Interim Financial Report

for the Period January 1 to June 30, 2017

Bavarian Nordic A/S
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CVR-No. DK 16 27 11 87

Management Commentary

Financial Statement for the Period January 1 – June 30, 2017

Financial statements are un-audited. Comparison figures for the same period 2016 are stated in parentheses.

- Revenue generated for the six months ending June 30, 2017 was DKK 595 million (DKK 139 million).
- The income before interest and tax (EBIT) was a gain of DKK 99 million (loss of DKK 207 million).
- As of June 30, 2017 the Group's cash preparedness was DKK 2,704 million (DKK 1,894 million), including unutilized credit lines of DKK 392 million (DKK 392 million).

Revenue generated for the six months ending June 30, 2017 was DKK 595 million (DKK 139 million). Revenue was composed of DKK 522 million (DKK 0 million) from the sale of IMVAMUNE bulk drug substance to U.S. Government, DKK 31 million (DKK 13 million) from the sale of IMVAMUNE final drug product to other customers and DKK 42 million (DKK 45 million) from contract work. In 2016 the company received the remaining IMVAMUNE holdback of DKK 81 million. Revenue reported for the three months ended June 30, 2017 was DKK 397 million (DKK 117 million).

The production costs totaled DKK 177 million (DKK 47 million). Costs related directly to revenue amounted to DKK 160 million (DKK 29 million). Other production costs totaled DKK 17 million (DKK 18 million). In the second quarter of 2017, production costs were DKK 127 million (DKK 28 million).

Research and development costs totaled DKK 212 million (DKK 193 million), of which expensing of prior-year IMVAMUNE development costs amounted to DKK 43 million (DKK 0 million). As per June 30, 2017 the IMVAMUNE development project asset stood at DKK 22 million (DKK 114 million).

Distribution costs totaled DKK 20 million (DKK 19 million) and administrative costs totaled DKK 87 million (DKK 87 million).

The income before interest and tax (EBIT) was a gain of DKK 99 million (loss of DKK 207 million).

Financial items totaled a net expense of DKK 47 million (net income of DKK 2 million). Net income from securities amounted to DKK 3 million (DKK 13 million), interest expenses on debt amounted to DKK 2 million (DKK 1 million), net gains on derivative financial instruments amounted to DKK 13 million (DKK 0 million) and negative exchange rate adjustments amounted to DKK 61 million (DKK 10 million).

Income before company tax was a gain of DKK 52 million (loss of DKK 204 million).

Tax on income was DKK 12 million (income of DKK 50 million), corresponding to an effective tax rate of 23%.

For the first six months of 2017, Bavarian Nordic reported a net profit of DKK 40 million (net loss of DKK 155 million), which is in line with the expectations.

Trade receivables amounted to DKK 4 million as of June 30, 2017 as the IMVAMUNE bulk drug substance sale to U.S. Government has been prepaid.

Securities, cash and cash equivalents increased by DKK 413 million compared to December 31, 2016. During the first six month of 2017 the company received prepayments of DKK 637 million under the second supply order from U.S. Government in concurrence with initiation of each IMVAMUNE batch production. As per June 30, 2017 DKK 307 million was still recognized as prepayments. The revenue will be recognized during the third quarter.

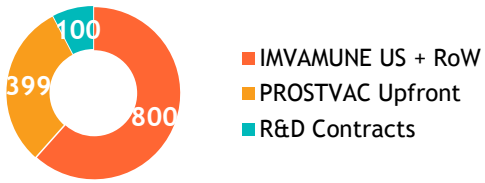
As of June 30, 2017 the Group's cash preparedness was DKK 2,704 million (DKK 1,894 million), including unutilized credit lines of DKK 392 million (DKK 392 million). Cash flow contribution from operating activities was DKK 468 million (spend DKK 144 million), mainly driven by payments of trade receivables and prepayments. Cash flow spend on investment activities was DKK 933 million (DKK 399 million). Net investment in securities amounted to DKK 913 million (DKK 352 million). Cash flow from financing activities contributed with DKK 4 million (DKK 630 million) related to warrant exercise. In 2016 a private placement contributed with a net of DKK 626 million. The net change in cash and cash equivalents was DKK -460 million (DKK 87 million). Adjusted for investment in securities the net change in cash and cash equivalents was positive by DKK 453 million (DKK 439 million).

The Group's equity as of June 30, 2017 stood at DKK 2,123 million (DKK 1,804 million).

Financial Expectations

The Company maintains its 2017 full-year financial expectations as announced July 27, 2017 with revenue of approximately DKK 1,300 million and a profit before interest and tax (EBIT) of approximately DKK 350 million. The revenue is partly composed by recognition of the PROSTVAC upfront payment as revenue which is based upon the assumption that we provide Bristol-Myers Squibb with top-line PROSPECT (Phase 3) data in the second half of 2017. The cash preparedness at year-end is expected to be approximately DKK 2,600 million and was raised from DKK 2,400 million on July 27, 2017 after entering a new license and share purchase agreement with Janssen. Cash preparedness includes cash, cash equivalents, investment in securities and the aggregate amount of undrawn credit lines. This includes a EUR 50 million unsecured loan from the European Investment Bank, which the Company anticipates drawing on during second half of 2017.

Expected revenues in 2017, DKK million



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

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

Significant Risks and Uncertainties

Bavarian Nordic faces a number of risks and uncertainties, common for the biotech industry. These relate to operations, research and development, manufacturing, commercial and financial activities. For further information about risks and uncertainties which Bavarian Nordic faces, refer to page 41 "Risk Management" in the 2016 annual report.

Since the publication of the 2016 annual report, the overall risk profile of the Company remains unchanged.

Product Pipeline

"Our pipeline is a reflection of our dedicated employees and collaborators who share a common goal: To develop innovative and safe therapies against cancer and infectious diseases to improve the health and quality of life for children and adults."

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

In addition, we have ongoing contracts with the U.S. Government for the preclinical and clinical evaluation of recombinant MVA-BN vaccine candidates for selected biological threats (e.g. filoviruses, foot-and-mouth disease virus, Burkholderia, and Yellow Fever).

Detailed information on our pipeline programs is available in Bavarian Nordic's annual report or on the Company's website: www.bavarian-nordic.com.

