small and thus easy to overlook.

Rabipur/RabAvert is a purified chick embryo cell culture rabies vaccine and is indicated for active immunization against rabies. The vaccine is approved for both pre-exposure prophylaxis and post-exposure prophylaxis and is administered by either intramuscular or intradermal injection. When used prophylactically, the recommended treatment course includes three doses, whereas the recommended post-exposure treatment includes five doses of the vaccine. Bavarian Nordic assesses that in the EU, the vaccine is given pre-exposure (prophylactically) in approximately 90% of cases, whereas in the United States, it is given post-exposure (or for risk of exposure) in approximately 95% of cases. Rabipur/RabAvert is a sterile and freeze-dried vaccine for both pre-exposure and post-exposure vaccination in all age groups.

The rabies vaccine market is a duopoly with Rabipur/RabAvert as the market leading rabies vaccine within the United States and Germany, representing the key markets or approximately 80% of the vaccine's total revenue.

TICK-BORNE ENCEPHALITIS

ENCEPUR

Tick-borne encephalitis (TBE) is a human viral infectious disease involving the central nervous system that can lead to death or long-term neurological sequelae after recovery from infection. TBE is transmitted to humans by the bite of an infected tick. Three virus sub-types are described: European or Western TBE virus, Siberian TBE virus, and Far Eastern TBE virus. The incubation period of TBE is usually between 7 and 14 days and is asymptomatic. Shorter incubation times have been reported after milk-borne exposure. Approximately one-third of infected persons subsequently develop neurological conditions, ranging from mild meningitis to severe encephalitis.

The incidence varies from year to year, but approximately 5,000–13,000 TBE cases are reported each year according to the CDC. Russia has the largest number of reported cases. The highest disease incidence has been reported from Western Siberia, Slovenia, and the Baltic States.

Most cases occur when ticks are active from April through November, with peaks in early and late summer. The incidence and severity of the disease are highest in people aged 50 years or older. Most cases occur in areas of altitude below 750 meters. In the last 30 years, the geographic range of TBE virus appears to have expanded to new areas, and the virus has been found at altitudes up to and above 1,500 meters. These trends are likely due to a complex combination of changes in diagnosis and surveillance, human activities and socioeconomic factors, and ecology and climate.

Encepur contains inactivated TBE virus strain K23, in a liquid suspension formulated with aluminum hydroxide adjuvant. The vaccine is approved for pre-exposure prophylaxis against the European (Western) TBE virus for both adults and children. Encepur is intended for the protection against the onset of TBE disease for individuals who are exposed to infected ticks in areas endemic to TBE. The recommended treatment course includes three doses over a month or a year with a booster dose after three years and then every five years. Encepur is approved in Austria, Czech Republic, Denmark, Estonia, Finland, France, Germany, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Slovenia, Sweden and Switzerland. Encepur has not been submitted for approval in the United States as TBE is not prevalent in the region.

Encepur has a #2 position in most major European markets, with Germany and Sweden representing the key markets and accounting for approximately 75% of the vaccine's total revenue.

COMMERCIAL

Key strategic activities and milestone in 2020 include:

- Assume full sales and marketing responsibility for Rabipur/RabAvert and Encepur from GSK
- Establish a full commercial organization to support Rabipur/RabAvert, Encepur and JYNNEOS for the monkeypox indication
- Take over physical distribution of Rabipur/ RabAvert and Encepur in selected markets
- Increase awareness and establish a new market for the monkeypox indication.

DEVELOPING ***INNOVATIVE*** *LIFE-SAVING VACCINES*

→ *R&D INNOVATION*

While Bavarian Nordic is currently transforming into a truly commercial business with marketed products, innovation remains a cornerstone for the Company. The strong cash flow that will be generated from the infectious disease franchise will allow us to continue to invest into new development projects to generate value and deliver lifesaving promises to patients where there is a medical need.

A key asset in our pipeline is MVA-BN RSV, an advanced, broad-spectrum vaccine candidate for respiratory syncytial virus, which represents a blockbuster potential. We are currently in preparations for a pivotal Phase 3 study of this vaccine to commence in 2021.

Our versatile and proven MVA-BN technology platform has also laid the groundwork for several partnerships, creating a diverse pipeline with low-risk and high-reward. These include our successful partnership with the U.S. Government on a non-replicating smallpox vaccine, and we are well underway to finalize the development of the freeze-dried version of this vaccine, which is a major trigger for our future business. The long-term partnership has yielded many opportunities over time, most recently a contract to develop a vaccine for equine encephalitis, an emerging and growing threat with no vaccines available. With Janssen we remain a leader in Ebola vaccines, and are furthermore exploring our platform in a number of infectious disease indications.

We also remain committed to the development of novel MVA-BN-based therapies to fight cancer with a refocused strategy, involving more advanced constructs and new administration routes.

Strategic priorities

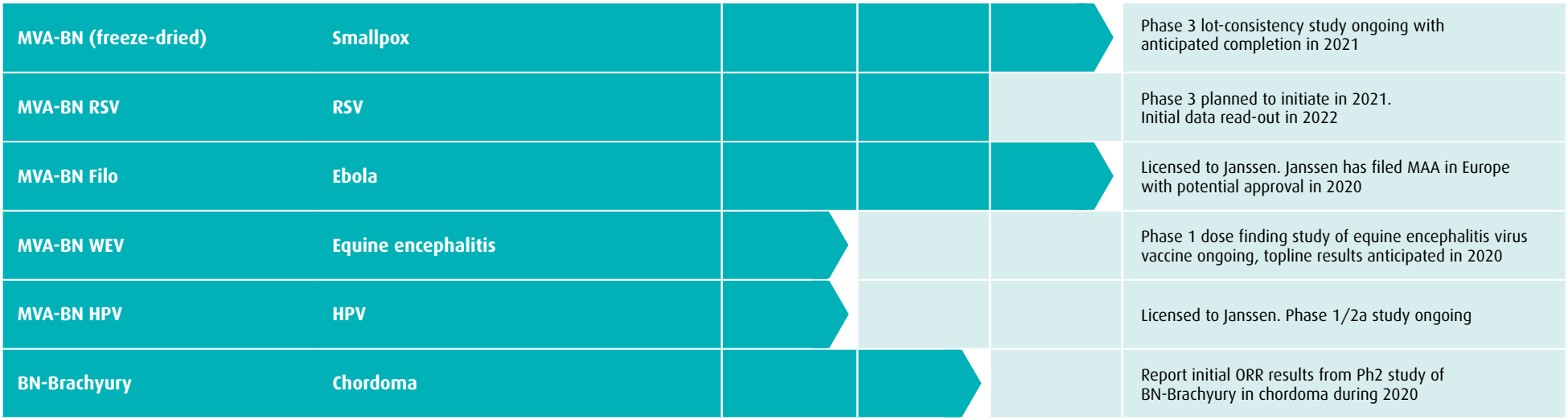
Our current strategic focus for R&D Innovation mid-to long term is to:

- Secure approval of three vaccines: the freeze-dried version of the smallpox vaccine, the RSV vaccine, to be launched together with a partner, and the Janssen partnered Ebola vaccine
- Secure proof-of-concept of new immunotherapy approaches
- Introduce at least one more infectious disease pipeline project.

→ *R&D INNOVATION*

PIPELINE

A detailed description 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



→ *R&D INNOVATION*

Respiratory Syncytial Virus – RSV

RSV is a common virus that usually causes mild, cold-like symptoms, but in serious cases can cause severe lung infections, including bronchiolitis and pneumonia. Those at risk are typically young infants and the elderly as well as people with weakened immune systems. RSV-induced infections result in a similar number of hospitalizations and deaths in the elderly population, as influenza. According to the CDC, approximately 177,000 elderly U.S. citizens are hospitalized annually, due to RSV-induced infections, and about 14,000 of them die. With no approved vaccines, RSV remains a high unmet medical need, particularly in children and the elderly.

MVA-BN RSV, Bavarian Nordic's product candidate for the prevention of RSV, is being developed for an elderly population. 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. The incorporation of five antigens differentiates MVA-BN RSV from any other RSV vaccine candidates in development.

Bavarian Nordic has advanced the clinical development of the vaccine and has 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

→ R&D INNOVATION

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.

In 2019, Bavarian Nordic reached an agreement with FDA on the design of a Phase 3 efficacy trial for MVA-BN RSV in an elderly population (60 years old or older). The trial will be a randomized, placebo-controlled study, with a total of 12,000 to 14,000 subjects over two seasons. The total number of subjects will depend on the independent analysis performed from the first 6,000 subjects enrolled for the first season. The estimated costs to determine futility after season one will be approximately USD 40 million and if positive, the second season is estimated to cost an additional USD 50-70 million, although after passing the first season threshold there would be approximately 75% chance of successfully reaching the efficacy endpoint of the trial. The trial is planned to be initiated in 2021 prior to the RSV season, with the initial read out in 2022 and a potential approval in 2024.

Currently, there is no RSV vaccine candidate in Phase 3 development targeting an elderly population.

→ *R&D INNOVATION*

Smallpox

As part of Bavarian Nordic's contract framework with the U.S. Government on the development and supply of non-replicating smallpox vaccines, an improved, freeze-dried formulation of the **MVA-BN®** smallpox vaccine is being developed.

In 2019, the Company initiated a Phase 3 lot-consistency trial to support U.S. licensure of this improved version. The randomized, double-blind, multicenter trial, which is fully-funded by BARDA, will evaluate the immunogenicity and safety of three consecutive vaccine lots of the freeze-dried formulation of MVA-BN® smallpox vaccine, similar to the prior completed Phase 3 study for the liquid-frozen MVA-BN formulation. The enrolment of 1,110 subjects for the trial was completed in November 2019.

A prior Phase 2 study showed bioequivalence between the freeze-dried and liquid-frozen formulations of MVA-BN, and the lot-consistency trial was agreed with the FDA as the only Phase 3 study required to support licensure of the freeze-dried formulation.

Upon successful completion of the current study, expected in 2021, the Company plans to submit a supplement to the BLA to extend the approval for both formulations of MVA-BN, anticipated in 2022.

→ *R&D INNOVATION*

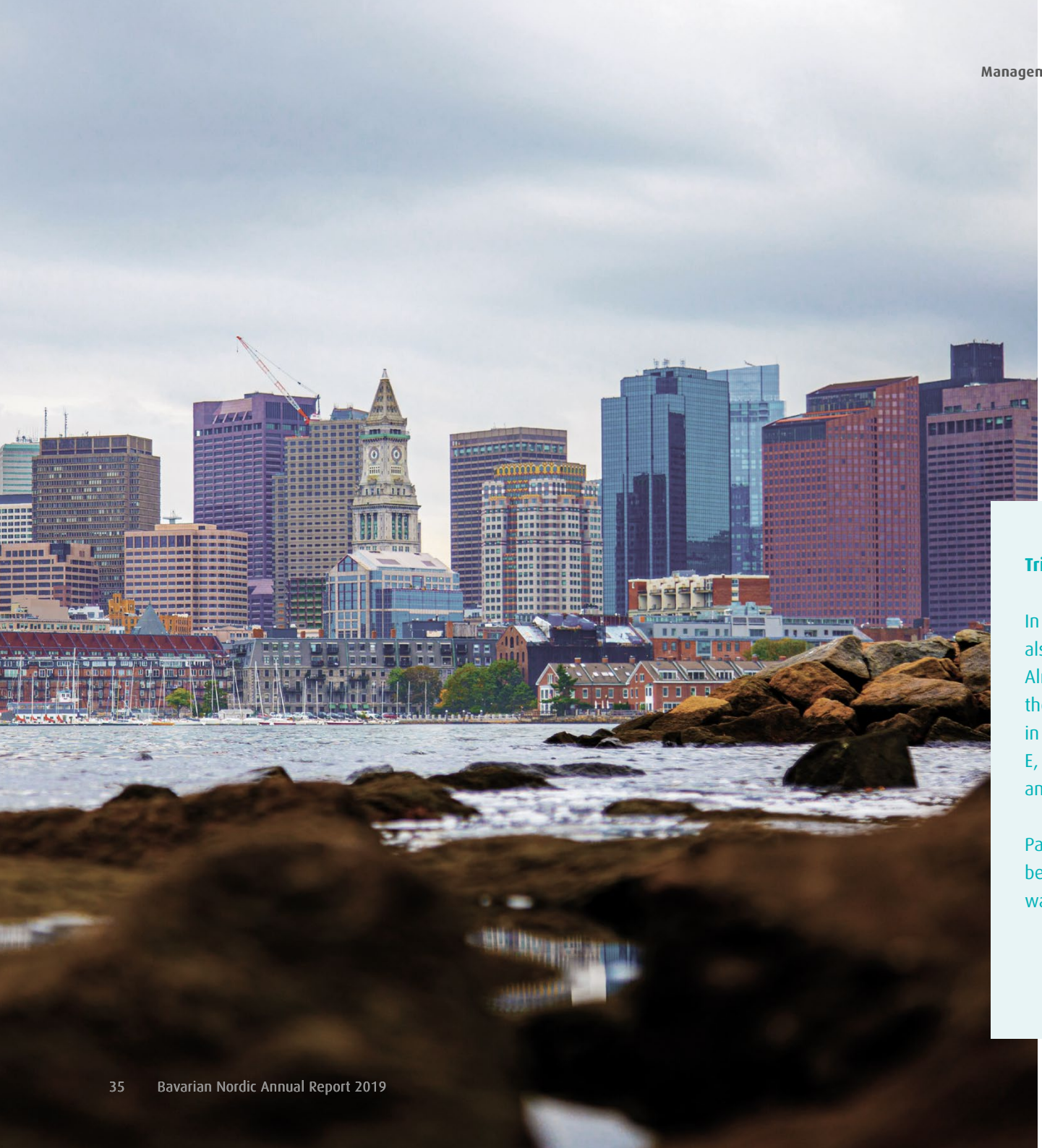
Equine encephalitis

Western, Eastern and Venezuelan equine encephalitis viruses vary in infection rates and severity of disease, although all three pathogens are associated with risks of flu-like symptoms, potential central nervous disorders, and death. The virus is spread by mosquitos to humans and can result in the rare condition of encephalitis in about 5% of the people that become infected. In the United States, an increase in cases of Eastern equine encephalitis, known also as Triple E, has been reported over the past years, and in 2019 almost 40 cases, including 15 deaths were reported by the CDC in what is the largest ever recorded outbreak of Triple E. There are currently no approved vaccines against any of the equine encephalitis viruses.

In March 2018, Bavarian Nordic entered a multi-year contract valued at up to USD 36 million with the U.S. Government to develop **MVA-BN WEV**, a vaccine against all three strains of the equine encephalitis virus. Under this contract, Bavarian Nordic is conducting a Phase 1 clinical trial, which was initiated in October 2019.

The Phase 1 trial will evaluate the safety, tolerability and immunogenicity of MVA-BN WEV in 45 healthy adults in three treatment groups receiving different doses of the vaccine. Topline results from the study are expected to become available in 2020.

A successful Phase 1 trial, based on demonstrating a favorable safety and immunogenicity could lead to follow-on funding beyond the initial contract award of USD 36 million, to support further preclinical, clinical development and manufacturing to support licensure in the United States.



Triple E outbreak in the U.S.

In 2019, the incidence of eastern equine encephalitis, also known a **Triple E**, drastically increased in the U.S. Almost 40 cases, including 15 deaths were reported by the U.S. Centers for Disease Control and Prevention (CDC) in what is the largest ever recorded outbreak of Triple E, compared to an average of only 7 reported cases annually.

Particularly the northeastern regions of the country have been affected, prompting aerial bug spraying and dire warnings to avoid the mosquito-borne disease.

→ *R&D INNOVATION*

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. Mortality rates in historical outbreaks have ranged from 25% to 90% of the infected subjects according to the World Health Organization (WHO). In the 2014-2016 outbreak in West Africa, more than 28,000 people were infected of which approximately 40% died, and in the ongoing outbreak in the Democratic Republic of Congo (DRC), more than 3,000 cases have been confirmed and two thirds have died from the disease.

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, Bavarian Nordic's vaccine is targeting the Zaire and Sudan strains, which have been and still are the predominant causes of all major Ebola outbreaks during the past 40 years.

The initial development of the MVA-BN Filo vaccine was sponsored by the U.S. National Institutes of Health (NIH), and is now managed by Janssen, which licensed MVA-BN Filo from Bavarian Nordic in 2014 for use in a prime-boost vaccine regimen together with their monovalent adenovirus–based vaccine candidate, Ad26.ZEBOV, targeting the Ebola Zaire strain.

Clinical results so far reported indicate that Ad26.ZEBOV prime immunization readily induces an immune response that is enhanced further by MVA-BN-Filo boosting, inducing a durable immunity to Ebola Zaire, and that both the prime and boost vaccine are well tolerated with a good safety profile. The Ad26.ZEBOV/MVA-BN Filo vaccine is the most advanced currently in clinical testing following the recent approval of Merck's Ervebo® vaccine by the FDA and EMA.

Janssen has rapidly advanced the development of the vaccine and has conducted multiple clinical Phase 1, 2 and 3 trials to evaluate the safety and immunogenicity of the vaccine regimen in adults and children. To date, more than 8,000 volunteers across the United States, Europe and Africa have participated in over 10 clinical studies of the vaccine.

Based on data from these studies, as well as preclinical studies, and immune bridging analyses, Janssen submitted a marketing authorization application for both vaccines employed in the vaccine regimen to the EMA in November 2019, seeking approval of the vaccine for protection against the Zaire ebolavirus. If approved, the vaccine regimen would be only the second Ebola vaccine to obtain European regulatory approval.

