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Content

About Targovax

Targovax is a clinical stage company focused on developing and commercializing novel immuno-oncology therapies to target, primarily, treatment-resistant solid tumors. Immuno-oncology is currently one of the fastest growing therapeutic fields in medicine.

The Company's development pipeline is based on two novel proprietary platforms:

The first platform, ONCOS, uses oncolytic viruses, an emerging class of biological therapy. ONCOS exclusively uses an adenovirus that has been engineered to be a tumor-selective immune activator. The platform has the potential to generate therapies with superior efficacy and safety compared to the first approved oncolytic virus therapy, Imlygic®, launched by Amgen. We continue to expect key proof of concept data for this platform in 2017 from a clinical study of lead program ONCOS-102 in patients with refractory malignant melanoma.

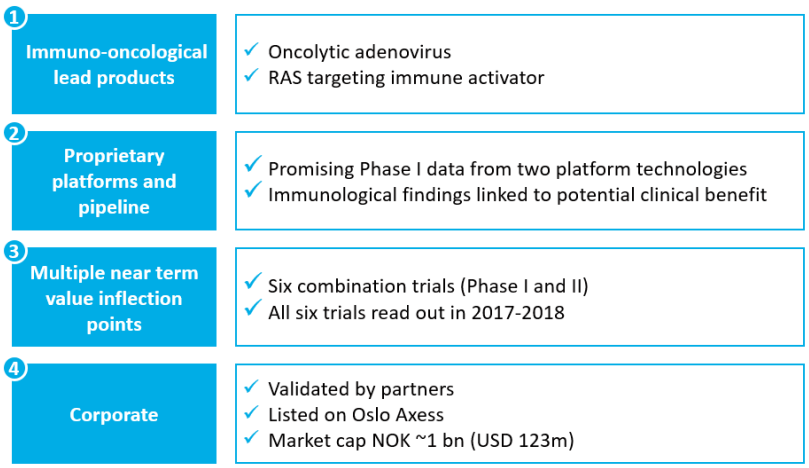
The second platform, TG peptides (TG), solely targets tumors that express mutated forms of the RAS protein. Mutations to this protein are common in many cancers and are known to drive aggressive disease progression and treatment resistance. There is a high unmet medical need for therapies that are effective against tumors that express these mutations. The TG platform's therapeutic potential stems from its ability to enable a patient's immune system to identify and then destroy tumors bearing any RAS mutations. In early 2017, key proof of concept data for the TG platform from a clinical study of TG01 in resected pancreatic cancer patients showed encouraging overall survival and will give guidance for the future clinical development of this platform.

Targovax's development pipeline has three novel therapeutic candidates in clinical development covering six indications. Already promising safety and tolerability data and early signs of clinical response have been demonstrated.

Both platforms are protected by an extensive portfolio of IP and know-how and have the potential to yield multiple product candidates in a cost-effective manner. Additionally, we have other products in early stages of development.

In July 2016, the Company listed its shares on Oslo Axess.

Please visit www.targovax.com for more information about Targovax



CEO Statement

2016 marked another exciting year for Targovax. I am delighted to have the opportunity as Targovax's new CEO to lead this Company going forward and build on our success to date.

In 2016 we continued the development of our product candidates, both through our own clinical trials and through collaborations. Our strategy remains to apply our two immunotherapy technologies in multiple indications. Our principal platform, ONCOS, uses an adenovirus engineered to be a tumor-selective immune activator and has the potential to generate therapies with superior efficacy and safety compared to other therapies. We expect proof of concept data related to immune activation in tumor tissue in 2017 from our clinical trial in patients with refractory malignant melanoma.

Our second platform, TG peptides (TG), solely targets tumors that express mutated forms of the RAS protein, which is common in many cancers and drives disease progression and treatment resistance. There is a high unmet medical need for therapies that are effective against tumors that express these mutations. The TG platform's therapeutic potential stems from its ability to enable a patient's immune system to identify and then destroy tumors bearing any RAS mutations.

This is a pivotal time for Targovax – we currently have two technology platforms, three product candidates in development, four orphan drug indications, six combination trials ongoing or about to start. Furthermore, following the encouraging interim survival data we reported in February for our TG01 trial in resected pancreatic cancer, eight clinical trial readouts are anticipated during the rest of 2017 and 2018.