Clinical pipeline

Product	Indication	Status	Commercial Rights
INFECTIOUS DISEASES			
IMVAMUNE *liquid-frozen*	Smallpox	Approved/Phase 3 *	Bavarian Nordic
IMVAMUNE *freeze-dried*	Smallpox	Phase 2	Bavarian Nordic
MVA-BN Filo *monovalent*	Ebola	Phase 3**	Janssen
MVA-BN Filo *multivalent*	Ebola/Marburg	Phase 1	Janssen
MVA-BN RSV	Respiratory Syncytial Virus	Phase 2	Bavarian Nordic
CANCER IMMUNOTHERAPY			
PROSTVAC *monotherapy*	Prostate cancer (mCRPC)	Phase 3	Bristol-Myers Squibb
PROSTVAC *combinations*	Prostate cancer (localized and metastatic)	Phase 2***	Bristol-Myers Squibb
CV301 + pembrolizumab	Lung cancer (NSCLC)	Phase 2	Bavarian Nordic
MVA-BN Brachyury	Solid Tumors	Phase 1	Bavarian Nordic

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

Collaborations

Product	Indication	Collaborator	Commercial Rights
INFECTIOUS DISEASES			
MVA-BN HPV + AdVac	Chronic HPV infection	Janssen	Janssen
MVA-BN HIV + AdVac	HIV-1	Janssen	Janssen
MVA-BN HBV + AdVac	Hepatitis BHPV infection	Janssen	Janssen
CANCER IMMUNOTHERAPY			
CV301 + atezolizumab	Bladder cancer	Roche	Bavarian Nordic

IMVAMUNE®

Non-replicating smallpox vaccine

IMVAMUNE is the only non-replicating smallpox vaccine approved in Europe for use in the general adult population (marketed under the trade name IMVANEX®). It has furthermore been approved in Canada for use in a public health emergency for adults who are contraindicated to replicating smallpox vaccines. The vaccine is available for governments for use under national emergency rules. Although not yet approved in the United States, IMVAMUNE is currently stockpiled by the U.S. Government for emergency use in people for whom replicating smallpox vaccines are contraindicated (e.g. people, children, pregnant and nursing mothers with

HIV and atopic dermatitis). Registration studies are underway to support FDA approval for use of the vaccine in the entire population.

The development of IMVAMUNE has been funded by the U.S. Government since 2003, through contracts with the National Institute of Allergy and Infectious Diseases (NIAID) of the National Institutes of Health (NIH) and Biomedical Advanced Research and Development Authority (BARDA), a division of the U.S. Department of Health and Human Services (HHS). Contracts awarded to date for the development and supply of the vaccine exceed USD 1.2 billion, including awards to advance MVA-BN as a broad technology platform for the development of medical countermeasures against other potential biological threats.

U.S. Stockpiling of IMVAMUNE

The initial award to supply 20 million doses of liquid-frozen IMVAMUNE to the U.S. Strategic National Stockpile (SNS) was completed in 2013. To maintain this aging stockpile, an additional 8 million doses was awarded in 2013 with deliveries completed in 2015.

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

As part of this strategy, we were awarded a USD 95 million contract in 2009 to develop a freeze-dried formulation of IMVAMUNE, which was the first step by the U.S. Government to develop an improved formulation of IMVAMUNE to replace the liquid-frozen formulation currently stockpiled in the SNS. The freeze-dried formulation has a potential shelf life of 5+ years and would also simplify the storage and shipping logistics.

As part of the transition to freeze-dried IMVAMUNE, BARDA has ordered bulk supplies of IMVAMUNE in 2015 and 2016 at a total value of USD 233 million, which is being produced and recognized as revenue over the course of 2016 and 2017. A tender process for the delivery of freeze-dried IMVAMUNE as a final drug product was initiated in June 2017. Pending final negotiations, a contract is anticipated before year-end.

Progress report for the second quarter 2017 and up to the reporting date

- In June, the U.S. Department of Health and Human Services issued a notice of intent to award a sole source contract to Bavarian Nordic for procurement of freeze-dried IMVAMUNE. Subsequently, a request for proposal was issued and Bavarian Nordic response was submitted during July
- In June the Public Health Agency of Sweden entered into an agreement with Bavarian Nordic for the procurement of 35.000 doses of IMVANEX. The agreement includes an option to procure additional 100,000 doses.
- In May, Bavarian Nordic delivered 85,000 doses of IMVAMUNE under the existing framework contract with the Public Health Agency of Canada.

Anticipated developments

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

Read more

http://www.bavarian-nordic.com/pipeline/imvamune

MVA-BN RSV

Universal RSV vaccine candidate in Phase 2 development

"RSV represents one of the most broadly underserved diseases we know today. With a death rate similar to that of influenza and no vaccines approved, our vaccine has been designed to protect individuals for the course of an entire RSV season."

MVA-BN RSV is our product candidate in clinical development for the prevention of RSV. The vaccine has been specifically designed to target 5 different RSV proteins to ensure a broad immune response against both RSV subtypes (A & B). Extensive preclinical and clinical studies have shown that MVA-BN RSV induces a dual action

immune response comprised of both antibodies and T cells, in a similar fashion to the natural response to an RSV infection.

MVA-BN RSV was investigated in a Phase 1 study in 63 healthy adults, aged 18-65. Subsequently, in October 2016, a randomized, placebo-controlled Phase 2 dose finding study was initiated in 421 subjects aged 55 and older. These subjects were enrolled into four active arms of the study, which examined the effects of both a high ($5x10^8$) and low ($1x10^8$) dose, administered as either one or two vaccinations (day 0, 28) and compared to a placebo arm.

Top-line results from this study were reported in June 2017, showing that both dose levels investigated were well tolerated and immunogenic, and confirmed the hypothesis that MVA-BN RSV is the first vaccine candidate designed to induce a broad and robust immune response against five distinct RSV proteins following a single shot or booster vaccination.

A single vaccination induced the highest booster responses in both antibodies and T cells against RSV compared to a prime-boost regime. Compared to the subjects receiving placebo, a significant boost (2-4 fold) in antibodies was observed 2 weeks post the single booster vaccination. This included neutralizing and total antibodies (IgG) against RSV, as well as IgA antibodies, which are associated with mucosal responses and are thought to play an important role in protection against RSV. Significant T cell responses (5-10 fold) to all five RSV proteins were observed in the majority of subjects 1 week post the single booster vaccination.

At the 3 month time point post vaccination the immune responses induced by the two active doses investigated demonstrated significant boosts over placebo. Immune responses were seen to be similar across all active doses, potentially confirming the results seen with the $1x10^8$ dose tested in a Phase 1 which also demonstrated durable antibody responses 6 months post vaccination.

Subjects that received a single vaccination with either dose will be given an additional booster later this year and followed for another RSV season, to help establish the immune responses 1 year post vaccination and the effect of another booster vaccination.

Progress report for the second quarter 2017 and up to the reporting date

- In June, positive top-line results from a Phase 2 dose-ranging study in 421 subjects were announced.