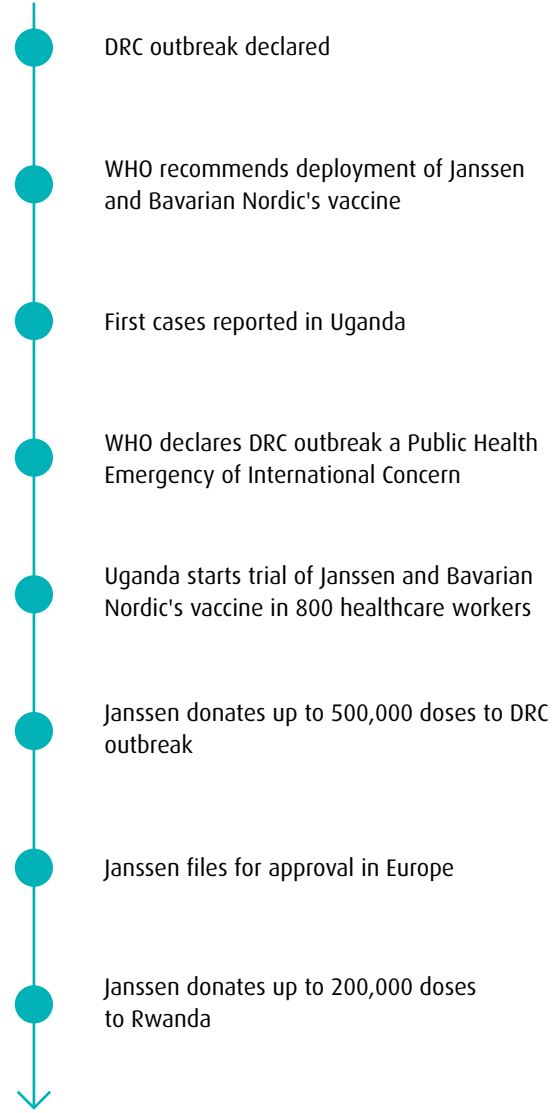
→ *R&D INNOVATION*

Janssen also has ongoing discussions with the FDA to define the required data set for filing of the Ebola vaccine regimen under the FDA's Animal Rule licensure pathway and is also working in collaboration with the WHO to enable registration of the Ebola vaccine regimen in African countries.

As part of the agreement entered with Janssen in 2014, Bavarian Nordic manufactured approximately 2 million doses of MVA-BN Filo and the Company estimates that Janssen has maintained a stockpile of 1.5 million doses of the vaccine regimen, which they began to deploy in large scale during 2019 in both DRC and Rwanda.

In October 2019, Janssen announced the donation of up to 500,000 regimens of the vaccine to the DRC for use in a new clinical trial organized by the government of the DRC and global health stakeholders in an effort to contain the country's Ebola outbreak, and in December 2019, Janssen announced a donation of up to 200,000 doses to the Republic of Rwanda to support a new immunization program led by the Rwanda government with an aim to protect the citizens of Rwanda from the current Ebola outbreak in the DRC, which is a neighboring country.

TIMELINE OF EVENTS RELATED TO THE ONGOING EBOLA OUTBREAK IN THE DEMONCRATIC REPUBLIC OF CONGO (DRC)



→ *R&D INNOVATION*

Other Janssen-partnered projects

In addition to Ebola, Janssen has licensed our MVA-BN technology in three infectious disease indications: HPV, HIV and HBV (hepatitis B).

Bavarian Nordic has developed and manufactured MVA-BN-based vaccine constructs for clinical and preclinical evaluation, and Janssen is solely responsible for the further clinical development of these programs, also depending on an overall prioritization of their pipeline.

Like the Ebola vaccine, these MVA-BN product candidates are intended for use together with Janssen's AdVac technology in therapeutic prime-boost vaccine regimens for those already infected, with the aim to provide a functional cure.

The most advanced project is aimed at the development of a therapeutic HPV vaccine. 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.

The HIV and HBV vaccine candidates are both currently being evaluated preclinically.

Collectively, these programs, along with the Ebola collaboration with Janssen, represent USD 1 billion in potential future milestone payments, in addition to royalties on future sales. Milestone payments are primarily related to a successful completion of each Phase 3 study and subsequent regulatory approval and commercialization.

Our partnership with Janssen has evolved from the Ebola collaboration which began in 2014 in response to the world's largest Ebola outbreak to-date.

→ *R&D INNOVATION*

CANCER IMMUNO - THERAPY

Bavarian Nordic is leveraging its MVA-BN technology platform to advance its next generation of immuno-oncology candidates. The Company aims 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 tools 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.

Bavarian Nordic's 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. This strategy leverages the Company's experience with prior product candidates, which have been extensively studied in various tumor types and continue to provide important learnings through a number of investigator-sponsored studies. These mainly include studies evaluating the MVA-BN-based candidate, CV301, in combination with checkpoint inhibitors. While the CV301 project has been fully written-down, Bavarian Nordic continue to follow and support the ongoing studies.

The evolution of 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. Clinical trials evaluating both of these new approaches have been initiated in early 2020.

→ *R&D INNOVATION*

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.

The overall disease incidence of chordoma is low with 1,000 new cases reported in the United States and E.U. annually according to the Chordoma Foundation, and the Company estimates that 10,000 people in the United States and E.U. are living with the disease. There is no approved drug for the treatment of chordoma, and patients are truly limited in their options to control the disease, particularly in the advanced stage. Current treatments have resulted in limited success against chordoma, with a historical objective response rate of less than 5% with radiation alone.

Bavarian Nordic's immuno-oncology candidate, **BN-Brachyury**, targets 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. Brachyury is a transcription factor that is believed to play a prominent role in the metastasis and progression of tumors. Expression of brachyury is highly correlated with meta-static disease, poor overall survival, multi-drug resistance, and decreased survival rates. 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. Patients will receive a primer of MVA-BN-Brachyury followed by booster doses of the recombinant fowlpox virus. A previous Phase 1 trial demonstrated that MVA-BN-Brachyury could safely target brachyury and induce brachyury-specific T-cell immune responses.

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

In October 2019, the Company completed the enrollment of a Phase 2 trial investigating BN-Brachyury in the treatment of advanced chordoma.

→ R&D INNOVATION

A total of 29 patients were enrolled, 19 of which have been enrolled in the second stage of the trial, which was opened in June 2019 after the confirmation of a partial response in the first stage. The overall goal of the study is to achieve four patients with objective responses, corresponding to an ORR of approximately 14% for all patients enrolled. All patients continue to be treated and evaluated for responses, and final results from the study are anticipated in 2020.

R&D INNOVATION

Key strategic activities and milestones in 2020 include:

- Continue preparations for initiation of the Phase 3 trial of MVA-BN RSV in the elderly in 2021
- Advance the Phase 3 trial of smallpox MVA-BN freeze-dried formulation
- Obtain successful marketing authorization of Ebola vaccine MVA-BN Filo in the EEA (partnered with Janssen)
- Establish proof-of-concept for BN-Brachyury in chordoma
- Explore intra-tumoral/intravenous administration within immunotherapy.

BEST IN CLASS VACCINE ***MANUFACTURING***

→ *MANUFACTURING*

One of the important features that provides Bavarian Nordic with a unique profile is the strong in-house manufacturing capabilities and capacity built over many years. The Company wants to strengthen this expertise and is currently expanding its manufacturing footprint to encompass the full value chain from bulk manufacturing to fill and finish, as well as increasing bulk capacity and enabling concurrent manufacturing of different bulk vaccines. The aim is to create a world-class live virus manufacturing powerhouse with flexibility to support both current and future requirements.

Clear synergies exist in the manufacturing of Bavarian Nordic's current products and the acquired vaccines, Rabipur/RabAvert and Encepur. These are manufactured using CEF cells to cultivate the viruses, like the Company's current MVA-BN-based vaccines.

Strategic priorities

Our current strategic focus for manufacturing mid-to long term is to:

- Establish Bavarian Nordic capabilities to fill and finish liquid and freeze-dried products
- Expand bulk manufacturing to introduce new technologies & manufacture multiple products in parallel
- To successfully complete the transfer of the manufacturing of Rabipur/RabAvert and Encepur from GSK, in order to deliver on the anticipated synergies of the transaction.

Almost at the finish line

Bavarian Nordic's manufacturing plant in Kvistgaard, Denmark has been operating for more than a decade to manufacture bulk vaccine for the Company's smallpox vaccine contracts with the U.S. Government. In 2019, the Company completed the construction of a new fill and finish facility at the same site, which, once fully qualified and validated, together with the existing manufacturing capabilities will enable Bavarian Nordic to control the entire value chain of the manufacturing process.

The facility expansion will establish a commercial scale multi-product fill and finish facility for liquid and freeze-dried live viral vaccines, i.e. formulation, filling, freeze-drying, terminal sterilization of WFI (solvent for freeze-dried products), inspection and packaging. Once fully operational, the facility is expected to have a capacity of 40 million liquid-frozen and 8 million freeze-dried doses per year.

→ *MANUFACTURING*

Clear synergies exist in the manufacturing of Bavarian Nordic's current products and the acquired vaccines, Rabipur/RabAvert and Encepur.

JYNNEOS/IMVANEX/IMVAMUNE will be the first vaccine planned to be manufactured in the facility, scheduled to be transferred into the facility from the current contact manufacturing organization during 2020. The process performance qualification is planned for 2020 with validation of the process for the vaccine continuing into 2021, where the Company expects to commence commercial manufacturing.

Over time, the facility will assume the fill and finish activities related to JYNNEOS/IMVANEX/IMVAMUNE and Rabipur/RabAvert, whereas Encepur will be filled (in a pre-filled syringe) at a CMO specialized in this type of filling.

Expanding the vaccine bulk capacity
In addition to the fill and finish facility, and as part of the acquisition of Rabipur/RabAvert and Encepur from GSK, Bavarian Nordic has decided to invest in expanding the vaccine bulk facility, which will significantly increase the capacity and flexibility of the existing facility, by allowing multiple products to be manufactured in parallel. On top of housing current manufacturing technologies used by Bavarian Nordic for JYNNEOS/IMVANEX/IMVAMUNE and the Company's pipeline products, the addition will also enable Bavarian Nordic to bring in new technologies for new products.

The construction of the new fill and finish facility and expanded bulk facility significantly reduce Bavarian Nordic's dependency on third-party contract manufacturing, thus establishing Bavarian Nordic as one of the world's only independent manufacturers of live virus vaccines with the ability to produce a variety of vaccines, including potentially offering its manufacturing services to third parties.

Transfer of Rabipur/RabAvert and Encepur to the manufacturing line
Rabipur/RabAvert and Encepur are currently manufactured by GSK and the basis of the technology transfer to Bavarian Nordic is an as-is transfer of the current manufacturing process. Rabipur/RabAvert and Encepur have been manufactured for more than 20 years and the as-is transfer will build on this history, aiming to ensure a smooth transfer to Bavarian Nordic's manufacturing facility in Kvistgaard.

The manufacturing processes that are to be transferred to Bavarian Nordic have an extensive overlap with the process currently in use for Bavarian Nordic's approved vaccines. Manufacturing based on CEF cells is a core process at Bavarian Nordic's manufacturing facility in Kvistgaard and the manufacturing processes currently used for Rabipur/RabAvert and Encepur are variations of the current processes taking place at Bavarian Nordic, thus exploiting significant manufacturing synergies.

GSK will be providing assistance, including know-how, documentation, materials and training and is furthermore responsible for holding sufficient stock of master seed, meeting the required specifications and to supply samples of master seed stock, when it is required during the technology transfer. Significant milestone payments are dependent on successful technology transfer which would be difficult without the transfer of the relevant seed banks.

The transfer of the manufacturing of Rabipur/RabAvert and Encepur will be staged, starting with packaging then filling and ending with the transfer of bulk manufacturing.

MANUFACTURING

Key strategic activities and milestone in 2020 include:

- Complete the qualification and validation of the newly built fill and finish facility
- Commence investment in expansion of vaccine bulk manufacturing
- Commence the manufacturing technology transfer of Rabipur/RabAvert and Encepur.

LESS RISK, MORE MEMORIES

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 323,890,650 by year-end 2019, comprising 32,389,065 shares with a nominal value of DKK 10 each. Each share carries one vote. During the year, 78,500 new shares were issued as a result of warrant exercise by employees.

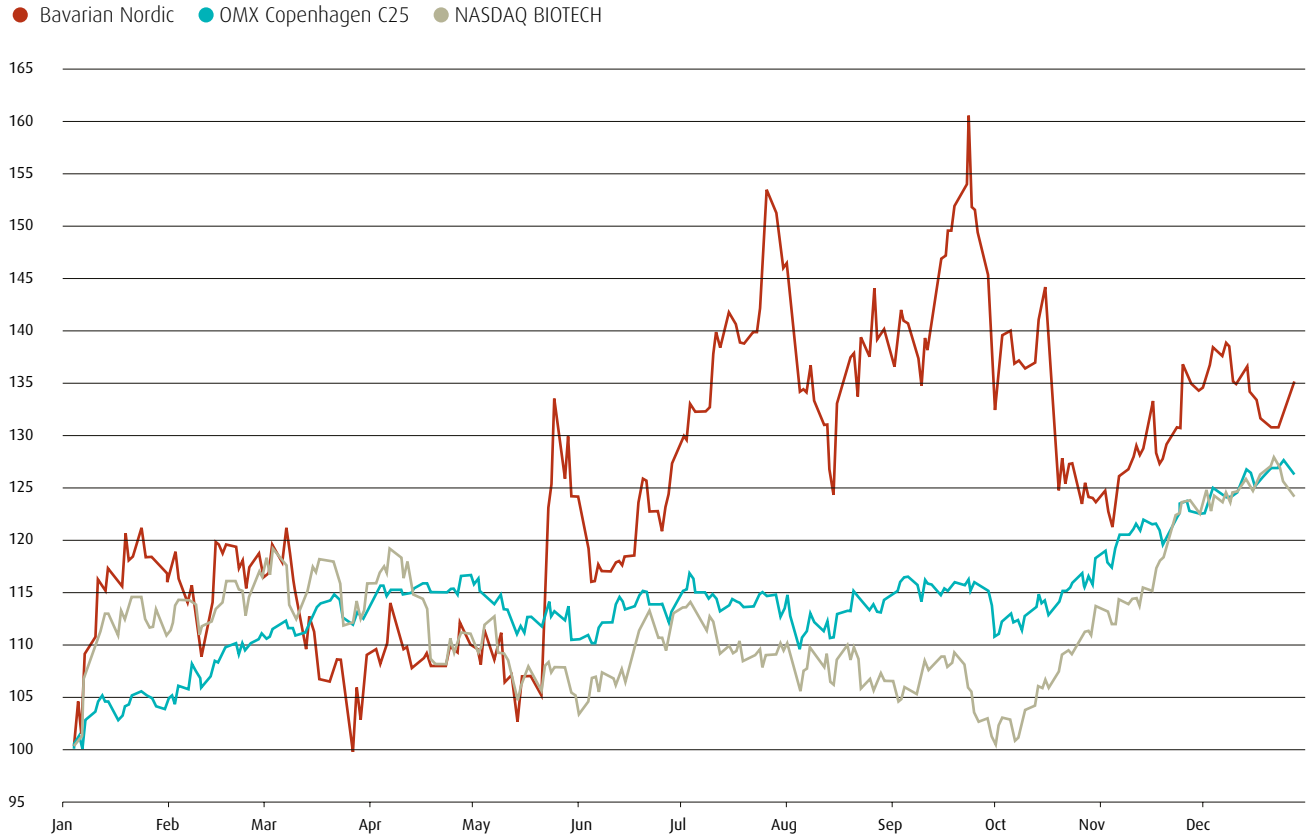
By December 31, 2019, there were 2,130,003 outstanding warrants, which entitle warrant holders to subscribe for 2,130,003 shares of DKK 10 each. Thus, the fully diluted share capital amounted to DKK 345,190,680 at year-end.

To support the acquisition of Rabipur/RabAvert and Encepur, Bavarian Nordic is planning a rights issue with pre-emptive rights for the Company's existing shareholders on Nasdaq Copenhagen in the first half of 2020. An extraordinary general meeting was held in November 2019, authorizing the Board to increase the Company's share capital with up to a total of nominally DKK 415,000,000. The rights issue is fully underwritten by Citi and Nordea as Joint Global Coordinators.

Ownership

As of December 31, 2019, Bavarian Nordic had 50,639 registered shareholders owning 30,366,797 shares. The following shareholders had publicly informed Bavarian Nordic that they own five per cent or more of the Company's shares:

Share price development compared to indices 2019



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

Bavarian Nordic held 68,378 own shares as treasury shares, corresponding to 0.21% of the share capital. The shares have been repurchased to hedge obligations under incentive schemes for the Company's Board and Executive Management. See note 30 in the consolidated financial statements.

Share price performance

In 2019, the Bavarian Nordic share showed a strong share price performance with an increase of 35% outperforming both the local OMX Copenhagen C25 index as well as the NASDAQ Biotechnology Index. The positive development trend has continued into 2020. The share price has been driven by a good underlying stock market in general as well as important company specific news like the FDA approval of JYNNEOS and the acquisition of the new vaccines.

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 Tuesday, April 21, 2020 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?

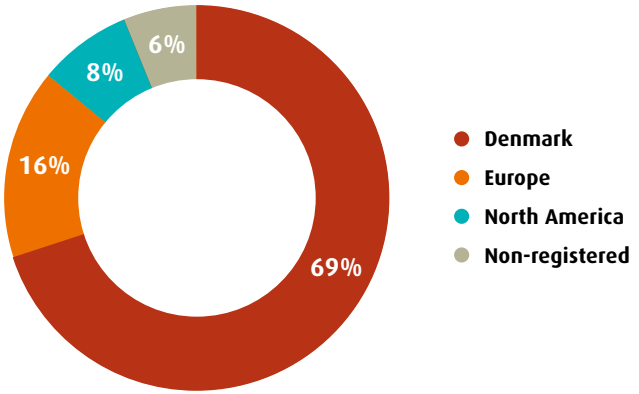
Registered shareholders are offered a range of electronic information services through the shareholder portal, which can be accessed from the Company's website. The portal also offers the opportunity to request admission cards and/or vote by proxy for the general meetings. Shareholders are encouraged 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 2020

April 21, 2020	Annual General Meeting
May 14, 2020	Interim report for the first quarter of 2020 (Q1)
August 26, 2020	Interim report for the first half of 2020 (Q2)
November 11, 2020	Interim report for the first nine months of 2020 (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 .

Vaccines work, and they contribute to the U.N. sustainable development goal (SDG) number 3, "Good health and well-being" all around the world. However, according to Gavi, 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.