Listing on Oslo Stock Exchange

During the third quarter of 2016 we achieved a major milestone in the Company's history as we listed our shares on Oslo Axess under the ticker TRVX and began life as a public company. In conjunction with the listing we raised NOK 114 million (approx. USD 14 million) from existing and new shareholders.

The new capital has allowed us to make good progress in the clinical programs. Looking forward, we continue to expect 2017 to contain important value inflection points as some of these clinical programs generate meaningful data and we will look to prioritize our pipeline based on these results.

Management and Board Changes

In November, I was named CEO of Targovax, succeeding Gunnar Gårdemyr. I joined Targovax almost two years ago, as CFO. I believe my past experience, including industry experience as CFO of Algeta, has given me the appropriate skillset for this new responsibility. While this is an extremely exciting opportunity and a personal milestone for me, I also know that there is a lot of work

to be done as we continue to deliver on our objectives and show clinical proof of concept in our ongoing clinical trials.

In January 2017, we announced the appointment of Erik Digman Wiklund as the Company's new CFO. He will take up this role in April this year. Erik has an impressive track record in commercial and operational roles in the biotechnology industry as well as a strong scientific background. He joins us from the nutraceutical company Aker Biomarine Antarctic where he held the position as Director of Product Innovation. Prior to Aker Biomarine, Erik worked at Algeta. He will also bring valuable experience from the Pharma & HealthCare practice of McKinsey & Company.

European Patent for ONCOS-102

In November, Targovax was granted a European Patent for ONCOS-102. This European patent is an important addition to Targovax's intellectual property portfolio covering our ONCOS platform and the engineered oncolytic viruses that arise from it. The patent further extends the protection of the lead product candidate, ONCOS-102, following the grant of a U.S. patent for ONCOS-102 in May 2016. Both the U.S. and the European patent expire in 2029 which gives us a long runway of patent protection. The U.S. and Europe are expected to be the largest markets for immuno-oncology products as well as the most rapidly growing segment for the development of innovative cancer treatments[1].

Encouraging TG01 Two-Year Survival Data

In February 2017, we announced encouraging data from our TG01 clinical trial in resected pancreatic cancer patients. The analysis of the first cohort of patients showed that 68 percent of evaluated patients (13/19) were still alive after two years, if survival is counted from time of resection which occurred on average two months prior to first treatment. While the cohort is small and there is no control arm, this rate compares favorably with the available published historical two-year survival rates of resected cancer patients treated with gemcitabine alone of between 30 percent and 53 percent. This is a key milestone for Targovax and will guide the future plans for the clinical development of TG01.

Combination Studies

The preparation of the new clinical trials progressed according to plan this year. At the moment, two studies are ongoing and three new studies are in the process of being set up. In June 2016, Targovax recruited and dosed the first patient in the Phase Ib/II trial, evaluating ONCOS-102 for the treatment of malignant pleural mesothelioma (MPM), a rare type of cancer in the lining of the lung, in combination with chemotherapy. This trial is planned to include six patients in the lead-in for safety evaluation of the combination treatment, and approximately 24 patients in a randomized second part to compare the tumor targeted immune activation of the combination treatment with the standard of care chemotherapy.

In July 2016, the International Journal of Cancer published preclinical in vivo data in a mesothelioma xenograph model, demonstrating synergy of ONCOS-102 with pemetrexed and cisplatin, the current standard of care in malignant pleural mesothelioma. These findings give a strong rationale for the clinical testing of ONCOS-102 in combination with pemetrexed and cisplatin in patients suffering from malignant mesothelioma.

[1] Decision Resources Special Report Cancer Immunotherapies 2015

The Year Ahead

Our focus for 2017 is to continue to progress our lead program ONCOS-102 in melanoma and mesothelioma. We will also advance our TG02 trial in colorectal cancer and further advance our plans for the clinical development of TG01. In addition, we look forward to continue working with our collaborators Ludwig/CRI and Sotio on ovarian, colorectal and prostate cancer - all currently in the clinic.