Anticipated developments

- Report 6 months follow-up data from Phase 2 study and initiate booster-study of subjects that received a single vaccination in the Phase 2
- Establish meeting with FDA to determine appropriate registration pathway for elderly adults that have a high morbidity from RSV

Read more

http://www.bavarian-nordic.com/pipeline/mva-bn-rsv

MVA-BN Filo

Ebola vaccine candidate in Phase 3 development

MVA-BN Filo is a filovirus vaccine candidate, initially developed by Bavarian Nordic in collaboration with the NIAID. MVA-BN Filo contains the gene of the glycoproteins of Ebola Zaire, Ebola Sudan and Marburg virus, and therefore is designed to provide protection against the three most common causes of viral hemorrhagic fever.

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

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

Progress report for the second quarter 2017 and up to the reporting date

- In April, a large Phase 2 clinical trial was initiated in West Africa to evaluate the rapidity, intensity and duration of the immune responses generated by three different Ebola vaccination strategies, as well as their safety and tolerability, particularly in children. The Janssen/Bavarian Nordic Ebola vaccine candidate is one of the three strategies being evaluated. The trial is led by the Partnership for Research on Ebola VACcination (PREVAC) - an international collaboration led by Inserm, the French National Institute of Health and Medical Research; the NIAID of the NIH in the U.S.; and the London School of Hygiene & Tropical Medicine.

Anticipated developments

- Finalize clinical development of prime-boost Ebola vaccine regimen with Janssen

Read more

http://www.bavarian-nordic.com/pipeline/mva-bn-filo

PROSTVAC

Prostate cancer immunotherapy candidate in late-stage Phase 3 development

PROSTVAC is a prostate specific antigen (PSA)-targeted immunotherapy candidate designed to enhance or stimulate the body's immune response, specifically T cells that will home to and kill prostate cancer cells, altering the course of the disease and improving overall survival of patients with prostate cancer. PROSTVAC employs two poxviruses (vaccinia and fowlpox) in a prime-boost vaccine regimen. A robust data package has been established that includes 19 ongoing or completed clinical studies, comprising more than 2,000 patients, the majority of which have been actively treated with PROSTVAC, which has been generally well-tolerated.

PROSTVAC is being developed under a cooperative research and development agreement (CRADA) with the U.S. National Cancer Institute (NCI). An agreement was entered with Bristol-Myers Squibb in March 2015, providing them an exclusive worldwide option to license and commercialize PROSTVAC, a deal worth up to USD 975 million.

The PROSPECT study

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

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

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

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

Exploring the full potential of PROSTVAC in combination trials

To leverage the full potential of PROSTVAC, Bavarian Nordic and its partners are conducting exploratory combination studies of PROSTVAC with or without agents from Bristol-Myers Squibb's immuno-oncology portfolio, including ipilimumab (YERVOY®) and nivolumab (OPDIVO®). These studies will investigate the

potential synergies of combining PROSTVAC with one or more checkpoint inhibitors in early stages of prostate cancer. In addition to a series of planned, ongoing and completed NCI-sponsored studies of PROSTVAC as single or combination therapy, these studies will add to the clinical experience, thus potentially broadening the future commercial value of PROSTVAC.

Ongoing and planned PROSTVAC studies:

Unless otherwise indicated, studies are sponsored by the NCI.

Therapy	Indication	Details	Status
PROSTVAC	Localized prostate cancer Patients undergoing active surveillance	Phase 2 150 patients	Enrolling
PROSTVAC	Localized prostate cancer, neoadjuvant Patients undergoing radical prostatectomy	Phase 2 27 patients	Fully enrolled
PROSTVAC + *ipilimumab* *	Localized prostate cancer, neoadjuvant Patients undergoing radical prostatectomy	Phase 2 75 patients	Enrolling
PROSTVAC + *ipilimumab* + *nivolumab*	Localized prostate cancer, neoadjuvant Patients undergoing radical prostatectomy	Phase 2 65 patients	Enrolling
PROSTVAC **	Patients at risk of relapse after radical prostatectomy	Phase 2 44 patients	Enrolling
PROSTVAC + *flutamide*	Non-metastatic prostate cancer	Phase 2 53 patients	Fully enrolled
PROSTVAC	Non-metastatic castration-sensitive prostate cancer	Phase 2 80 patients	Enrolling
PROSTVAC + *enzalutamide*	Non-metastatic castration-sensitive prostate cancer	Phase 2 38 patients	Fully enrolled
PROSTVAC + *docetaxel* + *ADT*	Metastatic castration-sensitive prostate cancer	Phase 2 74 patients	Enrolling
PROSTVAC + *enzalutamide*	Metastatic castration-resistant prostate cancer	Phase 2 57 patients	Fully enrolled
PROSTVAC ***	Metastatic castration-resistant prostate cancer	Phase 3 1,297 patients	Fully enrolled

* Sponsor: University of California, San Francisco
** Sponsor: Medical University of South Carolina
*** Sponsor: Bavarian Nordic

Progress report for the second quarter 2017 and up to the reporting date

- In April, a Phase 2 combination study of PROSTVAC, ipilimumab and nivolumab was initiated at the NCI.

Anticipated developments

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

Read more

http://www.bavarian-nordic.com/pipeline/prostvac

CV301

"The broad potential of CV301 to attack many different solid tumors, especially in those tumors where we know checkpoint inhibitors to be showing an effect, gives us great confidence that we can help enhance the response rate of these patients, and cure even more patients."

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

The development of CV301 focuses on combination treatments with other immune-modulating agents such as checkpoint inhibitors. The options for modulation of the immune system for cancer treatment are increasing

and the development of CV301 will also evolve to take advantage of these options. Preclinical data has shown that CV301 has the potential to be highly synergistic with checkpoint inhibitors, as CV301 induces an anti-tumor T cell response, while checkpoint inhibitors make this T cell response more effective. The T cells induced by CV301 secrete interferon gamma and other type 1 cytokines when stimulated by their target antigens, which causes upregulation or expression of PDL-1 on the tumor cells, a predictive marker of clinical activity when present in tumor samples prior to treatment with checkpoint inhibitors in a number of cancer indications like non-small cell lung cancer.

New pathway for the Phase 2 development of CV301 in non-small cell lung cancer (NSCLC)

Bavarian Nordic is sponsoring an ongoing proof of concept study (*MAGNI-lung-01)* of CV301 in non-small cell lung cancer patients. In this study, the original design was to investigate the combination treatment of CV301 and OPDIVO® (nivolumab) in patients who had failed a prior platinum-containing chemotherapy. However, based upon current regulatory approvals and emerging standards of care, the decision has been made to transition the CV301 NSCLC program into the first line maintenance setting, where checkpoint inhibitors are now approved and broadly available. After discussions with regulators, a randomized Phase 2 study will enroll 176 patients who will receive either KEYTRUDA (pembrolizumab) monotherapy, as standard of care, or a combination of CV301 and standard of care. A small Phase 1b study will investigate the safety of combining CV301 and KEYTRUDA before initiation of the Phase 2.