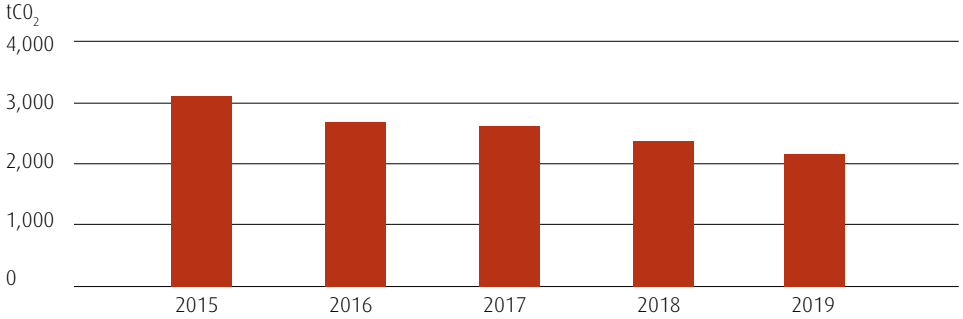
Our contribution, as a vaccine company, may seem small in the global perspective, but we are here to help achieve the goal for securing **good health and well-being of all humans.** While pursuing this goal, we recognize the importance of protecting the world around us, and act responsibly in all matters, particularly focusing 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.

To ensure that our CSR initiatives are carried out timely and efficiently, we have established a steering committee comprised of senior representatives in the Company, in addition to a working group comprised of representatives from human resources, our environmental, health and safety manager and investor relations & communications.

We seek to communicate openly and transparently about our CSR efforts in our annual CSR report which constitutes an independent part of the annual report and 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

	Unit	2019	2018	2017	2016	2015
Production						
Energy consumption	mWh	9,435	9,035	8,916	9,602	8,449
Waste water	m^3	10,556	8,543	7,486	8,689	7,660
Waste	metric tons	159	130	151	154	145
Recycling of waste		50%	42%	40%	43%	9%
Employees						
Employees, total at year-end		505	433	435	457	426
Sickness absence		2.8%	2.9%	3.7%	3.6%	3.9%
Lost Time Injury Frequency Rate (LTIFR)		2.5	2.7	3.9	1.3	8.2
Ratio of men to women in management positions		49%/51%	50%/ 50%	51%/ 49%	48%/52%	51%/49%

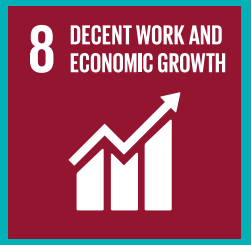
[1] www.who.int/immunization/monitoring_surveillance/data/gs_gloprofile.pdf
[2] www.un.org/sustainabledevelopment/sustainable-development-goals/
[3] www.gavi.org/about/ghd/sdg/

SECURING **GOOD HEALTH & WELL-BEING OF ALL HUMANS**

SDG 3:
Ensure healthy lives and promote well-being for all at all ages

SDG 4:
Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

SDG 5:
Achieve gender equality and empower all women and girls



SDG 8:
Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

SDG 12:
Ensure sustainable consumption and production patterns

SDG 13:
Take urgent action to combat climate change and its impact

SDG 16*: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels*

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 2019 on the Company's website: www.bavarian-nordic.com/corporategovernance.

The Board of Directors

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

The Board consists of seven external members elected by the shareholders at the annual general meeting for terms of one year; retiring members are eligible for re-election. The Board elects a chairman from among its members. Currently the Board has no employee-elected members, but the works committee has on behalf of the employees requested a yes/no vote for having employee-elected members joining the Board. Such yes/no vote will take place in 2020. 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. The 2019 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. Organizational development and continued optimization of Board efficiency will also be a focus area in 2020.

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.

Remuneration of the Board and Executive Management

The remuneration of the Board and the Executive Management is governed by the Company's remuneration policy which has been approved by the shareholders at the annual general meeting. Remuneration of the Board consists of base 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. Remuneration of the Executive Management consists of base wage, 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.

A full report on remuneration of the individual members of the Board and Executive Management in 2019 has been prepared and is available on the Company's website: www.bavarian-nordic.com/corporategovernance.

Board and board committees – meeting attendance 2019

	Board of Directors	Finance, Risk & Audit Commitee	Nomination and Compensation Committee
Gerard van Odijk	9/9		7/7
Peter Kürstein	8/9		5/7
Elizabeth McKee Anderson	9/9		7/7
Anders Gersel Pedersen	9/9	7/7	
Erik G. Hansen	9/9	7/7	
Frank Verwiel	9/9	7/7	
Anne Louise Eberhard [1]	8/8	5/5	

[1] Anne Louise Eberhard was elected to the Board at the Annual General Meeting on April 24, 2019

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. Competitors can develop more promising product candidates, potentially reducing the value of Bavarian Nordic's pipeline and products.	· 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. · Establish internal compliance structure and governance related to commercial operations.
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 among others investments in development and manufacturing facilities.	· Ensure good financial visibility by forecasting. · Secure optimal timing of income from partner agreements. · Maintain working capital at appropriate levels to free liquidity. · Keep spending and investment level at appropriate levels to stretch liquidity runway. · Secure access to bank financing if/when needed.
Cybersecurity	Disruptions to IT systems, e.g. caused by virus attack or hacking, may happen and could have significant impact on the company's ability to operate effectively.	· Internal procedures and resources 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. Issues potentially causing delay in the transfer of manufacturing of Rabipur/RabAvert and Encepur from GSK to Bavarian Nordic could negatively impact expected future margins.	· Internal quality audits, including mock inspections. · Secure adequate inventory strategy including dual sourcing. · Shelf-life extension initiatives. · Disaster recovery plans and back-up strategies. · Dedicated and competent organization focusing on the transfer of manufacturing from GSK to Bavarian Nordic.
Commercialization	From January 1, 2020, Bavarian Nordic has three commercial stage products, JYNNEOS, Rabipur/RabAvert and Encepur. The commercial operations that will drive future growth from these products is in the process of being established. Being in a build-up phase creates the risk of momentum and market share loss.	· Fill key commercial positions immediately to secure necessary competences. · Bridge build-up phase by adding third party commercial support. · Swiftly adapt to learnings in the market.
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 24 in the consolidated financial statements.*	Significant fluctuations in the DKK/USD and DKK/EUR exchange rates 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 and EUR. · Material net USD exposure is hedged using FX contracts or options. Material net EUR exposure can also be hedged using FX contracts. · 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.

MANAGEMENT OF BAVARIAN NORDIC

BOARD OF DIRECTORS

Gerard van Odijk

Gerard van Odijk, MD is a Dutch national, born in 1957. Independent member of the board since 2008 and chairman since 2014. Current term expires in 2020. Chairman of the Nomination and Compensation Committee since 2015.

Positions: Member 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, MD, PhD is a Danish national, born in 1951. Independent member of the board since 2010 and deputy chairman since 2014. Current term expires in 2020. Member of the Finance, Risk and Audit Committee since 2015.

Positions: Member of the Board of Genmab A/S, Hansa Biopharma AB and Bond 2 Development 2 GP Ltd. Member of the executive board of Gerselconsult ApS.

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

Elizabeth McKee Anderson

Elizabeth McKee Anderson, MBA is an American national, born in 1957. Independent member of the board since 2017. Current term expires in 2020. Member of the Nomination and Compensation Committee since 2018.

Positions: Member of the board of BioMarin Pharmaceutical, Inc., Context Therapeutics LLC, Insmed, Inc., REVOLUTION Medicines, Inc. and Aro Biotherapeutics Company and a member of the advisory board of NAXION, Inc. 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.

Anne Louise Eberhard

Anne Louise Eberhard, LL.M. is a Danish national, born in 1963. Independent member of the board since 2019. Current term expires in 2020. Member of the Finance, Risk and Audit Committee since 2019.

Positions: Member of the board of FLSmidth & Co. A/S and its subsidiary FLSMIDTH A/S, Topdanmark A/S, Finansiel Stabilitet, Knud Højgaards Fond and two of its three subsidiaries, VL 52 ApS, Member of the advisory board of Moneyflow Group ApS. Member of the executive board of EA Advice ApS. Faculty member and lecturer at Copenhagen Business School.

Special competences: Extensive finance and risk management experience as well as board experience from publicly listed companies.

Frank Verwiel

Frank Verwiel, MD, 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 2020. Member of the Finance, Risk and Audit Committee since 2016.

Positions: Chairman of the board of ObsEva SA and Intellia Therapeutics, Inc.

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

Erik Gregers Hansen

Erik Gregers Hansen, MSc is a Danish national, born in 1952. Independent member of the board since 2010. Current term expires in 2020. 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 four of its five subsidiaries. Member of the board of 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 Holding ApS and its subsidiary, BFB ApS, Sirius Holding ApS, Tresor Assets Advisers ApS, Polaris Invest II ApS, Hansen advisers ApS and EGH Gentofte ApS.

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

Peter Kürstein

Peter Kürstein, MBA is a Danish national, born in 1956. Independent member of the board since 2012. Current term expires in 2020. Member of the Nomination and Compensation Committee since 2015.

Positions: Chairman of the board of Radiometer Medical ApS, Ferrosan Medical Devices Holding A/S, ApS FMD I and Aps FMD III. 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, Den Erhvervsdrivende Fond Gl. Strand, Dansk BørneAstma Center and Art Agenda 2030. 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

By 2025 we aspire to be one of the largest pure play vaccines companies, improving and saving lives by excelling in R&D innovation, manufacturing and commercialization.

Paul Chaplin

President and Chief Executive Officer

Paul Chaplin, PhD is a British national, born in 1967. He joined Bavarian Nordic in 1999 as director of immunology. Prior to joining the Company, Mr. Chaplin worked for several years both in the UK and Australia developing vaccines against infectious diseases. He was appointed vice president in 2004, and president and chief executive officer in 2014.

Henrik Juuel

Executive Vice President, Chief Financial Officer

Henrik Juuel, MSc is a Danish national, born in 1965. He joined Bavarian Nordic in November 2018 from Orexo AB. Prior to Orexo Mr. Juuel has held senior positions at several large and diverse organizations including Group CFO of Virgin Mobile (Central and Eastern Europe), CFO of GN ReSound and NNE Pharmaplan, as well as several senior finance positions at Novo Nordisk.

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, most recently as Senior Vice President, Strategy, People and Organization. He was appointed executive vice president and chief operating officer in 2017.

Positions: Member of the board of Kompagniet.nu ApS and VIRKSOMHEDSCENTER-KBH ApS. Member of the executive board of zappzapp.dk IVS.

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.

Jean-Christophe May

Executive Vice President, Chief Commercial Officer

Jean-Christophe (JC) May, PharmD, MBA is a French national, born in 1967. He joined Bavarian in January 2020 from GlaxoSmithKline (GSK), where he served as vice president and global vaccines commercialization leader and was responsible for global strategic leadership and performance of several lifesaving vaccines, including Rabipur/RabAvert and Encepur, which Bavarian Nordic acquired from GSK in 2019.

Laurence De Moerlooze

Executive Vice President, Chief Scientific Officer

In January 2020, Bavarian Nordic announced the appointment of Laurence De Moerlooze, PhD, as Executive Vice President and Chief Scientific Officer with effect from April 2020. She is joining the Company from Takeda Vaccines where she served as Vice President and Global Program Lead for vaccines against Zika virus and Norovirus. Prior to Takeda she worked at GSK for more than 15 years, holding various leading roles in medical affairs and vaccine development working with numerous life-saving vaccines including Rabipur/RabAvert and Encepur.

FINANCIAL REVIEW 2019

The financial review is based on the Group's consolidated financial information for the year ended December 31, 2019, with comparative 2018 figures for the Group in brackets. There is no significant difference in the development of the Group and the Parent Company (except if noted specifically below).

In 2019, the Company generated revenues of DKK 662 million (DKK 501 million) compared to a guidance of DKK 600 million. The income before interest and taxes (EBIT) was a loss of DKK 328 million (loss of DKK 354 million) compared to a guided loss of DKK 360 million.

The cash preparedness as of December 31, 2019 amounted to DKK 716 million (DKK 2,314 million) compared to a guidance of DKK 700 million. The cash preparedness consists of cash and cash equivalents of DKK 297 million (DKK 267 million), investments in securities of DKK 175 million (DKK 2,050 million) and credit lines of DKK 244 million (DKK 244 million). As of December 31, 2019, the credit lines were undrawn. The cash preparedness as of December 31, 2018 was partly offset by security lending of DKK 247 million.

Income statement

Revenue

Revenue for the year was DKK 662 million (DKK 501 million).

Revenue from product sales was DKK 324 million (DKK 361 million) composed of sale of smallpox bulk drug substance batches to the U.S. Government. In 2018 the Company had revenue from the sale of smallpox final drug product to other customers amounting to DKK 38 million.

Revenue from ongoing development contracts amounted to DKK 338 million (DKK 140 million) and was mostly related to revenue from the U.S. Biomedical Advanced Research and Development Authority (BARDA) for running the Phase 3 study for the freeze-dried smallpox vaccine and the funding to support qualification of the new fill and finish facility as well as the transfer and validation of the freeze-drying production process. The revenue also included the funding from the United States Department of Defense for the development of a prophylactic vaccine against the equine encephalitis virus. In 2018, the majority of the revenue from ongoing development contracts was generated by the Janssen agreements related to development of the product candidates for HPV, HBV and HIV.

Production costs

Production costs amounted to DKK 355 million (DKK 255 million). Costs related directly to revenue amounted to DKK 307 million (DKK 169 million) of which contract costs totaled DKK 219 million (DKK 74 million). The increase in contract costs was related to the Phase 3 study for the freeze-dried version of smallpox vaccine and qualification of the new fill and finish facility.

Other production costs totaled DKK 48 million (DKK 86 million) of which write-down on inventory amounted to net DKK 4 million (DKK 55 million). The write-down in 2018 was primarily explained by a provision for remaining PROSTVAC bulk and finished products as well as a provision for four smallpox bulk drug substance batches that failed first validation. In 2019, it became clear that none of the four batches could be released for fill of commercial vials, but three of the batches were usable for the validation of the freeze-drying production process, funded by BARDA, hence the write-down allocated to those batches was reversed in 2019.

Sales and distribution costs

The sales and distribution costs increased by DKK 19 million to DKK 53 million (DKK 34 million) compared to 2018 mainly due to consultancy costs related to setup of

a commercial organization following the acquisition of the product rights from GlaxoSmithKline.

Research and development costs
The total research and development spending was DKK 628 million (DKK 461 million) compared to a guidance of DKK 570 million. The increase compared to guidance related to the funded project spend for qualification and validation of the new fill and finish facility. The total amount included as research and development spend for funded contract costs amounted to DKK 219 million (DKK 74 million). These costs are recognized as production costs in the income statement. The amount shown as research and development costs in the income statement totaled DKK 409 million (DKK 386 million), see note 6, compared to a guidance of DKK 420 million.

Following the Company's decision not to invest further in the development of CV301, apart from supporting the continuation of stage 1 of the bladder study and supporting the ongoing investigator-led studies, the CV301 development project for sale was fully written down. The write-down of DKK 22 million was recognized as research and development costs in the consolidated financial statements.

In the Parent financial statements, the write-down amounted to DKK 68 million, also recognized as research and development costs.

Administrative costs
The administrative costs were DKK 173 million compared to DKK 180 million in the 2018. In 2018 the Company incurred higher consultancy costs.

Financial income and financial expenses
Financial income was DKK 23 million (DKK 35 million) and consisted mainly of interest income on securities of DKK 16 million (DKK 22 million) and net gains on derivative financial instruments of DKK 6 million (net loss of DKK 4 million).

Financial expenses were DKK 39 million (DKK 37 million) and consisted of net negative fair value adjustments on securities of DKK 15 million (DKK 19 million), interest expenses on debt of DKK 19 million (DKK 15 million) and a net foreign exchange loss of DKK 5 million (net gain of DKK 12 million).

In the Parent financial statements, the financial income was DKK 50 million (DKK 71 million) and included interests on receivables from subsidiaries of DKK 24 million (DKK 17 million) and net foreign exchange gain of DKK 3 million (DKK 32 million). The financial expenses were DKK 95 million (DKK 46 million) and included write-down of receivables from subsidiaries of DKK 61 million (DKK 7 million).

Tax on income for the year
Tax on the income for the year was an expense of DKK 2 million (DKK 5 million). The tax expense related to paid taxes in the German subsidiary, partly offset by refund of prepaid taxes in the dissolved subsidiary Bavarian Nordic Washington D.C., Inc. The Danish tax loss carry forward related to the result for the year was fully written down in 2018 and 2019 and led to a negative tax rate of 1.5% in 2018 and 0.6% in 2019. The recognized deferred tax asset remained at DKK 0 million as of December 31, 2019. The deferred tax asset will be reassessed once the Parent Company starts generating positive taxable income. The Company retains the right to use the tax loss carry forward (tax value of DKK 362 million) and the other tax assets (tax value of DKK 64 million) that has not been recognized at December 31, 2019.

Liquidity and capital resources
As of December 31, 2019, the Company had cash and cash equivalents of DKK 297 million (DKK 267 million) and held investments in securities of DKK 175 million (DKK 2,050 million), of which security lending amounted to DKK 0 million (DKK 247 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 276 million (DKK 289 million), mainly driven by the net loss for the year.

Cash flow spend on investment activities totaled DKK 810 million (net contribution of DKK 17 million). The upfront payment to GlaxoSmithKline for purchase of the product rights for Rabipur/RabAvert and Encepur amounted to DKK 2,308 million and the investment in property, plant and equipment and other intangible assets amounted to DKK 363 million. The investment spend was only partially offset by the net sale of securities, amounting to DKK 1,861 million. The main investment in property, plant and equipment was the new fill and finish facility with an addition of DKK 313 million during 2019. In 2018, the cash flow from investment activities was positive by DKK 17 million, as the net sale of securities amounted to DKK 229 million while investment in property, plant and equipment and intangible assets totaled DKK 212 million.

The cash provided by financing activities in 2019 totaled DKK 1,115 million, mainly from draw down on the bridge loan obtained to fund part of the upfront payment for the acquired product rights, DKK 1,373 million. The settlement of the security lending transactions incurred in 2018 resulted in a repayment of DKK 247 million in 2019. The net cash provided by financing activities in 2018 totaled DKK 246 million mainly related to security lending.