We are expecting several important clinical readouts in 2017, including interim data from our lead program ONCOS-102 in melanoma, and we look forward to updating you accordingly on our progress. I would like to reiterate how delighted and encouraged we are about the Company's near-term future and the progress we have made so far. We would not be where we are today without the hard work of our employees and the support of our investors.

Øystein Soug
CEO Targovax Group

Targovax listed its shares on Oslo Axess 8 July 2016 under the ticker TRVX and began life as a public company.

Directors Report

2016 was a successful year for Targovax ASA ("The Company"). In July, the Company listed its shares on Oslo Axess, and successfully raised funds to finance the clinical trial program.

ONCOS-102, the lead product candidate from the Company's proprietary ONCOS platform, was granted a European patent that extends the protection of the product until 2029, following the grant of a similar US patent for ONCOS-102 in May this year. These patents are important additions to Targovax's intellectual property portfolio covering the ONCOS platform and the engineered oncolytic viruses that arise from it.

Furthermore, the Company prepared and set up five new clinical trials in five indications and 2017 will be an important year for the Company with several read-outs to come during the year.

Strategy and strategic focus areas

Targovax is a clinical stage immuno-oncology company developing targeted immunotherapy treatments for cancer patients. Targovax has a broad and diversified immune therapy pipeline and aims to become a biotech leader in its area. The Company is currently developing two highly targeted technologies in immuno-oncology.

The Company's vision is to "arm the patient's immune system to fight cancer" with first-in-class specific therapeutic cancer immune activators and thus to extend and transform the lives of cancer patients. The Group's pipeline includes several product candidates aimed at different cancer types such as melanoma, mesothelioma, pancreas, colorectal, and ovarian cancer. Each immune activator is designed to harness the patient's own immune system to fight the cancer while also delivering a favorable safety and tolerability profile.

The fundamental objective of the Company is to position Targovax as an emerging biotech leader in the immuno-oncology field, committed to innovation and to providing new options for difficult to treat patients. The Company's strategy is to:

- apply its two proprietary immunotherapeutic technologies in multiple cancer indications where there exists a significant unmet medical need
- prioritize its pipeline candidates based on the emerging preclinical and clinical data
- develop the most promising product candidates, both through its own clinical trials and through collaborations
- more specifically evaluate the combination of its product candidates and checkpoint inhibitors (CPIs)
- optimize the Group's manufacturing capabilities to ensure later stage clinical trials and commercial supply
- expand its intellectual property profile, and
- retain the option to bring products to market directly, particularly in orphan indications, and to opportunistically explore partnerships with pharmaceutical companies

Business and technology platforms

The Company's development pipeline is based on two novel proprietary platforms:

- A virus-based immunotherapy platform (ONCOS) utilized on engineered oncolytic viruses armed with potent immune-stimulating transgenes targeting solid tumors, potentially reinstating the immune system's capacity to recognize and attack cancer cells
- A peptide-based immunotherapy platform (TG-Peptides) targeting the difficult to treat RAS mutations found in more than 85 percent of patients with pancreatic cancers, 50 percent of colorectal cancer and 20-30 percent of all cancers

Both treatment approaches harness the patient's own immune system to fight a growing cancer.

Targovax's virus-based oncolytic immunotherapeutic technology has a tumor-selective mechanism of action, making tumors visible to the immune system and educating the immune system to recognize and attack patient specific tumor cells. The technology is based on adenoviruses engineered to kill tumor cells, primarily via activation of a systemic, patient-specific, tumor-selective immune response. The lead product candidate is ONCOS-102. Targovax's ONCOS immunotherapy technologies are designed to stimulate the immune system in several ways in order to educate the immune system to recognize and fight cancer. Firstly, when Targovax's adenovirus infects and kills tumor cells, it makes small peptide fragments of the tumor (tumor-specific neoantigens) visible to the immune system by causing them to be released from the killed tumor cells in the presence of antigen presenting cells (APCs). APCs 'display' these fragments to other immune cells such as T-cells which are then activated to target and kill the tumor. Secondly, ONCOS-102 contains the transgene for GM-CSF (granulocyte-macrophage colony-stimulating factor). GM-CSF helps alert immune cells to the presence of the newly released neoantigens. Thirdly, in addition to stimulating new T-cell responses against the tumor, ONCOS-102 also strengthens already existing T-cell responses against the tumor because the presence of adenovirus in a tumor attracts T-cells to the tumor.