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

The initial safety phase of the MAGNI-lung-01 trial which investigated both CV301 alone and in combination with OPDIVO has been completed and analysis is underway.

Phase 2 bladder cancer study in the planning

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

Anticipated developments

- Report Phase 1 data of combination of CV301 and nivolumab
- Transition to first line NSCLC combination of CV301 and KEYTRUDA (pembrolizumab) in Phase 2 study
- Initiation of Phase 2 combination study of CV301 and TECENTRIQ (atezolizumab) in bladder cancer
- Initiation of investigator-sponsored Phase 2 combination trials of CV301 and other immune-modulating agents in additional cancer indications

Read more

http://www.bavarian-nordic.com/pipeline/cv-301

MVA-BN Brachyury

Immunotherapy candidate targeting the metastatic process. Phase 1 completed.

MVA-BN Brachyury is a novel cancer immunotherapy candidate, designed to induce a robust T-cell response against brachyury, a tumor-associated antigen that is overexpressed in major solid tumor indications, as well as several rare, ultra-orphan cancer indications. Brachyury is reported to play a key role in the metastasis and progression of tumors. Tumors that overexpress brachyury are believed to be highly resistant to current therapies and are associated with decreased survival rates.

The clinical development is sponsored by the NCI with whom we continue to work to evaluate the product candidate. Clinical Phase 2 studies are expected to be initiated in 2017.

Anticipated developments

- Initiation of NCI-sponsored Phase 2 trials of MVA-BN Brachyury (2017)

Read more

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

Pre-clinical collaborations

Janssen partnership

In July, Bavarian Nordic and Janssen expanded their partnership with an additional worldwide license and collaboration agreement which grants Janssen the exclusive rights to Bavarian Nordic's MVA-BN technology for two additional programs, targeting vaccines against hepatitis B virus (HBV) and the human immunodeficiency virus (HIV-1). This deal builds on the ongoing collaboration to develop vaccines for Human Papillomavirus (HPV) and Ebola, and the companies are now collaborating on four product development programs combining Bavarian Nordic's MVA-BN technology with Janssen's AdVac® technology platform. Similar to prior agreements, Janssen will be responsible for all clinical development, while manufacturing of MVA-BN is retained by Bavarian Nordic.

The total potential value of the new agreement is up to USD 879 million including an upfront payment of USD 10 million, USD 33 million in an equity investment by subscription of new Bavarian Nordic shares and up to USD 836 million in milestone payments based upon the achievement of specified development, regulatory and sales milestones, in addition to tiered royalties on future sales.

Significant progress has been made in the global battle against HIV/AIDS, including the development of critical antiretroviral treatments and HIV prevention tools, yet the disease remains one of the greatest global health threats of our time. An estimated 37 million people are currently living with HIV-1 globally, and nearly 2 million people become newly infected each year.

Chronic hepatitis B virus (HBV) causes approximately 650,000 deaths worldwide from cirrhosis and liver cancer, with approximately 60 percent of hepatocellular carcinoma attributed to hepatitis B infection. Current recommended therapies are unable to cure the infection, requiring most people to continue treatment for life.

MVA-BN HPV

Human papillomavirus (HPV) vaccine candidate in preclinical development

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

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

Other Developments

Tommi Kainu appointed Chief Business Officer of Bavarian Nordic

In May, Bavarian Nordic announced the expansion of its Executive Management team with the addition of Tommi Kainu, MD, PhD, as Executive Vice President and Chief Business Officer, effective July 1, 2017. In this newly created position, Dr. Kainu will be responsible for both commercial and governmental affairs, as well as business development. Dr. Kainu joins Bavarian Nordic after nearly two decades at the Boston Consulting Group (BCG) serving as a Partner and Managing Director since 2011. 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.

In connection with his commencement of employment, Tommi Kainu was granted 26,955 warrants, which entitle him to subscribe for up to 26,955 shares in total with a nominal value of DKK 10 each at an exercise price of DKK 430.4 per share. The warrants may be exercised wholly or partly during eight fixed subscription periods during 2020, 2021 and 2022.

Consolidation of manufacturing activities

In June, the Company consolidated its activities at the manufacturing plant in Denmark in order to streamline the Company's operations for future plans and opportunities. As result of several optimizations and changes in the Company's mode of operation, the workforce was reduced in manufacturing and related activities at Bavarian Nordics site in Denmark.

Capital Markets Day

Bavarian Nordic will host a capital markets day for investors and analysts on Thursday, September 21, 2017 in New York City, where the management of Bavarian Nordic, collaborators from the National Cancer Institute

and key opinion leaders within the field of oncology and infectious diseases will give presentations on the Company's business and future plans and opportunities.

For registration and more information, see www.bavarian-nordic.com/cmd.

Share Information

Bavarian Nordic is listed on the Nasdaq Copenhagen exchange under the symbol BAVA. Furthermore, Bavarian Nordic has established a sponsored Level 1 American Depositary Receipt (ADR) program in the U.S. Bavarian Nordic ADRs are available for trading in the U.S. over-the-counter (OTC) market under the symbol BVNRY. Three ADRs represent one Bavarian Nordic share.

Developments in the share capital

In May, the Company issued 45,667 new shares as a result of warrant exercise by employees. Hence, at June 30, 2017, the Company's share capital was DKK 314,692,130, comprising 31,469,213 shares with a nominal value of DKK 10 each. Each share carries one vote. There were 1,334,474 outstanding warrants, which entitle warrant holders to subscribe for 1,334,474 shares of DKK 10 each. Thus the fully diluted share capital amounted to DKK 328,036,870 at June 30, 2017.

Issue of shares to Johnson & Johnson Innovation – JJDC, Inc.

As part of the license agreement entered with Janssen in July, a share purchase agreement was entered with Johnson & Johnson Innovation – JJDC, Inc. (JJDC), according to which JJDC has subscribed for USD 33,000,000 (DKK 207,482,135) of new shares in Bavarian Nordic in a private placement. The subscription price for the new shares was determined as DKK 405.16 per share of DKK 10, which was calculated based on the simple average of the volume weighted average price of the Company's shares on Nasdaq Copenhagen (Bloomberg VWAP for BAVA.DC) during a period of ten consecutive individual trading days starting on July 27, 2017 and ending on August 9, 2017. Consequently in August, upon closing of the transaction with Janssen, Bavarian Nordic issued 512,102 new shares of DKK 10 each after which the share capital amounts to DKK 319,813,150, which is made up of 31,981,315 shares of a nominal value of DKK 10 each,

Subsequently, JJDC informed Bavarian Nordic that they hold 1,844,086 shares in Bavarian Nordic, corresponding to 5.77 % of the share capital and voting rights in Bavarian Nordic.