The net cash flow for 2019 was positive by DKK 29 million (DKK 26 million negative). Adjusted for net sale of securities the net cash flow was negative by DKK 1,832 million (DKK 255 million negative).

Balance sheet

The balance sheet total was DKK 7,047 million as of December 31, 2019 (DKK 3,061 million).

Assets
Costs of the acquired product rights to Rabipur/RabAvert and Encepur are measured at the upfront payment paid December 31, 2019 and the present value of the expected future milestone payments as of December 31, 2019. Furthermore, costs of the acquired product rights include transaction costs that are directly attributable to the acquisition. The total costs of the acquisition of the product rights amount to DKK 5,459 million divided

between Rabipur/RabAvert and Encepur with DKK 3,140 million and DKK 2,319 million, respectively. The asset purchase agreement with GlaxoSmithKline includes a sales milestone of EUR 25 million. As per December 31, 2019, the Company does not judge the sales milestone to be probable and therefore the sales milestone has not been recognized as part of the product rights. The two product rights will be amortized on a straight-line basis over their expected useful lives of 20 years starting January 1, 2020.

Property, plant and equipment stood at DKK 846 million (DKK 519 million) and included asset under construction of DKK 618 million (DKK 262 million), primarily related to the fill and finish manufacturing facility in Kvistgaard amounting to DKK 539 million.

Inventories stood at DKK 101 million (DKK 79 million), of which smallpox bulk drug substance and final drug product amounted to DKK 46 million (DKK 36 million) net of write-down.

Receivables stood at DKK 82 million (DKK 90 million), of which trade receivables amounted to DKK 43 million (DKK 31 million).

As of December 31, 2019, cash and securities stood at DKK 472 million (DKK 2,317 million). The deduction in the cash position was mainly related to the Company's use of own funds (DKK 935 million) to pay for part of the upfront payment for the acquired product rights. During 2019 the Company also had significant investments in the new fill and finish facility and a negative cash flow from operating activities.

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 1,865 million (DKK 2,181 million). Lawyer and auditor fees related to the planned rights issue have been recognized in equity by DKK 2 million.

Liabilities

The present value of the future milestone payments to GlaxoSmithKline for the acquisition of the product rights has been recognized as deferred consideration with an amount of DKK 3,151 million, split between non-current and current liabilities with DKK 2,691 million and DKK 460 million, respectively. The deferred consideration does not include the sales milestone of EUR 25 million included in the asset purchase agreement with GlaxoSmithKline as the Company does not assess the sales milestone to be probable as of December 31, 2019.

The Company utilized the obtained bridge loan facility to partly fund the upfront payment to GlaxoSmithKline. The bridge loan measured at amortized cost amounts to DKK 1,373 million at December 31, 2019 and will be repaid in full on completion of the planned rights issue. As of December 31, 2019, debt to credit institutions also included the European Investment Bank loan of DKK 372 million and a mortgage loan of DKK 25 million. As of December 31, 2018, debt to credit institutions amounted to DKK 646 million, including security lending of DKK 247 million. The security lending was settled in January 2019.

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Group Key Figures 2015-2019

DKK million	2019	2018	2017	2016	2015
Income statement					
Revenue	662.5	500.6	1,370.2	1,006.7	1,020.6
Production costs	354.8	255.1	290.6	297.8	415.1
Sales and distribution costs	53.5	33.7	39.9	38.6	42.3
Research and development costs	409.3	386.3	518.4	463.2	386.8
Administrative costs	173.4	180.0	168.0	174.2	174.8
Income before interest and tax (EBIT)	(328.4)	(354.5)	353.2	33.0	1.6
Financial items, net	(16.3)	(2.2)	(50.9)	6.5	76.1
Income before company tax	(344.7)	(356.6)	302.3	39.5	77.6
Net profit for the year	(346.8)	(361.9)	181.3	30.6	59.4
Balance sheet					
Total non-current assets	6,392.2	552.7	382.2	541.1	585.0
Total current assets	654.9	2,508.3	2,770.5	2,282.6	1,404.3
Total assets	7,047.1	3,060.9	3,152.7	2,823.7	1,989.3
Equity	1,865.5	2,180.6	2,506.3	2,017.2	1,342.5
Non-current liabilities	3,134.4	397.6	399.8	54.7	56.6
Current liabilities	2,047.2	482.7	246.6	751.8	590.2
Cash Flow Statement					
Securities, cash and cash equivalents	472.4	2,317.2	2,583.7	1,899.9	1,058.2
Cash flow from operating activities	(275.9)	(288.5)	216.1	267.6	105.3
Cash flow from investment activities	(809.9)	17.1	(1,345.2)	(448.2)	(178.1)
– Investment in intangible assets	(2,310.9)	(10.2)	(22.3)	(43.7)	(28.3)
– Investment in property, plant and equipment	(360.1)	(201.8)	(56.4)	(47.8)	(31.7)
– Net investment in securities	1,861.1	229.2	(1,266.6)	(358.3)	(119.3)
Cash flow from financing activities	1,114.7	245.8	613.4	657.2	26.6

DKK million	2019	2018	2017	2016	2015
Financial Ratios[1)]					
EBITDA	(271.4)	(312.9)	390.7	78.4	45.1
Earnings (basic) per share of DKK 10	(10.7)	(11.2)	5.7	1.0	2.1
Net asset value per share	57.6	67.5	77.7	64.3	47.9
Share price at year-end	171	127	224	249	358
Share price/Net asset value per share	3.0	1.9	2.9	3.9	7.5
Number of outstanding shares at year-end (thousand units)	32,389	32,311	32,245	31,354	28,020
Equity share	26%	71%	79%	71%	67%
Number of employees, converted to full-time, at year-end	491	419	420	437	409

[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.

Reconciliation of EBITDA					
Income before interest and tax (EBIT)	(328.4)	(354.5)	353.2	33.0	1.6
Depreciation and amortization (note 9)	57.0	41.6	37.5	45.4	43.5
EBITDA	**(271.4)**	**(312.9)**	**390.7**	**78.4**	**45.1**

Consolidated Income Statements
For the years ended December 31, 2019 and 2018

DKK thousand	Note	2019	2018
Revenue	3	662,488	500,617
Production costs	4,8,9	354,757	255,117
Gross profit		**307,731**	**245,500**
Sales and distribution costs	5,8	53,476	33,725
Research and development costs	6,8,9	409,284	386,299
Administrative costs	7,8,9,10	173,417	179,958
Total operating costs		**636,177**	**599,982**
Income before interest and tax (EBIT)		**(328,446)**	**(354,482)**
Financial income	11	22,540	34,973
Financial expenses	12	38,843	37,126
Income before company tax		**(344,749)**	**(356,635)**
Tax on income for the year	13	2,028	5,292
Net profit for the year		**(346,777)**	**(361,927)**
Earnings per share (EPS) – DKK			
Basic earnings per share of DKK 10	14	(10.7)	(11.2)
Diluted earnings per share of DKK 10	14	(10.7)	(11.2)

Consolidated Statements of Comprehensive Income
For the years ended December 31, 2019 and 2018

DKK thousand	Note	2019	2018
Net profit for the year		**(346,777)**	**(361,927)**
Items that may subsequently be reclassified to the income statement:			
Exchange rate adjustments on translating foreign operations		(149)	93
Change in fair value of financial instruments entered into to hedge future cash flows		2,644	(228)
Tax on other comprehensive income	13	–	–
Other comprehensive income after tax		**2,495**	**(135)**
Total comprehensive income		**(344,282)**	**(362,062)**

Consolidated Statements of Cash Flow
For the years ended December 31, 2019 and 2018

DKK thousand	Note	2019	2018
Net profit for the year		**(346,777)**	**(361,927)**
Adjustment for non-cash items:			
Financial income		(22,540)	(34,973)
Financial expenses		38,843	37,126
Tax on income for the year		2,028	5,292
Depreciation and amortization	9	57,045	41,639
Share-based payment	30	26,449	33,913
Adjustment for other non-cash items		22,200	–
Changes in inventories		(22,074)	33,159
Changes in receivables		15,763	(39,990)
Changes in current liabilities		(51,229)	(10,973)
Cash flow from operations (operating activities)		**(280,292)**	**(296,734)**
Received financial income		27,052	27,662
Paid financial expenses		(19,457)	(15,642)
Paid company taxes		(3,213)	(3,815)
Cash flow from operating activities		**(275,910)**	**(288,529)**

	Note	2019	2018
Investments in products rights	15	(2,307,570)	–
Investments in other intangible assets	15	(3,338)	(10,186)
Investments in property, plant and equipment	16	(360,102)	(201,775)
Investments in financial assets		(73)	(156)
Investments in securities		(1,239,097)	(1,228,709)
Disposal of securities		3,100,240	1,457,915
Cash flow from investment activities		**(809,940)**	**17,089**
Payment on loans	26	(248,884)	(2,151)
Proceeds from loans	26	1,372,953	246,729
Repayment of lease liabilities	26	(12,923)	–
Proceeds from warrant programs exercised		10,315	5,415
Costs related to issue of new shares		(2,219)	(25)
Purchase of treasury shares		(4,576)	(4,124)
Cash flow from financing activities		**1,114,666**	**245,844**
Cash flow of the year		**28,816**	**(25,596)**
Cash and cash equivalents as of January 1		266,658	282,521
Currency adjustments		2,071	9,733
Cash and cash equivalents as of December 31		**297,545**	**266,658**

Consolidated Statements of Financial Position – Assets
December 31, 2019 and 2018

DKK thousand	Note	2019	2018
Non-current assets			
Products rights		5,458,700	–
Software		22,512	32,381
Other intangible assets in progress		3,043	119
Intangible assets	15	**5,484,255**	**32,500**
Land and buildings		162,327	179,442
Leasehold improvements		843	1,047
Plant and machinery		44,265	54,311
Other fixtures and fittings, other plant and equipment		20,368	21,894
Assets under construction		618,101	262,114
Property, plant and equipment	16	**845,904**	**518,808**
Right-of-use assets	17	**60,590**	–
Other receivables	21	1,445	1,372
Financial assets		**1,445**	**1,372**
Total non-current assets		**6,392,194**	**552,680**

	Note	2019	2018
Current assets			
Development projects for sale	18	–	**22,200**
Inventories	19	**100,762**	**78,688**
Trade receivables	20	43,405	31,227
Tax receivables		767	–
Other receivables	21	28,387	21,345
Prepayments	22	9,189	37,582
Receivables		**81,748**	**90,154**
Securities	24	174,819	2,050,556
Cash and cash equivalents		297,545	266,658
Securities, cash and cash equivalents		**472,364**	**2,317,214**
Total current assets		**654,874**	**2,508,256**
Total assets		**7,047,068**	**3,060,936**

Consolidated Statements of Financial Position – Equity and Liabilities
December 31, 2019 and 2018

DKK thousand	Note	2019	2018
Equity			
Share capital		323,891	323,106
Treasury shares		(684)	(507)
Retained earnings		1,460,007	1,797,122
Other reserves		82,241	60,907
Equity		**1,865,455**	**2,180,628**
Liabilities			
Deferred consideration for product rights	25	2,691,400	–
Debt to credit institutions	26	395,443	397,613
Lease liabilities	27	47,549	–
Non-current liabilities		**3,134,392**	**397,613**
Deferred consideration for product rights	25	459,730	–
Debt to credit institutions	26	1,375,116	248,877
Lease liabilities	27	13,851	–
Prepayment from customers	28	6,631	41,818
Trade payables		112,088	93,962
Company tax		–	1,108
Other liabilities	23	79,805	96,930
Current liabilities		**2,047,221**	**482,695**
Total liabilities		**5,181,613**	**880,308**
Total equity and liabilities		**7,047,068**	**3,060,936**

Consolidated Statements of Changes in Equity
December 31, 2019

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, 2019	**323,106**	**(507)**	**1,797,122**	**(37,409)**	**(357)**	**98,673**	**2,180,628**
Comprehensive income for the year							
Net profit for the year	–	–	(346,777)	–	–	–	(346,777)
Other comprehensive income							
Exchange rate adjustments on translating foreign operations	–	–	–	(149)	–	–	(149)
Change in fair value of financial instruments entered into to hedge future cash flows, net	–	–	–	–	2,644	–	2,644
Total comprehensive income for the year	**–**	**–**	**(346,777)**	**(149)**	**2,644**	**–**	**(344,282)**
Transactions with owners							
Share-based payment	–	–	–	–	–	25,589	25,589
Warrant programs exercised	785	–	11,814	–	–	(2,284)	10,315
Warrant programs expired	–	–	1,455	–	–	(1,455)	–
Costs related to issue of new shares	–	–	(2,219)	–	–	–	(2,219)
Purchase of treasury shares	–	(288)	(4,288)	–	–	–	(4,576)
Transfer regarding restricted stock units	–	111	2,900			(3,011)	–
Total transactions with owners	**785**	**(177)**	**9,662**	**–**	**–**	**18,839**	**29,109**
Equity as of December 31, 2019	**323,891**	**(684)**	**1,460,007**	**(37,558)**	**2,287**	**117,512**	**1,865,455**

The share capital comprises a total of 32,389,065 shares of DKK 10 as of December 31, 2019 (32,310,565 shares). The shares are not divided into share classes, and each share carries one vote.

Treasury shares
In May 2019, the Board of Directors decided to launch a share buy-back program, under which the Company bought back 28,849 of its own shares (27,373 shares in 2018). 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 bonus for 2018 for members of the Executive Management are converted to restricted stock units for a value corresponding to half of the achieved bonus. The restricted stock units will be released to the Executive Management three years after grant. This 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). The vesting period for those restricted stock units is also three years.

Treasury shares represent 0.21% (0.16%) of the total share capital.

For further information about share-based payment, see note 30.

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.

Transactions on the share capital

DKK thousand	2019	2018	2017	2016	2015
Share capital as of January 1	323,106	322,451	313,539	280,197	276,712
Issue of new shares	785	655	8,912	33,342	3,485
Share capital as of December 31	**323,891**	**323,106**	**322,451**	**313,539**	**280,197**

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 accounting policies are unchanged from last year except for changes due to implementation of new and revised standards that were effective January 1, 2019.

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, except for implementation of IFRS 16 "Leases" where the Company has used the simplified retrospective transition approach without restating comparative figures, see further below.

In the narrative sections of the consolidated financial statements comparative figures for 2018 are shown in brackets.

Implementation of new and revised standards and interpretations

The International Accounting Standards Board (IASB) has issued new standards and revisions to existing standards (IFRS) and new interpretations (IFRIC) which are mandatory for accounting periods commencing on or after January 1, 2019. Except for the implementation of IFRS 16 "Leases" 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 16 "Leases" has replaced IAS 17 "Leases" and IFRS 16 has introduced a changed accounting model for a lessee. Previously, lease contracts for a lessee were classified as either operating or finance leases. IFRS 16 requires the majority of operating leases to be recognized as lease assets with a related lease liability, similar to the previous accounting of finance leases. The lease payments, previously accounted for as operating expenses, have been split into an interest cost and a repayment of the lease liability. The lease assets are depreciated over the term of the lease contract.

The Company has implemented IFRS 16 using the simplified retrospective transition approach without restating comparative figures, with a lease asset value equal to the lease liability value upon transition. Consequently, 2018 comparative figures are reported according to IAS 17.

Upon implementation the Company has elected to use the following exemptions proposed by the standard:

- Not to recognize lease contracts for which the lease terms ends within 12 months as of the date of initial application
- Not to reassess whether a contract is or contains a lease
- Apply only a single discount rate for a portfolio of lease assets with reasonable similar characteristics
- Exclude initial direct costs from the measurement of the right-of-use asset
- Not to separate non-lease components from lease components.

The Company recognizes all operating leases – with the few exemptions listed above – on the balance sheet as assets with a corresponding lease liability. The lease liability is equal to the discounted value of all future lease payments. The lease assets, right-of-use-assets, correspond to the lease liability adjusted by the amount of any prepaid or accrued lease payments recognized in the statement of financial position immediately before the date of initial application.

When assessing the future lease payments, payments, which are fixed or variable, dependent on an index or a rate have been included. Non-lease components are included as part of the lease liability. When assessing the lease term, any extension or termination options have been included in the assessment. The options are included in determining the lease term, if exercise is reasonably certain. When determining the discount rates used to calculate the net present value of future lease payments, an incremental country specific borrowing rate has been used, based on a government bond plus the Group's credit margin, ranging from 2.5% to 5.0%.

Upon implementation January 1, 2019, a right-of-use-asset of DKK 83 million and a lease liability of DKK 83 million have been recognized. The implementation has no impact on equity. The right-of-use-assets relate primarily to land and buildings with lease terms ranging from 5 to 7 years.

Had the Group applied the previous accounting policy for leases according to IAS 17 the income before interest and tax (EBIT) for financial year 2019 would have been a loss of DKK 330 million, an increase of DKK 2 million in loss compared to the actual numbers for the financial year 2019.

Implementation of IFRS 16 has no impact on the underlying cash flows. However, due to the lease payments being split into interest costs and a repayment of the lease liability, the presentation in the cash flow statement has changed. The change has improved the cash flow from operating activities by DKK 13 million whereas the cash outflow from financing activities has been negatively impacted by DKK 13 million.

The impact from implementation of IFRS 16 is further described in note 17 and note 27.

The following table shows the operating lease commitments disclosed applying IAS 17 as of December 31, 2018, discounted using the incremental borrowing rate at the date of initial application and the lease liabilities recognized in the statement of financial position at the date of initial application.

DKK thousand	**January 1, 2019**
Operating lease commitments as disclosed in note 28 in the Annual Report 2018 (IAS 17)	48,556
Discounted using the incremental borrowing rate January 1, 2019	(4,006)
Short term leases, recognized on a straight line basis as an expense	(404)
Service expenditures included in the operating lease commitments in the Annual Report 2018	(6,884)
Included lease option terms with a highly probable extension	45,606
Lease liabilities recognized January 1, 2019 (IFRS 16)	**82,868**

Note 1

Significant accounting policies – continued

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.

None of the new or amended standards and interpretations are 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 non-current assets is disclosed in note 15 and 16 to the consolidated financial statements.

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

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

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

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

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

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

Net asset value per share:

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

Share price/Net asset value per share:

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

Equity share, %:

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

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

Note 2

Significant accounting estimates and judgments

Significant accounting estimates

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 which significantly affect the amounts recognized in the consolidated financial statements:

- Revenue recognition (note 3)
- Intangible assets (note 15)
- Inventories, including impairment and production overheads (note 19)

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

Significant accounting judgments

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

The acquisition of the two product rights from GlaxoSmithKline does not include any legal entities, and no other tangible asset, no employees and no working capital has be transferred to the Company as part of the transaction. Management has assessed that the acquisition constitute an asset deal and not a business combination. In determining the accounting treatment, Management has performed judgments and estimates determining the method for determination of the cost price of the acquired products rights including the method and period of amortization and method for recognition of deferred consideration. For further information see note 15 and note 25. ■

Note 3

Revenue

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 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. ■

Note 3
Revenue – continued

DKK thousand	2019	2018
Sale of smallpox vaccine	324,258	360,523
Sale of goods	324,258	360,523
Contract work	338,230	140,094
Sale of services	338,230	140,094
Revenue	**662,488**	**500,617**
Total revenue includes:		
Fair value adjustment concerning financial instruments entered into hedge revenue	(13,006)	907
Geographic split of revenue:		
USA	611,876	356,209
The Netherlands	49,768	107,078
Canada	–	32,545
Other geographic markets	844	4,785
Revenue	**662,488**	**500,617**

No revenue has been achieved on the Danish market in 2019 or 2018.

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

- Biomedical Advanced Research and Development Authority (BARDA), USA, DKK 539.4 million (DKK 342.3 million).
- Janssen Vaccines & Prevention B.V., The Netherlands, part of Johnson & Johnson Group, DKK 49.8 million (DKK 107.1 million).

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 smallpox vaccine. The potential value of the initial base and optional awards is in excess of USD 539 million. Initial base award secures additional 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 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 and finish activities, with potential value of up to USD 140 million. The award also contains options to acquire additional vaccine bulk and/or doses of smallpox vaccine in the future.

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 of smallpox vaccine. 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, 2019 all 40 BDS batches have been released and recognized as revenue. The filling activities are going to take place in Kvistgaard in 2021-2023 when the new fill and 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 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 to cover qualification of the new fill and finish facility, as well as transfer and validation of the freeze-drying process (contract option valued at USD 44 million). In 2019 DKK 128 million was recognized as revenue. The majority of the remaining funds will be recognized as revenue in 2020. 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.

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 contains 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

Note 3

Revenue – continued

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 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, 2019 prepayments under the contracts amount to DKK 6.6 million – corresponding to the work outstanding towards the next milestone events.

Note 4

Production costs

DKK thousand	2019	2018
Cost of goods sold, sale of smallpox vaccine	87,272	94,557
Contract costs	219,200	74,269
Other production costs	48,285	86,291
Production costs	**354,757**	**255,117**

The increase in contract costs is related to the clinical activities to support licensure of the freeze-dried version of smallpox vaccine and qualification of the new fill and finish facility including transfer and validation of the freeze-drying process. Other production costs amounted to DKK 48.3 million (DKK 86.3 million), of which net write-downs of inventory totaled DKK 4.0 million (DKK 55.0 million).

Development in write-downs is further described in note 19.

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, amortization, depreciation and impairment of intangible and tangible assets used in production as well as operation, administration and management of the production facility are recognized as production costs. Amortization of acquired product rights 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

Sales and distribution costs

Accounting policies

Sales and distribution costs comprise costs incurred for the sale and distribution of products sold during the year. This includes costs incurred for sales campaigns, training and administration of the sales force and for direct distribution, marketing and promotion. Also included are salaries and other costs for the sales, distribution and marketing functions, amortization, depreciation and other indirect costs. ■

Note 6

Research and development costs

DKK thousand	2019	2018
Research and development costs incurred this year	628,484	460,568
Of which:		
Contract costs recognized as production costs (note 4)	(219,200)	(74,269)
Research and development costs recognized in the income statement	**409,284**	**386,299**

Research and development costs include expenses for external clinical research organizations, or CRO's, of DKK 140.6 million (DKK 129.2 million).

On October 18, 2019, the Company announced that the stage 1 of the Phase 2 study evaluating the combination therapy of CV301 for the treatment of patients with bladder cancer did not meet the efficacy threshold to progress into stage 2 with expanded enrollment. Following this decision the CV301 development project for sale was expensed by DKK 22.2 million, cf. note 18.

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.

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.

Contract research and development costs incurred to achieve revenue are included in "Research and development costs incurred this year" in the below tabel and then transferred under "Contract costs recognized as production costs" to be recognized as production 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 7

Adminstrative costs

Accounting policies

Administrative costs include costs of Group Management, staff functions, administrative personnel, office costs, rent, short-term lease payments and depreciation not relating specifically to production, research and development or sales and distribution. ■

Note 8

Staff costs

DKK thousand	2019	2018
Wages and salaries	312,020	294,727
Contribution based pension	24,927	22,556
Social security expenses	13,760	12,462
Other staff expenses	28,174	24,848
Share-based payment, see specification in note 30	26,449	33,913
Staff costs	**405,330**	**388,506**
Staff expenses are distributed as follows:		
Production costs	162,986	123,036
Research and development costs	130,365	150,210
Distribution costs	20,630	19,058
Administrative costs	91,349	96,202
Staff costs	**405,330**	**388,506**
Average number of employees converted to full-time	465	421
Number of employees as of December 31 converted to full-time	491	419

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	2019	2018
Staff costs include the following costs:		
Board of Directors:		
Remuneration	3,883	3,779
Share-based payment	1,350	1,200
Remuneration to Board of Directors	**5,233**	**4,979**
Executive Management:		
Salary	5,061	7,715
Paid bonus	869	2,388
Other employee benefits	649	787
Contribution based pension	–	204
Share-based payment	5,483	9,120
Salary and benefits in the notice period	–	3,611
Corporate Management	**12,062**	**23,825**
Salary	8,126	5,364
Paid bonus	960	696
Other employee benefits	484	350
Contribution based pension	827	536
Share-based payment	6,316	5,166
Other Executive Management	**16,713**	**12,112**
Remuneration to Executive Management	**28,775**	**35,937**
Total management remuneration	**34,008**	**40,916**

CEO and President of the Company Paul Chaplin constitutes the Corporate Management in the Parent Company. Former CFO Ole Larsen was also part of Corporate Management until his resignation July 31, 2018.

CFO Henrik Juuel, COO Henrik Birk and CBO Tommi Kainu constitute the Other Executive Management.

Restricted stock units

In March 2019 Corporate Management was granted 6,043 restricted stock units (excl. matching shares) (4,063 restricted stock units) corresponding to a value of DKK 0.9 million (DKK 1.0 million) at grant. Other Executive Management was granted 6,679 restricted stock units (excl. matching shares) (2,847 restricted stock units) corresponding to a value of DKK 1.0 million (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 2019, the members of the Board of Directors were granted in total 9,765 restricted stock units (6,857 restricted stock units) corresponding to 50% of their fixed fee amounting to DKK 1.4 million (DKK 1.2 million).

For further description of restricted stock units see note 30.

Warrants

In November 2019 Corporate Management was granted 78.201 warrants (57,749 warrants) with a fair value of DKK 3.6 million (DKK 3.0 million). Other Executive Management was granted 105.161 warrants (117,295 warrants) with a fair value of DKK 4.8 million (DKK 6.1 million). Fair value calculated based on Black-Scholes, cf. note 30.

Incentive programs for the Executive Management and other employees are disclosed in note 30.

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	2019	2018
Depreciation and amortization included in:		
Production costs	31,411	30,223
Research and development costs	2,529	2,564
Administrative costs	23,105	8,852
Depreciation and amortization	**57,045**	**41,639**
Hereof (profit)/loss from disposed fixed assets	–	–

Depreciations have increased as significant IT-investments were capitalized during 2018 and 2019.

Note 10

Fees to auditor appointed at the annual general meeting

DKK thousand	2019	2018
Audit of financials statements	1,300	1,199
Other assurance services	421	135
Tax advisory	877	605
Other services	231	175
Fees	**2,829**	**2,114**

The fee for non-audit services provided to the Group by Deloitte Statsautoriseret Revisionspartnerselskab, Denmark, amounted to DKK 0.9 million (DKK 0.6 million) and consisted of assistance with compliance reviews, and other accounting and tax advisory services.

Fees related to the ongoing rights issue process amount to DKK 0.3 million. In 2019 and 2018 the tax advisory included assistance related to the transfer pricing audit, described in note 13.

Note 11

Financial income

DKK thousand	2019	2018
Financial income from bank and deposit contracts	602	842
Interest income from financial assets measured at amortized cost	602	842
Financial income from securities	16,435	21,765
Net gains on derivative financial instruments at fair value through the income statement	5,503	–
Net foreign exchange gains	–	12,366
Financial income	**22,540**	**34,973**

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

Note 12

Financial expenses

DKK thousand	2019	2018
Interest expenses on debt	18,490	14,531
Interest expenses on financial liabilities measured at amortized cost	18,490	14,531
Fair value adjustments on securities	15,330	18,667
Net loss on derivative financial instruments at fair value through the income statement	–	3,928
Net foreign exchange losses	5,023	–
Financial expenses	**38,843**	**37,126**

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	2019	2018
Tax recognized in the income statement		
Current tax on profit for the year	3,121	4,004
Adjustments to current tax for previous years	(1,093)	1,288
Current tax	**2,028**	**5,292**
Deferred tax	–	–
Tax for the year recognized in the income statement	**2,028**	**5,292**
Tax on income for the year is explained as follows:		
Income before company tax	(344,749)	(356,635)
Calculated tax (22.0%) on income before company tax	(75,845)	(78,460)
Tax effect on:		
Different tax percentage in foreign subsidiaries	(1,321)	9
Non-recognized deferred tax asset on current year losses in foreign subsidiaries	5,458	3,835
Income ()/expenses that are not taxable/deductible for tax purposes	1,755	1,100
Change in non-recognized deferred tax asset	(10,139)	–
Write-down of deferred tax asset	83,213	77,520
Adjustments to current tax for previous years	(1,093)	1,288
Tax on income for the year	**2,028**	**5,292**
Tax recognized in other comprehensive income	–	–
Tax recognized in equity	–	–

Tax on income is an expense of DKK 2.0 million (DKK 5.3 million), corresponding to a negative effective tax rate of 0.6% (-1.5%). The effective tax rates for 2018 and 2019 were impacted by write-down of the tax asset. The effective tax rate 2019 was also impacted by the change in non-recognized tax asset related to write-down of CV301.

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 asset.

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

2019

DKK thousand	January 1, 2019	Recognized in the income statement	Recognized in equity	December 31, 2019
Intangible assets	3,703	(1,663)	–	2,040
Property, plant and equipment	15,515	7,078	–	22,593
Right-of-use assets	–	55	–	55
Development projects for sale	17,420	15,026	–	32,446
Accrued project costs	(7,335)	6,545	–	(790)
Financial instruments	78	–	(581)	(503)
Share-based payment	4,154	4,419	–	8,573
Tax losses carried forward	310,359	51,753	–	362,112
Write-down	(343,894)	(83,213)	581	(426,526)
Recognized deferred tax assets	**–**	**–**	**–**	**–**

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 projects 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	**–**	**–**	**–**	**–**	**–**

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 362.2 million (DKK 310.4 million), whereas the tax value of non-recognized temporary deductible differences amounts to DKK 64.4 million (DKK 33.5 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 91.3 million (DKK 88.1 million) of which DKK 9.1 million (DKK 9.4 million) relates to state tax and DKK 82.2 million (DKK 78.7 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 77.5 million (DKK 70.3 million) of which DKK 39.2 million (DKK 34.7 million) relates to state tax and DKK 38.3 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

In April 2018 the Danish tax authority ("Skattestyrelsen") notified the Company that Skattestyrelsen was 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. During 2018 and 2019 the Company has been in dialogue with Skattestyrelsen regarding the proposal. On July 1, 2019, Skattestyrelsen decided to withdraw the proposed adjustment. The transfer pricing tax audit for 2012-2016 has thereby been completed without any changes to taxable income.

Note 14

Earnings per share (EPS)

DKK thousand	2019	2018
Net profit for the year	(346,777)	(361,927)
Earnings per share of DKK 10	(10.7)	(11.2)
Diluted earnings per share of DKK 10	(10.7)	(11.2)
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)	32,340	32,282
Weighted average number of treasury shares (thousand units)	(59)	(27)
Weighted average number of outstanding ordinary shares used in the calculation of basic earnings per share (thousand units)	32,281	32,255
Average dilutive effect of outstanding warrants under incentive schemes	–	–
Weighted average number of outstanding ordinary shares used in the calculation of diluted earnings per share (thousand units)	32,281	32,255
Outstanding warrants that may have an effect on the calculation of diluted earnings per share in the future.		
2019-programs	564,585	–
2018-program	462,835	520,411
2017-programs	323,763	364,340
2016-program	366,690	408,690
2015-program	293,630	297,230
2014-program	118,500	247,000
Outstanding warrants, cf. note 30	**2,130,003**	**1,837,671**

§ 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

				2019
DKK thousand	**Product rights**	**Software**	**Other intangible assets in progress**	**Total**
Costs as of January 1, 2019	–	100,626	119	100,745
Additions	5,458,700	364	2,974	5,462,038
Transfer	–	50	(50)	–
Exchange rate adjustments	–	1	–	1
Cost as of December 31, 2019	**5,458,700**	**101,041**	**3,043**	**5,562,784**
Amortization as of January 1, 2019	–	68,245	–	68,245
Amortization	–	10,282	–	10,282
Exchange rate adjustments	–	2	–	2
Amortization as of December 31, 2019	**–**	**78,529**	**–**	**78,529**
Carrying amount as of December 31, 2019	**5,458,700**	**22,512**	**3,043**	**5,484,255**

Geographical split of intangible assets – 2019

Denmark	5,483,903
Germany	177
USA	175
Total intangible assets	**5,484,255**

Accounting policies

Intangible assets are measured at historic cost less accumulated amortization and impairment losses. Cost of acquired product rights are measured at cash consideration and present value of any deferred payments for those rights including contingent payments if and when they are probable and can be measured reliably. If and when contingent consideration not previous recognized subsequently becomes probably it is recognized at present value and added to the cost of the product rights. Furthermore costs of acquired product rights include transaction costs that are directly attributable to the acqusition.

Internal development projects that meet the requirements for recognition as intangible assets are measured at direct cost relating to the development projects.

Amortization is provided on a straight-line basis over the useful economic lives of the assets.

The useful lives of acquired product rights are estimated to be 20 years and software is estimated to be 3-5 years.

Amortization of acquired product rights is recognized as part of cost of goods sold under production costs.

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. ■

Significant accounting estimates

When determining the amortization period for acquired product rights, Management need to make an assessment of expected useful economic life. In the assessment Management take among other things the following components into consideration: The maturity of the products acquired, development in the market the acquired products are targeting, the current competitors, clinical development of new competing products and entry barriers to the market due to advanced production technology. ■

Note 15
Intangible assets – continued

Acquisition price for product rights

DKK thousand	2019
Upfront payment at closing (EUR 307.6 million)	2,297,680
Directly attributable transaction costs	9,890
Cash outflow in 2019, cf. cash flow statement	2,307,570
Net present value of future probable milestone payments, cf. note 25	3,151,130
Total acquisition price	**5,458,700**

Allocation of acquisition price:	
Rabipur/RabAvert	3,140,250
Encepur	2,318,450
Total acquisition price	**5,458,700**

Product rights
December 31, 2019 the Company acquired the product rights to two commercial products owned by GlaxoSmithKline – Rabipur/RabAvert and Encepur. The products are further described in the Management Commentary.

The products have been on the market for more than 20 years. There is no need to further develop the products. Management assess that it will require up to 10 years of clinical development for competitors to bring a new competing product to the market likewise the production process required to produce these products is highly complex. Based on these factors Management assess that the acquired product rights should be amortized over 20 years.

The acquisition price for the two product rights consist of the upfront payment and the present value of the milestone payments included in the Asset Purchase Agreement with GlaxoSmithKline, see further below. Transaction costs that are directly attributable to the acquisition have also been included in the acquisition price. The upfront payment and the transaction costs have been divided between the two acquired product rights based on a 60%/40% split equal to the revenue split of the two products. The milestone payments, except for the sales milestone, are specific for each product and have been allocated accordingly.

The milestone payments relate to transfer and re-registration of marketing authorizations, technology transfer of different steps of the production and packaging activities as well as a milestone payment when all services agreed to be rendered by GlaxoSmithKline has been completed. In total EUR 470 million. The first milestone payments are expected to be payable at the end of first half of 2020 whereas the majority of the milestone payments are expected to be payable in 2022-2023. The completion milestone is expected to be payable end of 2024. The Asset Purchase Agreement with GlaxoSmithKline also includes a sales milestone of EUR 25 million. As per December 31, 2019 Management does not judge the sales milestone to be probable and therefore the sales milestone has not been recognized as part of the product rights. Deferred consideration for the acquired product rights are described in note 25.

Note 15

Intangible assets – continued

			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**

Other intangible assets in progress include investments in software.

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 improvement	Plant and machinery	Other fixtures and fittings, other plant and equipment	Assets under construction	Total
						2019
Costs as of January 1, 2019	322,500	11,107	301,174	86,895	262,114	983,790
Additions	–	–	–	1,600	358,502	360,102
Transfer	–	–	–	2,515	(2,515)	–
Exchange rate adjustments	1	5	–	62	–	68
Cost as of December 31, 2019	**322,501**	**11,112**	**301,174**	**91,072**	**618,101**	**1,343,960**
Depreciation and impairment losses as of January 1, 2019	143,058	10,060	246,863	65,001	–	464,982
Depreciation	17,116	204	10,046	5,673	–	33,039
Exchange rate adjustments	–	5	–	30	–	35
Depreciation and impairment losses as of December 31, 2019	**160,174**	**10,269**	**256,909**	**70,704**	**–**	**498,056**
Carrying amount as of December 31, 2019	**162,327**	**843**	**44,265**	**20,368**	**618,101**	**845,904**

Geographical split of property, plant and equipment – 2019

Denmark	832,778
Germany	12,043
USA	1,083
Total property, plant and equipment	**845,904**

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

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

Mortgage loans of DKK 25.4 million are secured by mortgages totaling DKK 50.0 million on the property Bøgeskovvej 9/Hejreskovvej 10A, Kvistgaard. In addition, as of December 31, 2019, 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 736.5 million (land and buildings: DKK 162.3 million; plant and machinery: DKK 44.3 million; fill and finish facility under construction: DKK 539.1 million).