Share buy-back program

In May, the Company launched and completed a share buy-back program under which 12,156 shares were repurchased with the purpose of fulfilling the Company's obligations arising from the share-based incentive program for the Board of Directors and Executive Management. Subsequently, the Company owns a total of 23,300 own shares, corresponding to 0.07 % of the share capital.

Financial calendar 2017 / 2018

November 8, 2017
Third quarterly report (Q3) for the nine-month period ended 30 September 2017

March 12, 2018
2017 Annual Report

April 17, 2018
Annual General Meeting
Shareholders who wish to submit a request for proposals for consideration at the annual general meeting must lodge this with the Company no later than Wednesday, March 7, 2018.

May 24, 2018
First quarterly report (Q1) for the three-month period ended 31 March 2018

August 16, 2018
Half-year report (Q2) for the six-month period ended 30 June 2018

November 9, 2018
Third quarterly report (Q3) for the nine-month period ended 30 September 2018

Statement from the Board of Directors and Corporate Management

The Board of Directors and Corporate Management have, today reviewed and approved the Bavarian Nordic A/S interim report for the period January 1 to June 30, 2017.

The interim report has been prepared in accordance with IAS 34 "Interim Financial Reporting" as adopted by the EU and additional Danish disclosure requirements for interim reports of listed companies, including those of Nasdaq Copenhagen.

In our opinion, the interim report gives a true and fair view of the group's assets and liabilities and financial position as of June 30, 2017 and the results of the group's activities and cash flows for the period January 1 to June 30, 2017.

In our opinion, the management's review provides a true and fair description of the development in the group's activities and financial affairs, the results for the period and the group's financial position as a whole as well as a description of the most important risks and uncertainty factors faced by the group.

Kvistgaard, August 25, 2017

Corporate Management:

Paul John Chaplin
President and CEO

Ole Larsen
Executive Vice President & CFO

Board of Directors:

Gerard W.M. van Odijk
Chairman of the Board

Anders Gersel Pedersen
Deputy Chairman

Claus T. Bræstrup

Erik Gregers Hansen

Peter H. Kürstein-Jensen

Frank A.G.M. Verwiel

Elizabeth McKee Anderson

Financial Statements

Consolidated Key Figures (unaudited)

DKK thousand	1/4 - 30/6 2017	1/4 - 30/6 2016	1/1 - 30/6 2017	1/1 - 30/6 2016	1/1-31/12 2016
Income statements					
Revenue	397,276	116,557	594,972	139,115	1,006,742
Production costs	127,072	28,310	177,207	47,207	297,793
Research and development costs	111,578	89,126	211,877	193,436	463,169
Distribution costs	11,220	11,738	19,906	18,697	38,560
Administrative costs	45,057	41,425	86,752	86,562	174,213
Income before interest and taxes (EBIT)	102,349	(54,042)	99,230	(206,787)	33,007
Financial items, net	(43,855)	18,869	(46,988)	2,380	6,542
Income before company tax	58,494	(35,173)	52,242	(204,407)	39,549
Net profit for the period	46,293	(25,782)	40,242	(154,535)	30,600
Balance sheet					
Total non-current assets			508,209	636,508	541,131
Total current assets			2,559,990	1,845,206	2,282,567
Total assets			3,068,199	2,481,714	2,823,698
Equity			2,122,605	1,804,481	2,017,237
Non-current liabilities			53,599	55,521	54,663
Current liabilities			891,995	621,712	751,798
Cash flow statements					
Securities, cash and cash equivalents			2,312,465	1,502,036	1,899,897
Cash flow from operating activities			468,275	(144,444)	267,601
Cash flow from investment activities			(933,058)	(398,506)	(448,183)
- Investment in intangible assets			(11,296)	(24,818)	(43,709)
- Investment in property, plant and equipment			(8,103)	(21,691)	(47,810)
- Net investment in securities			(913,489)	(351,841)	(358,254)
Cash flow from financing activities			4,460	629,947	657,199
Financial Ratios (DKK) [1)]					
Earnings (basic) per share of DKK 10			1.3	(5.3)	1.0
Net asset value per share			67.5	58.3	64.3
Share price at period-end			384	233	249
Share price/Net asset value per share			5.7	4.0	3.9
Number of outstanding shares at period-end			31,469	30,928	31,354
Equity share			69%	73%	71%
Number of employees, converted to full-time, at period-end			445	427	437

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

Notes
(stated in the end of this document):

1. Significant accounting policies
2. Significant accounting estimates, assumptions and uncertainties
3. Revenue
4. Production costs
5. Research and development costs
6. Financial income
7. Financial expenses
8. Inventories
9. Other receivables
10. Prepayment from customers
11. Other liabilities
12. Financial instruments
13. Incentive plans
14. Significant changes in contingent liabilities and other contractual obligations
15. Significant events after the balance sheet date
16. Approval of the unaudited condensed consolidated interim financial statements

Unaudited Condensed Consolidated Income Statements for the Periods Ended June 30, 2017 and 2016

DKK thousand	Note	1/4 - 30/6 2017	1/4 - 30/6 2016	1/1 - 30/6 2017	1/1 - 30/6 2016	1/1-31/12 2016
Revenue	3	397,276	116,557	594,972	139,115	1,006,742
Production costs	4	127,072	28,310	177,207	47,207	297,793
Gross profit		**270,204**	**88,247**	**417,765**	**91,908**	**708,949**
Research and development costs	5	111,578	89,126	211,877	193,436	463,169
Distribution costs		11,220	11,738	19,906	18,697	38,560
Administrative costs		45,057	41,425	86,752	86,562	174,213
Total operating costs		**167,855**	**142,289**	**318,535**	**298,695**	**675,942**
Income before interest and tax (EBIT)		**102,349**	**(54,042)**	**99,230**	**(206,787)**	**33,007**
Financial income	6	7,746	8,140	21,923	13,942	37,877
Financial expenses	7	51,601	(10,729)	68,911	11,562	31,335
Income before company tax		**58,494**	**(35,173)**	**52,242**	**(204,407)**	**39,549**
Tax on income for the period		12,201	(9,391)	12,000	(49,872)	8,949
Net profit for the period		**46,293**	**(25,782)**	**40,242**	**(154,535)**	**30,600**
Earnings per share (EPS) - DKK						
Basic earnings per share of DKK 10		1.5	(0.9)	1.3	(5.3)	1.0
Diluted earnings per share of DKK 10		1.5	(0.9)	1.3	(5.3)	1.0