Note 16

Property, plant and equipment – continued

						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	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 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**

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

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 457.9 million (land and buildings: DKK 179.4 million; plant and machinery: DKK 54.3 million; fill and finish facility under construction: DKK 225.8 million).

Geographical split of property, plant and equipment – 2018

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

Note 17

Right-of-use-assets

				2019
DKK thousand	**Rent facility**	**Car leasing**	**Equipment**	**Total**
Impact from applying IFRS 16 as of January 1, 2019	80,470	1,736	662	82,868
Additions	–	1,039	306	1,345
Modifications	(10,419)	292	(64)	(10,191)
Depreciations	(11,975)	(1,439)	(310)	(13,724)
Exchange rate adjustments	293	–	(1)	292
Right-of-use assets as of December 31, 2019	**58,369**	**1,628**	**593**	**60,590**

The lease agreement for Bavarian Nordic Inc.'s previous facility in Redwood City, California with a lease term until October 2021 was ceased end of February 2019. The change in the right-of-use-asset is presented as a modification.

Amount included in the income statement

DKK thousand	2019
Interest expense leases	1,771
Depreciation recognized on right-of-use assets	13,724
Cost recognized for short term leases (less than 12 months)	1,507
Income from subleasing right-of-use assets	365

§ Accounting policies

The right-of-use assets comprise the initial measurement of the corresponding lease liability. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses.

All operating leases with a lease term of more than 12 months are recognized on the balance sheet as right-of-use-assets.

For leases with a lease term of less than 12 months the lease payments are recognized as an operating expense on a straight-line basis over the term of the lease.

The right-of-use-assets are measured at the present value of all future lease payments. When assessing the lease term, any extension or termination options are included in the assessment. The options are included in determining the lease term, if exercise is reasonably certain. When determining the discount rates used to calculate the net present value of future lease payments, an incremental country specific borrowing rate are used, based on a government bond plus the Group's credit margin, ranging from 2.5% to 5.0%. A single discount rate is used for a portfolio of lease assets with reasonable similar characteristics. Initial direct costs are not included in measurement of the right-of-use-assets. Non-lease components are not separated from lease components.

Impact from change in lease terms, lease payments or modification of the lease contract is further described in note 27.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the lease. IAS 36 is applied to determine whether a right-of-use asset is impaired and any identified impairment losses are accounted for as described in note 16. ■

Note 18

Development projects for sale

DKK thousand	2019	2018
Development projects for sale January 1	22,200	22,200
Write-down	(22,200)	–
Development projects for sale December 31	**–**	**22,200**
Specification:		
CV301	–	22,040
BN-Brachyury	–	160
Development projects for sale	**–**	**22,200**

On October 18, 2019, the Company announced that the stage 1 of the Phase 2 study evaluating the combination therapy of CV301 for the treatment of patients with locally advanced or metastatic urothelial bladder cancer did not meet the efficacy threshold to progress into stage 2 with expanded enrollment. As a consequence the Company will not invest further in the development of CV301, apart from supporting the continuation of stage 1 of the bladder study and supporting the ongoing investigator led studies. Following this decision the CV301 development project for sale was fully written down. The write-down of DKK 22.2 million was recognized as research and development costs.

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 19

Inventories

DKK thousand	2019	2018
Raw materials and supply materials	39,578	28,391
Work in progress	163,513	156,232
Manufactured goods and commodities	1,727	1,757
Write-down on inventory	(104,056)	(107,692)
Inventories	**100,762**	**78,688**
Write-down on inventory as of January 1	(107,692)	(52,705)
Write-down for the year	(17,824)	(54,987)
Use of write-down	7,683	–
Reversal of write-down	13,777	–
Write-down on inventory as of December 31	**(104,056)**	**(107,692)**
Cost of goods sold amounts to, cf. note 4	87,272	94,557

The increased write-down in 2018 was primarily explained by a provision for the remaining PROSTVAC bulk and finished products as well as a provision for smallpox bulk batches that failed first validation. In 2019 it became clear that none of the four batches could be released for commercial use, but three of the batches were usable for the validation of the freeze-drying production process funded by the U.S. Biomedical Advanced Research and Development Authority and therefore part of the write-down was reversed in 2019.

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 equipment used in production processes and the factory buildings and cost of production administration and management. Amortization of acquired product rights and software also constitute part of the indirect costs of production.

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 20

Trade receivables

DKK thousand	2019	2018
Trade receivables from smallpox vaccine sale	281	–
Trade receivables from contract work	43,124	31,227
Trade receivables	**43,405**	**31,227**

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, 2019. No losses are expected on trade receivables and therefore no loss allowance for trade receivables has been recognized as of December 31, 2019. No loss allowance was recognized as of January 1, 2019 or January 1, 2018. 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 21

Other receivables

DKK thousand	2019	2018
Deposits	1,445	1,372
Receivable VAT and duties	24,188	10,669
Derivative financial instruments at fair value	3,530	–
Interest receivables	664	10,676
Other receivables	5	–
Other receivables	**29,832**	**22,717**
Classified as:		
Non-current assets	1,445	1,372
Current assets	28,387	21,345
Other receivables	**29,832**	**22,717**

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 22

Prepayments

DKK thousand	2019	2018
Incurred project costs related to subsequent years	3,591	33,343
Other prepayments	5,598	4,239
Prepayments	**9,189**	**37,582**

As per December 31, 2019 "Incurred project costs related to subsequent years" related mainly to support qualification of the new fill and finish facility to be funded by BARDA. The project costs will be expensed in 2020 along with revenue recognition.

As per December 31, 2018 "Incurred project costs related to subsequent years" related 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 28). The project costs were expensed in 2019 along with revenue recognition in concurrence with release of the products.

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 23

Other liabilities

DKK thousand	2019	2018
Derivative financial instruments at fair value	1,243	388
Liability relating to phantom shares	1,135	275
Payable salaries, holiday accrual etc.	58,755	58,403
Deposit and prepaid rent from sub-tenants	–	1,379
Other accrued costs	18,672	36,485
Other liabilities	**79,805**	**96,930**

For a further description of financial instruments see note 24. The phantom share programs are described in note 30.

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 30.

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 24

Financial risks and financial instruments

DKK thousand	2019	2018
Categories of financial instruments		
Trade receivables	43,405	31,227
Other receivables	26,302	22,717
Cash and cash equivalents	297,545	266,658
Financial assets measured at amortized cost	**367,252**	**320,602**
Securities	174,819	1,804,124
Transferred securities that are not derecognized	–	246,432
Financial assets measured at fair value through the income statement	**174,819**	**2,050,556**
Derivative financial instruments to hedge future cash flows (exchange rate)	3,530	–
Financial assets used as hedging instruments	**3,530**	**–**
Deferred consideration for product rights	3,151,130	–
Debt to credit institutions	1,770,559	399,761
Lease liabilities	61,400	–
Security lending (repo transactions)	–	246,729
Trade payables	112,088	93,962
Other liabilities	77,427	96,267
Financial liabilities measured at amortized cost	**5,172,604**	**836,719**
Derivative financial instruments at fair value through the income statement (repo transactions)	–	31
Liability relating to phantom shares	1,135	275
Financial liabilities measured at fair value through the income statement	**1,135**	**306**
Derivative financial instruments to hedge future cash flows (interest)	1,243	357
Financial liabilities used as hedging instruments	**1,243**	**357**

§ 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.

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 Company's investment policy.

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

Note 24

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 is expected 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
2019				
EUR	10,586	1,120	(4,585,427)	(4,573,721)
USD	86,171	63,511	(20,074)	129,608
2018				
EUR	17,633	695	(19,144)	(816)
USD	108,631	60,630	(35,867)	133,394

Sensitivity analysis on exchange rates

DKK thousand	Likely change in exchange rate	Hypothetical change in equity	Hypothetical change in profit
2019			
Change if higher USD-rate than actual rate	15%	(45,663)	20,335
Change if higher EUR-rate than actual rate	1%	(45,221)	(46,416)
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)

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 24

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 of December 31, 2019 or as per December 31, 2018 not designated as hedge accounting.

Hedging of expected future cash flows

In December 2019 the Company concluded a currency forward contract of USD 90 million to hedge the main part of the income from sale of the Priority Review Voucher. The concluded currency forward contract is deemed to be 100% effective. The currency forward contract was settled on January 27, 2020 when the Company received the cash consideration from sale of the Priority Review Voucher, cf. note 32.

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 – forward currency contracts

DKK thousand	Forward price	Contract amount based on agreed rates	Fair value as of December 31	Fair value adjustment recognized in other comprehen-sive income
2019				
Forward currency contract (USD/DKK)	6,68	601,155	3,530	3,530
			3,530	**3,530**

Cash flow hedge – interest rate swap

DKK thousand	Contract amount based on agreed rates	Fair value as of December 31	Fair value adjustment recognized in other comprehensive income
2019			
Interest rate swap			
DKK – fixed rate 0.9625% p.a. (expiry 2031)	25,578	(1,243)	(886)
		(1,243)	**(886)**
2018			
Interest rate swap			
DKK – fixed rate 0.9625% p.a. (expiry 2031)	27,685	(357)	(228)
		(357)	**(228)**

Cash risks

The Group´s bank deposits are placed in deposit accounts without restrictions. The Group's cash and cash equivalents totaled DKK 297.5 million as of December 31, 2019 (DKK 266.7 million).

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

Note 24

Financial risks and financial instruments – continued

Bond portfolio	2019		2018	
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%
Within 3-5 years	43,443	-0.3%	408,684	-0.2%
After 5 years	131,376	0.1%	511,096	1.2%
Total	**174,819**	**0.0%**	**2,050,556**	**0.1%**

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 25.5 million on the Group´s profit and equity (DKK 33.1 million). A corresponding decrease in the interest rate level would have had a positive impact of DKK 25.5 million on profit and equity (DKK 33.1 million).

Maturity of financial liabilities (including interest)				2019
DKK thousand	**Due within 1 year**	**Due between 1 and 5 years**	**Due after 5 years**	**Total**
Deferred consideration for product rights[1)]	469,844	3,062,577	–	3,532,421
Credit institutions	1,401,839	407,829	15,057	1,824,725
Lease liabilities	14,032	44,538	6,855	65,425
Trade payables	112,088	–	–	112,088
Other liabilities	78,562	–	–	78,562
Non-derivative financial liabilities	**2,076,365**	**3,514,944**	**21,912**	**5,613,221**
Derivative financial liabilities	**1,243**	**–**	**–**	**1,243**

[1)] Further explained in note 25.

Maturity of financial liabilities (including interest)				2018
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**

Note 24

Financial risks and financial instruments – continued

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, which is unsecured, was fully utilized in October 2017 with a net proceed of DKK 372.2 million. The loan is a five year bullet loan with 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 and 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 Company will have up to 24 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, 2019 the balance remains unused.

On October 21, 2019, the Company entered into a committed bridge loan facility agreement with Citi and Nordea as lenders pursuant to which the lenders have granted a EUR 185 million bridge loan to the Company. The Bridge Loan was utilised on December 30, 2019 and the proceeds were applied towards partly financing the upfront payment of the acquisition of product rights from GlaxoSmithKline, EUR 307.6 million paid in cash on December 31, 2019. The final maturity date of the Bridge Loan is June 30, 2020, six months after the date of completion of the acquisition agreement concluded with GlaxoSmithKline.

The Company may at its sole discretion request a three month extension, provided that no event of default has occurred.

The bridge loan is subject to interest calculated as the aggregate of a variable base rate and a margin. The base rate is EURIBOR which is based on the interbank market rate for EUR. The margin is adjusted up-wards during the tenor of the bridge loan ranging from initially 1.25% to 2.75% p.a.

The Group has a credit facility of DKK 20 million (DKK 20 million) at Nordea. As of December 31, 2019, DKK 0.1 million (DKK 0.3 million) of the credit facility is utilized for bank guarantees.

Credit risks

The primary credit risk relates to trade receivables. The Company 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 Company 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, 2019 and December 31, 2018, 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 strategy and growth target. The capital structure will be assessed again post the planned rights issue and repayment of the bridge loan.

Note 24

Financial risks and financial instruments – continued

Transferred financial assets that are not derecognized

In 2018 the Company entered into transactions that transfered ownership of securities to a counterparty, while the Company retained the risks associated with the holding of the securities. As the Company retained all risks, the securities remained in the balance sheet, and the transactions were accounted for as loans received against collateral (repo transactions and security lending). The transactions involved selling the securities to be repurchased at a fixed price at a later date. Counterparties were entitled to sell the securities or deposit them as collateral for loans. The last repo transactions were settled in January 2019.

DKK thousand	2019	2018
Net position repo transactions		
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			2019
DKK thousand	**Level 1**	**Level 2**	**Total**
Securities	174,819	–	174,819
Financial assets measured at fair value through the income statement	**174,819**	**–**	**174,819**
Derivative financial instruments to hedge future cash flow (currency)	–	3,530	3,530
Derivative financial instruments to hedge future cash flow (interest)	–	(1,243)	(1,243)
Financial assets/liabilities used as hedging instruments	**–**	**(2,287)**	**(2,287)**
Liability relating to phantom shares	–	(1,135)	(1,135)
Financial liabilities measured at fair value through the income statement	**–**	**(1,135)**	**(1,135)**

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)**
Derivative financial instruments at fair value (repo transactions)	–	(31)	(31)
Liability relating to phantom shares	–	(275)	(275)
Financial liabilities measured at fair value through the income statement	**–**	**(306)**	**(306)**

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 25

Deferred consideration for product rights

DKK thousand	Due within 1 year	Due between 1 and 5 year	Due after 5 year	Total
2019				
Deferred consideration for product rights	459,730	2,691,400	–	3,151,130
Total	**459,730**	**2,691,400**	**–**	**3,151,130**

The Asset Purchase Agreement with GlaxoSmithKline includes milestone payments relating to transfer and re-registration of marketing authorizations, technology transfer of different steps of the production and packaging activities as well as a milestone payment when all services agreed to be rendered by GlaxoSmithKline has been completed. In total EUR 470 million. The first milestone payments are expected to be payable at the end of first half of 2020 whereas the majority of the milestone payments are expected to be payable in 2022-2023. The completion milestone is expected to be payable end of 2024.

The Asset Purchase Agreement with GlaxoSmithKline also includes a sales milestone of EUR 25 million.

As per December 31, 2019 Management does not judge the sales milestone to be probable and therefore the sales milestone has not been recognized as either part of the product rights (note 15) nor the deferred consideration for product rights.

The carrying amount has been measured using a discount rate of 4% per annum. The discount rate has been determined based on an interest rate on a similar loan of the same size and maturity as the contingent milestone payments and the Company's credit rating as of December 31, 2019.

The cash flow from payment of deferred consideration for product rights will be recognized as cash flow from investment activities.

Accounting policies

Deferred consideration including contingent milestone payments for product rights is recognized when its payment is probable and it can be measured reliably and is at initial recognition measured at fair value which equals present value of future deferred payments. Subsequently, the deferred consideration is measured at amortized cost. This means that the difference between the present value of the consideration and the nominal amounts due is recognized in the income statement as a financial expense over the period until expected payment date using the effective interest method.

The expected phasing of future payments and the probability of contingent payments are assessed on each reporting date. ■

Note 26

Debt to credit institutions

DKK thousand	Due within 1 year	Due between 1 and 5 year	Due after 5 years	Total
2019				
Bridge loan[1]	1,372,953	–	–	1,372,953
Mortgage[2]	2,163	8,651	14,597	25,411
European Investment Bank (loan in DKK)[3]	–	372,195	–	372,195
Total	**1,375,116**	**380,846**	**14,597**	**1,770,559**
2018				
Mortgage [2]	2,148	8,601	16,817	27,566
European Investment Bank (loan in DKK)[3]	–	372,195	–	372,195
Security lending (repo transactions)	246,729	–	–	246,729
Total	**248,877**	**380,796**	**16,817**	**646,490**

[1] Variable interest, the base rate is EURIBOR plus a margin adjusted up-wards during the tenor of the bridge loan ranging from initially 1.25% to 2.75%

[2] Floating interest – swapped to fixed interest of 0.9625% – expiry 2031

[3] Fixed interest of 3.532% – bullet loan with expiry 2022

The fair value of the debt to credit institutions amounts to DKK 1,779.5 million (DKK 646.7 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 bridge loan, the European Investment Bank loan 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).

The bridge loan will be repaid once the planned rights issue with an expected net proceed of EUR 350 million has completed. At the extraordinary General Meeting held November 27, 2019 the Board of Directors was authorized, until June 30, 2020, to increase the share capital of the Company with pre-emptive rights for the existing shareholders.

The tables detail changes in the Group's liabilities arising from financing activities, both cash and non-cash changes. 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.

Cash flow from financing activities

DKK thousand	January 1, 2019	Cash movement	Non- cash movement	December 31, 2019
2019				
Bridge loan	–	1,372,953	–	1,372,953
Mortgage	27,566	(2,155)	–	25,411
European Investment Bank (loan in DKK)	372,195	–	–	372,195
Security lending (repo transactions)	246,729	(246,729)	–	–
Lease liabilities[1]	82,868	(12,923)	(8,545)	61,400
Total liabilities from financing activities	**729,358**	**1,111,146**	**(8,545)**	**1,831,959**

[1] Lease liabilities as of January 1, 2019 (DKK 82,868 thousand) reflects impact from applying IFRS 16 as of January 1, 2019.