Unaudited Condensed Consolidated Statements of Comprehensive Income for the Periods Ended June 30, 2017 and 2016

DKK thousand	1/4 - 30/6 2017	1/4 - 30/6 2016	1/1 - 30/6 2017	1/1 - 30/6 2016	1/1-31/12 2016
Net profit for the period	**46,293**	**(25,782)**	**40,242**	**(154,535)**	**30,600**
Items that might be reclassified to the income statement:					
Exchange rate adjustments on translating foreign operations	26,309	(7,735)	32,020	6,049	(14,842)
Fair value of financial instruments entered into to hedge future cash flows			370	(5,367)	(259)
Tax on other comprehensive income	(41)	1,181	(81)	1,181	57
Other comprehensive income after tax	**26,268**	**(6,554)**	**32,309**	**1,863**	**(15,044)**
Total comprehensive income	**72,561**	**(32,336)**	**72,551**	**(152,672)**	**15,556**

Unaudited Condensed Consolidated Statements of Financial Position - Assets as of June 30, 2017 and 2016 and December 31, 2016

DKK thousand	Note	30/6 2017	30/6 2016	31/12 2016
Assets				
Software		8,433	5,170	5,165
IMVAMUNE development project		21,842	114,476	60,951
Intangible assets in progress		19,625	12,052	16,903
Intangible assets		**49,900**	**131,698**	**83,019**
Land and buildings		201,153	210,512	202,804
Leasehold improvements		1,197	835	678
Plant and machinery		54,607	62,169	54,903
Fixtures and fittings, other plant and equipment		22,280	17,601	19,057
Assets under construction		35,436	35,720	48,894
Property, plant and equipment		**314,673**	**326,837**	**326,336**
Other receivables		1,473	1,070	1,303
Financial assets		**1,473**	**1,070**	**1,303**
Deferred tax assets		**142,163**	**176,903**	**130,473**
Total non-current assets		**508,209**	**636,508**	**541,131**
Development projects for sale		**70,069**	**70,069**	**70,069**
Inventories	8	**152,632**	**192,676**	**146,983**
Trade receivables		4,411	56,154	130,391
Tax receivables		-	5,424	2,506
Other receivables	9	15,421	12,916	25,396
Prepayments		4,992	5,931	7,325
Receivables		**24,824**	**80,425**	**165,618**
Securities		1,954,331	1,042,816	1,046,301
Cash and cash equivalents		358,134	459,220	853,596
Securites, cash and cash equivalents		**2,312,465**	**1,502,036**	**1,899,897**
Total current assets		**2,559,990**	**1,845,206**	**2,282,567**
Total assets		**3,068,199**	**2,481,714**	**2,823,698**

Unaudited Condensed Consolidated Statements of Financial Position - Equity and Liabilities as of June 30, 2017 and 2016 and December 31, 2016

DKK thousand	Note	30/6 2017	30/6 2016	31/12 2016
Equity and liabilities				
Share capital		314,693	309,282	313,539
Treasury shares		(233)	(111)	(111)
Retained earnings		1,778,833	1,515,960	1,731,898
Other reserves		29,312	(20,650)	(28,089)
Equity		**2,122,605**	**1,804,481**	**2,017,237**
Provisions		24,949	25,226	24,949
Debt to credit institutions		28,650	30,295	29,714
Non-current liabilities		**53,599**	**55,521**	**54,663**
Debt to credit institutions		2,136	2,024	2,136
Prepayment from customers	10	736,194	466,960	530,645
Trade payables		34,322	56,397	71,958
Company tax		2,723	468	72
Other liabilities	11	116,620	95,863	146,987
Current liabilities		**891,995**	**621,712**	**751,798**
Total liabilities		**945,594**	**677,233**	**806,461**
Total equity and liabilities		**3,068,199**	**2,481,714**	**2,823,698**

Unaudited Condensed Consolidated Statements of Cash Flow for the Periods Ended June 30, 2017 and 2016 and December 31, 2016

DKK thousand	1/1 - 30/6 2017	1/1 - 30/6 2016	1/1-31/12 2016
Net profit for the period	**40,242**	**(154,535)**	**30,600**
Adjustment for non-cash items:			
Financial income	(21,923)	(13,942)	(37,877)
Financial expenses	68,911	11,562	31,335
Tax on income for the period	12,000	(49,872)	8,949
Depreciation, amortization and impairment losses	19,841	21,696	45,364
Expensing (amortization) of IMVAMUNE development project	43,255	181	68,785
Share-based payment	29,246	3,266	18,186
Adjustment for other non-cash items	-	-	2,825
Changes in inventories	(5,649)	(101,674)	(55,981)
Changes in receivables	134,403	108,339	20,711
Changes in provisions	-	(570)	(570)
Changes in current liabilities	167,126	44,944	126,237
Cash flow from operations (operating activities)	**487,452**	**(130,605)**	**258,564**
Received financial income	9,852	4,900	21,311
Paid financial expenses	(24,797)	(15,062)	(3,515)
Paid company taxes	(4,232)	(3,677)	(8,759)
Cash flow from operating activities	**468,275**	**(144,444)**	**267,601**
Investments in and additions to intangible assets	(11,296)	(24,818)	(43,709)
Investments in property, plant and equipment	(8,103)	(21,691)	(47,810)
Disposal of property, plant and equipment	-	-	1,979
Investments in/disposal of financial assets	(170)	(156)	(389)
Investments in securities	(1,154,058)	(487,186)	(784,230)
Disposal of securities	240,569	135,345	425,976
Cash flow from investment activities	**(933,058)**	**(398,506)**	**(448,183)**
Payment on mortgage and construction loan	(1,064)	(974)	(34,363)
Proceeds from mortgage loan	-	-	32,389
Proceeds from warrant programs exercised	9,838	7,943	37,305
Proceeds from private placement	-	664,800	664,800
Cost related to issue of new shares	(60)	(38,973)	(40,083)
Purchase of treasury shares	(4,254)	(2,849)	(2,849)
Cash flow from financing activities	**4,460**	**629,947**	**657,199**
Cash flow of the period	**(460,323)**	**86,997**	**476,617**
Cash as of 1 January	853,596	374,063	374,063
Currency adjustments 1 January	(35,139)	(1,840)	2,916
Cash end of period	**358,134**	**459,220**	**853,596**

Unaudited Condensed Consolidated Statements of Changes in Equity for the Periods Ended June 30, 2017 and 2016

DKK thousand	Share capital	Treasury shares	Retained earnings	Reserves for currency adjustment	Reserves for fair value of financial instruments	Share-based payment	Equity
Equity as of January 1, 2017	**313.539**	**(111)**	**1.731.898**	**(88.398)**	**(202)**	**60.511**	**2.017.237**
Comprehensive income for the period							
Net profit	-	-	40.242	-	-	-	40.242
Other comprehensive income							
Exchange rate adjustments on translating foreign operations	-	-	-	32.020	-	-	32.020
Fair value of financial instruments	-	-	-	-	289	-	289
Total comprehensive income for the period	**-**	**-**	**40.242**	**32.020**	**289**	**-**	**72.551**
Transactions with owners							
Share-based payment	-	-	-	-	-	13.394	13.394
Warrant program exercised	1.154	-	10.565	-	-	(1.881)	9.838
Warrant program expired	-	-	320	-	-	(320)	-
Cost related to issue of new shares	-	-	(60)	-	-	-	(60)
Purchase of treasury shares	-	(122)	(4.132)	-	-	-	(4.254)
Tax related to items recognized directly in equity	-	-	-	-	-	13.899	13.899
Total transactions with owners	**1.154**	**(122)**	**6.693**	**-**	**-**	**25.092**	**32.817**
Equity as of June 30, 2017	**314.693**	**(233)**	**1.778.833**	**(56.378)**	**87**	**85.603**	**2.122.605**

Treasury shares

In May 2017, the Company initiated a new share buy-back program, under which the Company bought back 12,156 of its own shares. The purpose of the share buy-back program was to meet the Company's obligations arising from the share-based incentive programs for the Board of Directors and Executive Management, in accordance with the Company's remuneration policy and the general guidelines for incentive remuneration. This share buy-back brought the total number of own shares to a total of 23,300 shares, representing 0.07% of the total share capital.

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, 2016	**280.197**	**-**	**1.066.558**	**(73.556)**	**-**	**69.280**	**1.342.479**
Comprehensive income for the period							
Net profit	-	-	(154.535)	-	-	-	(154.535)
Other comprehensive income							
Exchange rate adjustments on translating foreign operations	-	-	-	6.049	-	-	6.049
Fair value of financial instruments	-	-	-	-	(4.186)	-	(4.186)
Total comprehensive income for the period	**-**	**-**	**(154.535)**	**6.049**	**(4.186)**	**-**	**(152.672)**
Transactions with owners							
Share-based payment	-	-	-	-	-	10.325	10.325
Warrant program exercised	1.385	-	8.428	-	-	(1.870)	7.943
Warrant program expired	-	-	120	-	-	(120)	-
Capital increase through private placement	27.700	-	637.100	-	-	-	664.800
Cost related to issue of new shares	-	-	(38.973)	-	-	-	(38.973)
Purchase of treasury shares	-	(111)	(2.738)	-	-	-	(2.849)
Tax related to items recognized directly in equity	-	-	-	-	-	(26.572)	(26.572)
Total transactions with owners	**29.085**	**(111)**	**603.937**	**-**	**-**	**(18.237)**	**614.674**
Equity as of June 30, 2016	**309.282**	**(111)**	**1.515.960**	**(67.507)**	**(4.186)**	**51.043**	**1.804.481**

Notes

1. Significant accounting policies

The interim financial statements are prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by EU and the additional Danish requirements for submission of interim reports for companies listed on Nasdaq Copenhagen. The interim report has not been audited or reviewed by the company's auditors.

The interim financial statements are presented in Danish Kroner (DKK), which is considered the primary currency of the Group's activities and the functional currency of the parent company.

The accounting policies used in the interim financial statements are consistent with those used in the consolidated financial statements for 2016 and in accordance with the recognition and measurement policies in the International Financial Reporting Standards (IFRS) as adopted by EU.

2. Significant accounting estimates, assumptions and uncertainties

In the preparation of the interim financial statements according to IAS 34, Interim Financial Reporting, as adopted by the EU, Management is required to make certain estimates as many financial statement items cannot be reliably measured, but must be estimated. Such estimates comprise judgments made on the basis of the most recent information available at the reporting date. It may be necessary to change previous estimates as a result of changes to the assumptions on which the estimates were based or due to supplementary information, additional experience or subsequent events.

Similarly, the value of assets and liabilities often depends on future events that are somewhat uncertain. In that connection, it is necessary to set out e.g. a course of events that reflects Management's assessment of the most probable course of events.

Further to the significant accounting estimates, assumptions and uncertainties, which are stated in the Annual Report 2016, the Management has not changed significant estimates and judgments regarding recognition and measurement.

DKK thousand	1/4 - 30/6 2017	1/4 - 30/6 2016	1/1 - 30/6 2017	1/1 - 30/6 2016	1/1-31/12 2016
3. Revenue					
IMVAMUNE sale	368,042	4,939	553,391	12,783	831,783
Sale of goods	368,042	4,939	553,391	12,783	831,783
IMVAMUNE sale, development results	-	80,746	-	80,746	80,746
Contract work	29,234	30,872	41,581	45,586	94,213
Sale of services	29,234	111,618	41,581	126,332	174,959
Revenue	**397,276**	**116,557**	**594,972**	**139,115**	**1,006,742**
Total revenue includes:					
Fair value adjustment concerning financial instruments entered into to hedge revenue	-	-	-	-	(11,979)
4. Production costs					
Cost of goods sold, IMVAMUNE sale	93,742	168	136,253	1,801	171,517
Contract costs	17,229	18,146	24,016	27,317	52,747
Other production costs	16,101	9,996	16,938	18,089	73,529
Production costs	**127,072**	**28,310**	**177,207**	**47,207**	**297,793**
5. Research and development costs					
Research and development costs occured in the period	103,035	114,213	196,784	234,728	476,367
Of which:					
Contract costs recognized as production costs	(17,229)	(18,146)	(24,016)	(27,317)	(52,747)
Capitalized development costs	(2,429)	(6,960)	(4,146)	(14,156)	(29,236)
	83,377	89,107	168,622	193,255	394,384
Expensing (amortization) of prior-year costs attributable to the IMVAMUNE development project	28,201	19	43,255	181	68,785
Research and development costs	**111,578**	**89,126**	**211,877**	**193,436**	**463,169**
6. Financial income					
Interest income	24	252	53	252	272
Interest income from financial assets not measured at fair value in the income statement	24	252	53	252	272
Financial income from securities	4,883	3,752	9,150	7,014	15,640
Fair value adjustments on securities	-	4,136	-	6,676	3,542
Net gains on derivative financial instruments at fair value in the income statement	2,839	-	12,720	-	-
Net foreign exchange gains	-	-	-	-	18,423
Financial income	**7,746**	**8,140**	**21,923**	**13,942**	**37,877**