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**

Accounting policies

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

Note 27

Lease liabilities

Accounting policies

The lease liability is initially measured at the present value of the future lease payments (see further in note 17), discounted by using an incremental country specific borrowing rate ranging from 2.5% to 5.0% applying only a single discount rate for a portfolio of lease assets with reasonable similar characteristics.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability usind the effective intest method and by reducing the carrying amount to reflect the lease payments made.

The lease liability is remeasured and corresponding adjustments are made to the related right-of-use-asset whenever:

- The lease term has changed, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate
- The lease payments change due to changes in an index or rate, in which case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate
- A lease contract is modified and the lease modification is not accounted for as a seperate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification. ■

DKK thousand	2019
Non-current	47,549
Current	13,851
Lease liabilities	**61,400**

DKK thousand	Due within 1 year	Due between 1 and 5 year	Due after 5 years	Total
2019				
Lease liabilities	13,851	40,772	6,777	61,400
Total	**13,851**	**40,772**	**6,777**	**61,400**

Note 28

Prepayment from customers

DKK thousand	2019	2018
Prepayment from customers as of January 1	41,818	79,617
Prepayments received during the year	35,115	29,075
Recognized as revenue during the year	(70,302)	(66,874)
Prepayment from customers as of December 31	**6,631**	**41,818**

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. In 2018, the Company received prepayments of DKK 14.7 million related to production activities conducted in 2018. In the beginning of 2019, the Company received the last prepayments (DKK 35.1 million) related to the production activities. All prepayments were recognized as revenue in 2019 when the products were released. As per December 31, 2019, no recognition of revenue was outstanding. See also description in note 22.

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 had received prepayments of DKK 14.4 million related to production activities conducted in 2018. The prepayment was recognized as revenue in 2019 when the products were released. As per December 31, 2019, no recognition of revenue was outstanding. See also description in note 22.

In May 2016, Biomedical Advanced Research and Development Authority (BARDA) placed the second bulk supply order of smallpox vaccine 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. The remaining part of the prepayment related to storage was recognized as revenue in 2019. As per December 31, 2019, the Company has no recognition of revenue 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, 2019, recognition of DKK 3.1 million in revenue is outstanding. The recognition of revenue will occur in concurrence with work performed towards the next milestone event expected in 2020. 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, 2019, recognition of DKK 3.5 million in revenue is outstanding. The recognition of revenue will occur in concurrence with work performed towards the next milestone event under each program. The next milestone event is not expected until earliest 2021. There is no repayment obligation.

The recognition of revenue is described in note 3.

Accounting policies

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

Note 29

Related party transactions

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

Besides the remuneration of the Board of Directors and the Executive Management, cf. note 8, and the share-based payments, cf. note 30, there are no transactions with related parties.

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

Note 30

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 30

Share-based payment – continued

Warrant overview – 2019	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 2014	247,000	–	(78,500)	–	(50,000)	118,500	118,500	131
December 2015	297,230	–	–	(3,600)	–	293,630	293,630	367
December 2016	408,690	–	–	(42,000)	–	366,690	–	260
July 2017	26,955	–	–	–	–	26,955	–	430
November 2017	337,385	–	–	(40,577)	–	296,808	–	303
November 2018	520,411	–	–	(57,576)	–	462,835	–	180
November 2019	–	564,585	–	–	–	564,585		185
Total	**1,837,671**	**564,585**	**(78,500)**	**(143,753)**	**(50,000)**	**2,130,003**	**412,130**	

Warrant overview – 2019	Outstanding as of January 1	Additions	Exercised	Annulled	Terminated	Transferred	Outstanding as of December 31
Corporate Management	262,590	78,201	–	–	–	–	340,791
Other Executive Management	221,172	105,161	–	–	–	–	326,333
Other employees	1,065,467	381,223	(18,500)	(143,753)	–	–	1,284,437
Resigned employees	288,442	–	(60,000)	–	(50,000)	–	178,442
Total	**1,837,671**	**564,585**	**(78,500)**	**(143,753)**	**(50,000)**	**–**	**2,130,003**
Weighted average exercise price (DKK)	**248**	**185**	**131**	**242**	**131**	**–**	**239**
Weighted average share price at exercise (DKK)			**175**				

Number of warrants which can be exercised as of December 31, 2019	412,130
at a weighted average exercise price of DKK	299

Note 30

Share-based payment – continued

Warrant overview – 2018	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

Specification of parameters for Black-Scholes model	Aug. 2014	Dec. 2015	Dec. 2016	Jul. 2017	Nov. 2017	Nov. 2018	Nov.2019
Average share price	117.50	334.00	222.50	383.50	259.50	159.00	154.05
Average exercise price at grant	131.40	366.85	260.20	430.45	303.03	179.60	185.43
Expected volatility rate	39.7%	53.8%	44.6%	44.1%	52.4%	53.3%	52.2%
Expected life (years)	3.3	3.3	3.0	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%)	(0.69%)
Fair value at grant[1)]	29	115	54	98	80	52	45

[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 2019 DKK 21.4 million compared to DKK 30.2 million in 2018.

Note 30
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 2019	Annual Report 2022	Interim Report Q1 2023	Interim Report Q2 2023	Interim Report Q3 2023
	Annual Report 2023	Interim Report Q1 2024	Interim Report Q2 2024	Interim Report Q3 2024
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 Interim Report Q3 2019	Annual Report 2017 Annual Report 2018 Annual Report 2019	Interim Report Q1 2018 Interim Report Q1 2019 Interim Report Q1 2020	Interim Report Q2 2018 Interim Report Q2 2019

Phantom shares

In 2015, the Company established a three-year phantom share program covering all employees in the Group. The employees receive up to six phantom shares per month free of charge during the period from January 1, 2016 to December 31, 2018. Each employee who was a full-time employee during the entire term of the plan was eligible to receive a maximum of 216 phantom shares. The program expired without exercise in January 2019.

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.

In 2018, 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, 2019 to December 31, 2021. 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 2019, 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, 2020 to December 31, 2022. 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.

Note 30
Share-based payment – continued

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.

2019-2021 phantom share program	2019
Outstanding as of January 1	–
Granted during the year	19,213
Outstanding phantom shares as of December 31	**19,213**
Liability in DKK thousand as of December 31	**864**
Specification of parameters for Black-Scholes model	
Share price December 31	171
Average share exercise price	180
Expected volatility rate	51%
Expected life (years)	2.0
Expected dividend per share	–
Risk-free interest rate p.a.	(0.17%)

The expected volatility is based on the historic volatility.

The expense in respect of phantom shares granted in 2019 provided a cost of DKK 0.9 million.

The liability is included in other liabilities, cf. note 23.

2018-2020 phantom share program	2019	2018
Outstanding as of January 1	17,644	–
Granted during the year	19,125	17,644
Outstanding phantom shares as of December 31	**36,769**	**17,644**
Liability in DKK thousand as of December 31	**271**	**145**
Specification of parameters for Black-Scholes model		
Share price December 31	171	127
Average share exercise price	303	303
Expected volatility rate	51%	52%
Expected life (years)	1.0	2.0
Expected dividend per share	–	–
Risk-free interest rate p.a.	(0.21%)	0.02%

The expected volatility is based on the historic volatility.

Phantom shares granted in 2019 provided an expense of DKK 0.1 million, whereas the revaluation of previously granted phantom shares provided an income of DKK 0.0 million, total expense DKK 0.1 million (net expense 2018: DKK 0.1 million).

The liability is included in other liabilities, cf. note 23.

Note 30

Share-based payment – continued

2017-2019 phantom share program	2019	2018	2017
Outstanding as of January 1	35,772	18,234	–
Granted during the year	19,085	17,538	18,234
Outstanding phantom shares as of December 31	**54,857**	**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	171	127	224
Average share exercise price	260	260	260
Expected volatility rate	51%	52%	52%
Expected life (years)	–	1.0	2.0
Expected dividend per share	–	–	–
Risk-free interest rate p.a.	(0.30%)	(0.07%)	0.05%

The expected volatility is based on the historic volatility.

Phantom shares granted in 2019 provided an expense of DKK 0.0 million, whereas the revaluation of previously granted phantom shares provided an income of DKK 0.1 million, total net income of DKK 0.1 million (net income 2018: DKK 0.8 million).

The liability is included in other liabilities, cf. note 23.

The 2017-2019 program will exercise in January 2020 if the average share price for the period January 1 – January 15, 2020 will exceed the exercise price of DKK 260.20. Otherwise the program will expire without exercise.

2016-2018 phantom share program	2019	2018	2017	2016
Outstanding as of January 1	88,260	59,002	29,082	–
Granted during the year	–	29,258	29,920	29,082
Expired during the year	(88,260)	–	–	–
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.

The 2016-2018 program expired in January 2019 without exercise as the actual share price was below the exercise price of DKK 366.85.

Reversal of the phantom share program provided an income of DKK 0.0 million (net income 2018: DKK 0.8 million).

Note 30

Share-based payment – continued

Restricted stock units

In March 2019, 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 1.8 million into 12,722 unconditional restricted stock units using the share price of the Company at grant date (DKK 144). 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 6,362. The initial granted restricted stock units and the potential matching shares total 19,084 shares.

At the annual general meeting in April 2019, the Board of Directors were granted a total of 9,765 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.

In May/June 2019, the Company bought back 28,849 of its own shares to meet the obligation to deliver up to 28,849 shares to the members of the Executive Management and the Board of Directors in March/April 2022.

Outstanding restricted stock units **2019**

	Outstanding as of January 1	Granted during the year	Released during the year	Outstanding as of December 31	Value at grant date (DKK)	Vesting date
Executive Management						
Conversion of cash bonus for 2018	–	12,722	–	12,722	144	Mar. 2022
Matching shares - bonus 2018	–	6,362	–	6,362	144	Mar. 2022
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	**40,123**	**19,084**	**(11,144)**	**48,063**		
Board of Directors						
Fee 2019	–	9,765	–	9,765	138	Apr. 2022
Fee 2018	6,857	–	–	6,857	175	Apr. 2021
Fee 2017	3,693	–	–	3,693	365	Apr. 2020
Board of Directors	**10,550**	**9,765**	**–**	**20,315**		
Total	**50,673**	**28,849**	**(11,144)**	**68,378**		

The grant of the initial restricted stock units to the Executive Management (12,722 shares) had no impact on the income statement for 2019, as the corresponding cash bonus (DKK 1.8 million) was accrued in 2018, 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 0.9 million measured at the same fair value as the initial restricted stock units (DKK 144). The obligation will be expensed over the three year vesting period. During 2019, DKK 2.8 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 (9,765 shares – DKK 1.4 million) were fully expensed at grant.

Note 30

Share-based payment – continued

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 incl. matching shares	–	10,150	10,150	156	Nov. 2021
Conversion of cash bonus for 2017 incl. matching shares	–	10,366	10,366	244	Mar. 2021
Conversion of cash bonus for 2016 incl. matching shares	8,463	–	8,463	292	Mar. 2020
Conversion of cash bonus for 2015 incl. matching shares	11,144	–	11,144	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**		

Total share-based payments

DKK thousand	2019	2018
Warrants	21,437	30,229
Restricted stock units	4,152	4,898
Share-based payment recognized directly in equity	**25,589**	**35,127**
2019-2021 phantom share program	864	–
2018-2020 phantom share program	126	145
2017-2019 phantom share program	(130)	(823)
2016-2018 phantom share program	–	(770)
2015-2017 phantom share program	–	234
Share-based payment recognized as a liability (change during the year)	**860**	**(1,214)**
Total share-based payment expensed, cf. note 8	**26,449**	**33,913**

Note 31

Contingent liabilities and other contractual obligations

DKK thousand	2019	2018
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
– Due between 1 and 5 years	–	1,042
Minimum leasing cost recognized in net profit for the year	–	1,940
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
– Due between 1 and 5 years	–	29,171
Minimum rental cost recognized in net profit for the year	–	20,337

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 in 2018. In February 2019 both the lease agreeement with the landlord and the sub-lease agreement were ceased. No further obligations exists.

With effect from January 1, 2019, operational leasing and rent commitments have been recognized as a lease obligation in accordance with IFRS 16 Leases, see note 27.

DKK thousand	2019	2018
Collaborative agreements		
Contractual obligations with research partners for long-term research projects.		
– Due within 1 year	36,884	29,646
– Due between 1 and 5 years	–	7,826

DKK thousand	2019	2018
Other contractual obligations		
– Due within 1 year	14,088	12,055
– Due between 1 and 5 years	9,615	8,118

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 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).

Sales milestone to GlaxoSmithKline

The Asset Purchase Agreement with GlaxoSmithKline regarding the acquisition of the product rights to Rabipur/RabAvert and Encepur includes a sales milestone of EUR 25 million. As per December 31, 2019 Management does not judge the sales milestone to be probable and therefore the sales milestone has not been recognized as either part of the product rights (note 15) nor the deferred consideration for product rights (note 25).

Tax audit

In April 2018 the Danish tax authority ("Skattestyrelsen") notified the Company that Skattestyrelsen was 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. During 2018 and 2019 the Company has been in dialogue with Skattestyrelsen regarding the proposal. On July 1, 2019, Skattestyrelsen decided to withdraw the proposed adjustment. The transfer pricing tax audit for 2012-2016 has thereby been completed without any changes to taxable income.

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 32

Significant events after the balance sheet date

On January 27, 2020, the Company announced the completion of the sale of its Priority Review Voucher (PRV) to an undisclosed buyer. Upon completion, the Company received a cash consideration of USD 95 million.

Except as noted above, there have been no significant events between December 31, 2019 and the date of approval of these financial statements that would require a change to or additional disclosure in the financial statements.

Note 33

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 February 20, 2020.

CONTENTS

FINANCIAL STATEMENTS – PARENT

FINANCIAL STATEMENTS OF THE PARENT COMPANY

NOTES

Income Statements

For the years ended December 31, 2019 and 2018

DKK thousand	Note	2019	2018
Revenue	2	661,056	500,550
Production costs	4,5	355,212	255,731
Gross profit		**305,844**	**244,819**
Sales and distribution costs	4	54,121	34,058
Research and development costs	3,4,5	420,426	405,084
Administrative costs	4,5	224,729	183,272
Total operating costs		**699,276**	**622,414**
Income before interest and tax (EBIT)		**(393,432)**	**(377,595)**
Income from investments in subsidiaries	12	8,955	13,870
Financial income	6	49,529	71,090
Financial expenses	7	95,200	45,844
Income before company tax		**(430,148)**	**(338,479)**
Tax on income for the year	8	–	–
Net profit for the year	22	**(430,148)**	**(338,479)**

Notes with reference to the consolidated financial statements	**Note**
Revenue	3
Production costs	4
Sales and distribution costs	5
Administrative costs	7

Statements of Financial Position – Assets

December 31, 2019 and 2018

DKK thousand	Note	2019	2018
Non-current assets			
Product rights		5,458,700	–
Software		22,336	31,990
Other intangible assets in progress		2,868	119
Intangible assets	9	**5,483,904**	**32,109**
Land and buildings		161,879	178,895
Leasehold improvements		–	72
Plant and machinery		44,265	54,311
Other fixtures and fittings, other plant and equipment		12,067	11,817
Assets under construction		614,566	262,114
Property, plant and equipment	10	**832,777**	**507,209**
Right-of-use assets	11	**19,251**	**–**
Investments in subsidiaries	12	129,415	120,015
Other receivables		1,184	1,182
Financial assets		**130,599**	**121,197**
Deferred tax assets	8	**–**	**–**
Total non-current assets		**6,466,531**	**660,515**

DKK thousand	Note	2019	2018
Current assets			
Development projects for sale	13	**–**	**68,300**
Inventories	14	**100,072**	**78,037**
Trade receivables		35,465	30,532
Receivables from subsidiaries		116	–
Other receivables		27,660	20,650
Prepayments		8,810	37,490
Receivables		**72,051**	**88,672**
Securities		174,819	2,050,556
Cash and cash equivalents		287,398	255,880
Securities, cash and cash equivalents		**462,217**	**2,306,436**
Total current assets		**634,340**	**2,541,445**
Total assets		**7,100,871**	**3,201,960**

Statements of Financial Position – Equity and Liabilities

December 31, 2019 and 2018

DKK thousand	Note	2019	2018
Equity			
Share capital		323,891	323,106
Treasury shares		(684)	(507)
Retained earnings		1,421,739	1,835,326
Reserve for development costs		15,366	21,039
Other reserves		102,506	81,024
Equity		**1,862,818**	**2,259,988**
Liabilities			
Deferred consideration for product rights		2,691,400	–
Credit institutions		395,443	397,613
Lease liabilities	15	13,844	–
Non-current liabilities		**3,100,687**	**397,613**
Deferred consideration for product rights		459,730	–
Credit institutions		1,375,116	248,877
Lease liabilities	15	5,658	–
Prepayment from customers	16	6,631	27,116
Trade payables		103,460	91,226
Payables to subsidiaries		118,602	114,267
Other liabilities	17	68,169	62,873
Current liabilities		**2,137,366**	**544,359**
Total liabilities		**5,238,053**	**941,972**
Total equity and liabilities		**7,100,871**	**3,201,960**

Statements of Changes in Equity

December 31, 2019

DKK thousand	Share capital	Treasury shares	Retained earnings	Reserve for development costs	Other reserves	Equity
Equity as of January 1, 2019	323,106	(507)	1,835,326	21,039	81,024	2,259,988
Net profit for the year	–	–	(430,147)	–	–	(430,147)
Exchange rate adjustments	–	–	101	–	–	101
Change in fair value of financial instruments entered into to hedge future cash flows	–	–	–	–	2,643	2,643
Tax on equity posting	–	–	–	–	–	–
Share-based payment	–	–	–	–	25,589	25,589
Warrant program exercised	785	–	11,814	–	(2,284)	10,315
Warrant recharged	–	–	1,124	–	–	1,124
Warrant program expired	–	–	1,455	–	(1,455)	–
Costs related to issue of new shares	–	–	(2,219)	–	–	(2,219)
Purchase of treasury shares	–	(288)	(4,288)	–	–	(4,576)
Reserve for development costs	–	111	2,900	–	(3,011)	–
Tax related to items recognizid directly in equity	–	–	5,673	(5,673)	–	–
Equity as of December 31, 2019	**323,891**	**(684)**	**1,421,739**	**15,366**	**102,506**	**1,862,818**

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).