DKK thousand	1/4 - 30/6 2017	1/4 - 30/6 2016	1/1 - 30/6 2017	1/1 - 30/6 2016	1/1-31/12 2016
7. Financial expenses					
Interest expenses on debt	887	754	1,707	1,308	3,678
Interest expenses on financial liabilities not measured at fair value in the income statement	887	754	1,707	1,308	3,678
Fair value adjustments on securities	3,480	-	5,723	-	-
Adjustment of net present value of provisions	-	-	-	-	3,386
Net loss on derivative financial instruments at fair value in the income statement	-	-	-	-	24,271
Net foreign exchange losses	47,234	(11,483)	61,481	10,254	-
Financial expenses	**51,601**	**(10,729)**	**68,911**	**11,562**	**31,335**

DKK thousand	30/6 2017	30/6 2016	31/12 2016
8. Inventories			
Raw materials and supply materials	32,695	34,691	38,887
Work in progress	250,651	245,867	206,943
Manufactured goods and commodities	10,477	10,925	11,850
Write-down on inventory	(141,191)	(98,807)	(110,697)
Inventories	**152,632**	**192,676**	**146,983**
Write-down on inventory 1 January	(110,697)	(89,889)	(89,889)
Write-down during the period	(30,494)	(9,122)	(21,012)
Use of write-down	-	-	-
Reversal of write-down	-	204	204
Write-down end of period	**(141,191)**	**(98,807)**	**(110,697)**
9. Other receivables			
Receivable VAT and duties	3,986	7,011	14,947
Financial instruments at fair value	112	-	-
Accrued interest	11,323	5,905	10,449
Other receivables	**15,421**	**12,916**	**25,396**
10. Prepayment from customers			
Prepayments from customers as of January 1	530,645	405,789	405,789
Prepayments received during the period	637,566	64,871	142,655
Recognized as income during the period	(432,017)	(3,700)	(17,799)
Prepayments from customers end of period	**736,194**	**466,960**	**530,645**
11. Other liabilities			
Financial instruments at fair value	-	5,367	36,509
Liability relating to phantom shares	18,107	13,366	18,047
Payable salaries, holiday accrual etc.	55,442	50,556	60,698
Other accrued costs	43,071	26,574	31,733
Other liabilities	**116,620**	**95,863**	**146,987**

12. Financial instruments

Method and assumption to determine fair value
The Group has financial instruments measured at fair value at level 1 and level 2.

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

Derivative financial instruments (level 2)
Currency forward contracts, currency option contracts and currency swap contracts are valued according to generally accepted valuation methods based on relevant observable swap curves and exchange rates.

Fair value hierarchy for financial instruments measured at fair value

As of June 30, 2017

DKK thousand	Level 1	Level 2	Total
Securities	1,954,331	-	1,954,331
Financial assets measured at fair value through the income statement	**1,954,331**	**-**	**1,954,331**
Derivative financial instruments to hedge future cash flow (interest)	-	112	112
Financial assets/liabilities used as hedging instruments	**-**	**112**	**112**

As of December 31, 2016

DKK thousand	Level 1	Level 2	Total
Securities	1,046,301	-	1,046,301
Financial assets measured at fair value through the income statement	**1,046,301**	**-**	**1,046,301**
Derivative financial instruments to hedge future cash flow (interest)	-	(259)	(259)
Financial assets/liabilities used as hedging instruments	**-**	**(259)**	**(259)**
Derivative financial instruments at fair value through the income statement (currency)	-	(36,250)	(36,250)
Financial liabilities measured at fair value through the income statement	**-**	**(36,250)**	**(36,250)**

13. Incentive plans

Outstanding warrants as of June 30, 2017

	Outstanding as of January 1	Addition during the period	Options exercised	Annulled	Terminated	Trans-ferred	Outstanding as of June 30
Board of Directors	35,000	-	(10,000)	-	-	-	25,000
Corporate Management	318,702	-	-	-	-	44,600	363,302
Other employees	887,073	-	(11,667)	(11,800)	(1,500)	(85,706)	776,400
Retired employees	243,777	-	(93,700)	-	(21,411)	41,106	169,772
Total	**1,484,552**	**-**	**(115,367)**	**(11,800)**	**(22,911)**	**-**	**1,334,474**
Weighted average exercise price	**211**	**-**	**85**	**324**	**56**	**-**	**223**
Weighted average share price at exercise	**-**	**-**	**349**	**-**	**-**	**-**	**-**

Numbers of warrants which can be exercised as of June 30, 2017	124,650
at a weighted average exercise price of DKK	74

The total recognized cost of the warrant programs was DKK 10.1 million in the first six months of 2017 (DKK 8.2 million).

Specification of parameters for Black-Scholes model

DKK	Aug 2013	Dec 2013	Aug 2014	Dec 2015	Dec 2016
Average share price	68.00	82.00	117.50	334.00	222.50
Average exercise price at grant	73.90	96.50	131.40	366.85	260.20
Expected volatility rate	36.4%	35.4%	39.7%	53.8%	44.6%
Expected life (years)	3.3	3.3	3.3	3.3	3.0
Expected dividend per share	-	-	-	-	-
Risk-free interest rate p.a.	0.78%	0.74%	0.63%	0.25%	-0.48%
Fair value at grant [1)]	16	17	29	115	54

The expected volatility is based on the historical volatility.

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

14. Significant changes in contingent liabilities and other contractual obligations

No significant changes in contingent liabilities and other contractual obligations have occurred since December 31, 2016.

15. Significant events after the balance sheet date

On July 27, 2017 the company announced an additional worldwide exclusive license and collaboration agreement with Janssen Pharmaceuticals, Inc., part of the Janssen Pharmaceutical Companies of Johnson & Johnson (Janssen). This new collaboration grants Janssen the exclusive rights to Bavarian Nordic's MVA-BN® technology for two additional programs, targeting vaccines against hepatitis B virus (HBV) and the human immunodeficiency virus (HIV-1).

Under the terms of the agreement, Janssen will provide an upfront payment of USD 10 million, and Johnson & Johnson Innovation - JJDC, Inc. will provide USD 33 million in an equity investment by subscription of new Bavarian Nordic shares. Additionally, Bavarian Nordic will be eligible to receive milestone payments based upon the achievement of specified development, regulatory and sales milestones up to a total of USD 836 million, in addition to tiered royalties on future sales.

16. Approval of the unaudited condensed consolidated interim financial statements

The unaudited condensed consolidated interim financial statements were approved by the Board of Directors and Corporate Management and authorized for issue on August 25, 2017.

Forward-looking statement

This interim 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 interim report. Bavarian Nordic does not undertake any obligation to update or revise forward looking statements in this interim report nor to confirm such statements in relation to actual results, unless required by law.

Trade marks

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