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.

Changes in accounting policies
The accounting policies are unchanged from last year except for the below mentioned.

IFRS 16 Leases
In order to obtain a true and fair view of the Parent Company's assets, liabilities and results, leases are recognized with effect from January 1, 2019, in accordance with IFRS 16 Leases. IFRS 16 does not distinguish between operating and financial leasing, but requires that a leasing asset (right-of-use asset) and a lease liability to be recognized, with the exception of leases with a maturity of less than 12 months (short-term leases) and low value lease assets. In accordance with the Danish Financial Statements Act's transitional provisions, comparative figures have not been adjusted and the cumulative effect of the transition is recognized in equity at the beginning of 2019.

The application of IFRS 16 Leases has the following impact in the Parent Company's financial statements as of December 31, 2019:

- Increase of assets of DKK 19.3 million
- Increase of liabilities (short-term and long-term) of DKK 19.5 million
- Increase of interest costs of DKK 0.5 million.

IFRS 15 Revenue from Contracts with Customers
The Parent Company has implemented IFRS 15 Revenue from Contracts with Customers from January 1, 2019 in accordance with the Danish Financial Statements Act. The application of IFRS 15 has had no impact on the Parent Company's financial statements.

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 2018 are shown in brackets.

Supplementary accounting policies for the Parent Company
Accounting policies for investments in subsidiaries are described in note 12.

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 which significantly affect the amounts recognized in the financial statements:

- Investments in subsidiaries (note 12)
- Receivables from subsidiaries (note12)

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

Note 2

Revenue

DKK thousand	2019	2018
Sale of smallpox vaccine	324,258	360,523
Sale of goods	324,258	360,523
Contract work	336,798	140,027
Sale of services	336,798	140,027
Revenue	**661,056**	**500,550**
Total revenue includes:		
Fair value adjustment concerning financial instruments entered into to hedge revenue	(13,006)	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.

Accounting policies and significant accounting estimates

See consolidated financial statements note 3. ■

Note 3

Research and development costs

DKK thousand	2019	2018
Research and development costs incurred this year	639,362	478,756
Of which:		
Contract costs recognized as production costs	(218,936)	(73,672)
Research and development costs recognized in the income statement	**420,426**	**405,084**

Write-down of the CV301 development project for sale was included by DKK 68.3 million in 2019, cf. note 13.

Accounting policies

See consolidated financial statements note 6. ■

Note 4

Staff costs

DKK thousand	2019	2018
Wages and salaries	213,359	186,518
Contribution based pension	18,632	15,934
Social security expenses	2,041	1,702
Other staff expenses	21,982	19,417
Share-based payment	26,194	34,074
Staff costs	**282,208**	**257,645**
Staff expenses are distributed as follows:		
Production costs	147,763	110,097
Research and development costs	39,005	46,294
Distribution costs	17,027	16,884
Administrative costs	78,413	84,370
Staff costs	**282,208**	**257,645**
Average number of employees converted to full-time	298	252
Number of employees as of December 31 converted to full-time	324	259

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 30.

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	2019	2018
Depreciation and amortization included in:		
Production costs	31,132	29,950
Research and development costs	955	1,052
Administrative costs	14,543	8,286
Depreciation and amortization	**46,630**	**39,288**
Hereof (profit)/loss from disposed fixed assets	–	–

Note 6

Financial income

DKK thousand	2019	2018
Financial income from bank and deposit contracts	602	842
Financial income from subsidiaries	24,192	16,850
Financial income from securities	16,435	21,765
Net gain on derivative financial instruments at fair value in the income statement	5,502	–
Net foreign exchange gains	2,798	31,633
Financial income	**49,529**	**71,090**

Accounting policies

See consolidated financial statements note 11. ■

Note 7

Financial expenses

DKK thousand	2019	2018
Interest expenses on debt	17,211	14,163
Financial expenses to subsidiaries	1,942	1,979
Fair value adjustments on securities	15,331	18,667
Net loss on derivative financial instruments at fair value in the income statement	–	3,929
Write-down of receivables from subsidiaries, cf. note 12	60,716	7,106
Financial expenses	**95,200**	**45,844**

Accounting policies

See consolidated financial statements note 12. ■

Note 8

Tax for the year

DKK thousand	2019	2018
Tax recognized in the income statement		
Tax for the year recognized in the income statement	**–**	**–**
Tax on income for the year is explained as follows:		
Income before company tax	(430,148)	(338,479)
Calculated tax (22.0%) on income before company tax	(94,633)	(74,465)
Tax effect on:		
Income from investments in subsidiaries	(1,970)	(3,051)
Write-down of receivables from subsidiaries - not deductable for tax purposes	–	12,901
Income()/expenses that are not taxable/deductible for tax purposes	13,412	(1,535)
Write-down of tax assets	83,191	66,150
Tax on income for the year	**–**	**–**
Tax recognized in equity		
Tax for the year recognized in equity	**–**	**–**

Accounting policies

See consolidated financial statements note 13. ■

DKK thousand	January 1, 2019	Recognized in the income statement	Recognized in equity	December 31, 2019
Intangible assets	3,703	(1,663)	–	2,040
Property, plant and equipment	15,515	7,078	–	22,593
Right-of-use-asset	–	55	–	55
Development projects for sale	17,420	15,026	–	32,446
Accrued project costs	(7,335)	6,545	–	(790)
Financial instruments	78	–	(581)	(503)
Share-based payment	4,154	4,419	–	8,573
Tax losses carried forward	310,305	51,731	–	362,036
Write-down of deferred tax assets	(343,840)	(83,191)	581	(426,450)
Recognized deferred tax assets	**–**	**–**	**–**	**–**

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

On July 1, 2019, Skattestyrelsen decided to close the transfer pricing tax audit for 2012-2016 without any changes to taxable income. See further description in note 20.

Note 9

Intangible assets

				2019
DKK thousand	**Product rights**	**Software**	**Other intangible assets in progress**	**Total**
Costs as of January 1, 2019	–	98,273	119	98,392
Additions	5,458,700	364	2,799	5,461,863
Transfer	–	50	(50)	–
Cost as of December 31, 2019	**5,458,700**	**98,687**	**2,868**	**5,560,255**
Amortization as of January 1, 2019	–	66,283	–	66,283
Amortization	–	10,068	–	10,068
Amortization as of December 31, 2019	**–**	**76,351**	**–**	**76,351**
Carrying amount as of December 31, 2019	**5,458,700**	**22,336**	**2,868**	**5,483,904**
Carrying amount as of December 31, 2018	**–**	**31,990**	**119**	**32,109**

Accounting policies

See consolidated financial statements note 15. ■

Note 10

Property, plant and equipment

					2019	
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, 2019	321,503	2,702	301,174	38,746	262,114	926,239
Additions	–	–	–	1,397	354,967	356,364
Transfer	–	–	–	2,515	(2,515)	–
Cost as of December 31, 2019	**321,503**	**2,702**	**301,174**	**42,658**	**614,566**	**1,282,603**
Depreciation as of January 1, 2019	142,608	2,630	246,863	26,929	–	419,030
Depreciation	17,016	72	10,046	3,662	–	30,796
Depreciation as of December 31, 2019	**159,624**	**2,702**	**256,909**	**30,591**	**–**	**449,826**
Carrying amount as of December 31, 2019	**161,879**	**–**	**44,265**	**12,067**	**614,566**	**832,777**
Carrying amount as of December 31, 2018	**178,895**	**72**	**54,311**	**11,817**	**262,114**	**507,209**

For collateral see the consolidated financial statements note 16.

Accounting policies

See consolidated financial statements note 16. ■

Note 11

Right-of-use-assets

				2019
DKK thousand	**Rent facility**	**Car leasing**	**Equipment**	**Total**
Impact from applying IFRS 16 as of January 1, 2019	21,070	1,493	545	23,108
Additions	–	929	–	929
Modifications	688	292	–	980
Depreciations	(4,227)	(1,297)	(242)	(5,766)
Right-of-use assets as of December 31, 2019	**17,531**	**1,417**	**303**	**19,251**

Amounts included in the income statement

DKK thousand	2019
Interest expense leases	525
Depreciation recognized on right-of-use assets	5,766
Cost recognized for short term leases (less than 12 months)	267

Accounting policies

See consolidated financial statements note 17. ■

Note 12

Investment in subsidiaries

DKK thousand	Investments in subsidiaries	Receivables from subsidiaries
	2019	
Costs as of January 1, 2019	186,609	381,836
Additions	344	51,688
Exchange rate adjustments	–	9,028
Cost as of December 31, 2019	**186,953**	**442,552**
Net revaluation as of January 1, 2019	(66,594)	(381,836)
Net share of profit/loss for the year	8,955	–
Write-down	–	(60,716)
Exchange rate adjustments	101	–
Net revaluation as of December 31, 2019	**(57,538)**	**(442,552)**
Carrying amount as of December 31, 2019	**129,415**	**–**
Carrying amount as of December 31, 2018	**120,015**	**–**

Company summary	Domicile	Ownership	Voting rights
Subsidiaries			
Bavarian Nordic GmbH	Germany	100%	100%
Bavarian Nordic, Inc.	USA	100%	100%
Bavarian Nordic Switzerland AG	Switzerland	100%	100%
Aktieselskabet af 1. juni 2011 I	Denmark	100%	100%
Aktieselskabet af 1. juni 2011 II	Denmark	100%	100%

In November 2019, the Company established a company in Switzerland for the purpose of running the future commercial organisation for Rabipur/ RabAvert, Encepur and JYNNEOS.

The carrying amount of investments in subsidiaries mainly relates to Bavarian Nordic GmbH (DKK 124.9 million) and the net share of profit from this subsidiary amounts to DKK 9.0 million.

Accounting policies

Investments in subsidiaries are recognized and measured under the equity method. This means that, in the balance sheet, investments are measured at the pro rata share of the subsidiaries' equity plus or less unamortized positive, or negative, goodwill and plus or less unrealized intra-group profits or losses. Subsidiaries with a negative equity value are measured at zero value, and any receivables from these subsidiaries are written down by the Company's share of such negative equity if it is deemed irrecoverable. If the negative equity exceeds the amount receivable, the remaining amount is recognized under provisions if the Company has a legal or constructive obligation to cover the liabilities of the relevant subsidiary.

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

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

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

Significant accounting estimates

As of December 31, 2019, Bavarian Nordic, Inc. had a negative equity of DKK 442 million (DKK 415 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, 2019. ■

Note 13

Development projects for sale

DKK thousand	2019	2018
Development projects for sale January 1	68,300	68,300
Write-down	(68,300)	–
Development projects for sale December 31	**–**	**68,300**

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

On October 18, 2019, the Company announced that the stage 1 of the Phase 2 study evaluating the combination therapy of CV301 for the treatment of patients with locally advanced or metastatic urothelial bladder cancer did not meet the efficacy threshold to progress into stage 2 with expanded enrollment. As a consequence the Company will not invest further in the development of CV301, apart from supporting the continuation of stage 1 of the bladder study and supporting the ongoing investigator led studies. Following this decision the CV301 development project for sale was fully written down. The write-down of DKK 68.3 million was recognized as research and development costs.

Accounting policies
See consolidated financial statements note 18. ■

Note 14

Inventories

DKK thousand	2019	2018
Raw materials and supply materials	38,888	27,739
Work in progress	163,513	156,232
Manufactured goods and commodities	1,727	1,758
Write-down on inventory	(104,056)	(107,692)
Inventories	**100,072**	**78,037**
Write-down on inventory as of January 1	(107,692)	(52,705)
Write-down for the year	(17,824)	(54,987)
Use of write-down	7,683	–
Reversal of write-down	13,777	–
Write-down on inventory as of December 31	**(104,056)**	**(107,692)**
Cost of goods sold amounts to	87,272	94,557

Accounting policies and significant accounting estimates
See consolidated financial statements note 19. ■

Note 15

Lease liabilities

DKK thousand	2019
Non-current	13,844
Current	5,658
Lease liabilities	**19,502**

				2019
DKK thousand	**Due within 1 year**	**Due between 1 and 5 year**	**Due after 5 year**	**Total**
Lease liabilities	5,658	13,844	–	19,502

Accounting policies

See consolidated financial statements note 27. ■

Note 16

Prepayment from customers

DKK thousand	2019	2018
Prepayment from customers as of January 1	27,116	79,617
Prepayments received during the year	–	14,373
Recognized as revenue during the year	(20,485)	(66,874)
Prepayment from customers as of December 31	**6,631**	**27,116**

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 28.

Accounting policies

See consolidated financial statements note 28. ■

Note 17

Other liabilities

DKK thousand	2019	2018
Derivative financial instruments at fair value in the income statement	1,243	388
Liability relating to phantom shares	1,135	275
Payable salaries, holiday accrual etc.	49,926	44,358
Other accrued costs	15,865	17,852
Other liabilities	**68,169**	**62,873**

For further details of derivative financial instruments, see consolidated financial statements note 24.
The phantom share programs are disclosed in the consolidated financial statements note 30.

Accounting policies

See consolidated financial statements note 23. ■

Note 18

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 6 and note 7. Guarantees for subsidiaries are presented in note 21.

Apart from intra-group transactions mentioned above and the remuneration of the Board of Directors and Corporate Management, cf. note 8 and note 30 in the consolidated financial statements, there are no transactions with related parties.

Note 19

Lease and rent commitments

DKK thousand	2019	2018
Due within 1 year	–	3,630
Due between 1 and 5 years	–	777
Commitments according to rent and lease agreements until expiry	**–**	**4,407**

With effect from January 1, 2019, lease and rent commitments have been recognized as a lease obligation in accordance with IFRS 16 Leases, see note 15.

Note 20

Contingent liabilities and other contractual obligations

DKK thousand	2019	2018
Collaborative agreements		
Contractual obligations with research partners for long-term research projects.		
– Due within 1 year	36,884	25,733
Other contractual obligations		
– Due within 1 year	14,026	11,998
– Due between 1 and 5 years	9,584	8,119

Repayment obligation
Repayment obligation regarding received prepayments see the consolidated financial statements note 28.

Sales milestone to GlaxoSmithKline
The Asset Purchase Agreement with GlaxoSmithKline regarding the acquisition of the product rights to Rabipur/RabAvert and Encepur includes a sales milestone of EUR 25 million. As per December 31, 2019 Management does not judge the sales milestone to be probable and therefore the sales milestone has not been recognized as either part of the product rights nor the deferred consideration for product rights.

Tax audit
In April 2018 the Danish tax authority ("Skattestyrelsen") notified the Company that Skattestyrelsen was 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. During 2018 and 2019 the Company has been in dialogue with Skattestyrelsen regarding the proposal. On July 1, 2019, Skattestyrelsen decided to withdraw the proposed adjustment. The transfer pricing tax audit for 2012-2016 has thereby been completed without any changes to taxable income.

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 also withholding taxes on dividends, interest and royalties. Corporation taxes and withholding taxes payable in the joint taxation pool was DKK 0 as of December 31, 2019. Any adjustments of the taxable joint taxation income or taxes withheld at source may have the effect that the Company's liability increases.

Incentive agreements, company mortgage and lawsuits
See the consolidated financial statements note 31.

Note 21

Mortgages and collateral

DKK thousand	2019	2018
Guarantees for subsidiaries		
The Parent Company stands surety for a credit facility to a subsidiary of a maximum of	3,843	3,805
The Parent Company stands surety for letter of credit to subsidiaries of a maximum of	2,689	2,688

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 3.5 million (DKK 4.6 million).

Mortgages

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

Note 22

Proposed appropriation of net profit/(loss)

DKK thousand	2019	2018
Retained earnings	(430,148)	(338,479)
Total	**(430,148)**	**(338,479)**

Note 23

Significant events after the balance sheet date

See description in note 32 in the consolidated financial statements.

STATEMENT BY MANAGEMENT ON THE ANNUAL REPORT

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, 2019.

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, 2019 as well as of the results of their operations and the Group's cash flows for the financial year January 1 – December 31, 2019.

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, February 20, 2020

Corporate Management

Paul John Chaplin
President and CEO

Board of Directors

Gerard W. M. van Odijk
Chairman of the Board

Erik Gregers Hansen

Frank A.G.M. Verwiel

Anders Gersel Pedersen
Deputy chairman

Peter H. Kürstein-Jensen

Elizabeth M. Andersen

Anne Louise Eberhard

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, 2019, 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, 2019 and of the results of its operations and cash flows for the financial year January 1 – December 31, 2019 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, 2019 and of the results of its operations for the financial year January 1 – December 31, 2019 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 21 years up to and including the 2019 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, 2019. These matters were addressed in the context of our audit of the consolidated financial statements and the parent financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in the audit
Revenue under the BARDA contracts for MVA-BN smallpox vaccine	
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 539 million in 2019 (DKK 342 million in 2018). 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.	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 and measured under the BARDA contracts were met in 2019. We also evaluated the financial statements disclosures related to revenue.
Accounting treatment of acquired product rights on December 31, 2019	
At December 31, 2019 the Company acquired the product rights to two commercial products owned by GlaxoSmithKline – Rabipur/RabAvert and Encepur. The carrying amount of DKK 5,459 million at December 31, 2019 includes an upfront payment, net present value of future probable milestone payments and directly attributable transaction costs. The acquisition of the two product rights did not include any legal entities, and no other tangible assets, no employees and no working capital will be transferred to the Company as part of the transaction. Management has assessed that the acquisition will constitute an asset deal and not a business combination. In determining the accounting treatment, Management has performed judgments and estimates in determining the method for determination of the cost price of the acquired product rights and for recognition of contingent payments, determining the depreciation method and depreciation periods. Refer to notes 2, 15 and 25 in the consolidated financial statements.	Based on our risk assessment procedures on the Group's design and implementation of internal controls for acquisition of intangible assets, we tested the appropriateness of the Group's ac-counting treatment for the acquisition of the product rights. We read the Asset Purchase Agreement, dis-cussed it with Management and evaluated the related accounting treatment. As part of the audit, we tested the recognition for product rights and related deferred consideration including Managements' accounting judgements and estimates. We also evaluated the financial statements disclosures related to the acquired product rights classified as individual significant intangible assets.

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 otherwise appears to be materially misstated.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and 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, February 20, 2020

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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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