The TG immunotherapy platform is designed to activate immune responses to peptide fragments that are recognized by both MHC (major histocompatibility complex) class II complexes as well as MHC class I complexes. The TG product candidates are therefore able to activate both CD4+ helper T-cells and CD8+ cytotoxic T-cells. Peptides are not significantly immunogenic by themselves and need an 'adjuvant' or immune activator to attract dendritic cells to process them. Targovax has selected GM-CSF as its adjuvant for peptide vaccination. Targovax aims to demonstrate that the TG immune activator can prolong time to cancer progression and increase survival by inducing immune responses in cancer patients with RAS mutations. Currently, two TG product candidates are being developed: TG01 for resected pancreatic cancer and TG02 for colorectal cancer. RAS mutated cancers are difficult to treat and found in approximately 85 percent of pancreatic cancers, 50 percent of colorectal cancers and 20-30 percent of all cancers.

Clinical development programs

ONCOS-102 in checkpoint inhibitor refractory melanoma

This trial is an open-label phase I trial exploring safety and immune activation as well as clinical response of sequential treatment with ONCOS-102 and Keytruda® (an anti-CTLA4 antibody) in patients with advanced or unresectable melanoma whose tumors have continued to grow following checkpoint inhibitor therapy. The trial

is being conducted at Memorial Sloan Kettering Cancer Center in New York, one of the world's leading clinical research groups in the field of immuno-oncology, and the goal of the trial is to investigate whether these patients will respond to a checkpoint inhibitor after the ONCOS-102 priming treatment, i.e. if ONCOS-102 can reactivate the immune system and, as a result, make non-responding patients respond to a checkpoint inhibitor.

The trial is planned to include 12 patients. The first patient will be enrolled in the first half of 2017. Preliminary immune activation data of initial treatments will constitute proof of concept in refractory melanoma and are expected in the second half of 2017. More extensive clinical results from the sequential virus and CPI treatment are expected in second half of 2018.

ONCOS-102 in mesothelioma

This trial is a randomized phase II open label trial with a phase Ib safety lead-in of ONCOS-102 and pemetrexed/cisplatin, the standard of care chemotherapy in patients with unresectable malignant pleural mesothelioma. The trial is planned to include six patients in a lead-in for combination safety evaluation and approximately 24 patients in the randomized part of the trial to compare the tumor targeted immune activation of the combination treatment with the standard of care chemotherapy.

The first patient in the safety cohort has already been dosed.

TG01 in Pancreatic Cancer

Targovax has an ongoing open label, phase I/II clinical trial with TG01, GM-CSF, and gemcitabine (chemotherapy) as adjuvant therapy for treating patients with resected adenocarcinoma of the pancreas. The trial is structured as a first cohort of 19 patients and a second cohort of 13 patients on a modified vaccination schedule. The primary objective of the study is an assessment of safety and immune activation, while the secondary objective is treatment efficacy including overall survival at two years. The recruitment to this trial was completed in May 2016 and the patients will be monitored for 24 months.

In March 2015, Targovax showed that TG01, administered in combination with gemcitabine, induced and enhanced RAS specific T-cell immune responses.

In March 2016, Targovax conducted a pre-determined interim survival analysis of the first cohort indicating promising survival data. Of the 19 patients included in the cohort, 15 patients could be followed up for survival. The one-year survival data showed that 14 out of these 15 patients were alive and one had passed away due to causes assessed by the investigator as unrelated to the patients' underlying cancer. The regimen was generally well tolerated.

In April 2016, Targovax reviewed interim data for early immune activation (DTH[2] responses) in the modified treatment cohort. Four out of the five first recruited patients (of a total of 13 patients) showed an immune-response at eight-weeks. These results were in line with the analysis of the first cohort (in March 2015) where 18 out of 19 patients were eligible for immune response assessment and 15 patients had established a detectable early immune response. In February 2017, Targovax announced encouraging top line two-year survival data from the same study: see section "Important events after balance sheet date".

[2] DTH is a way of measuring an immune response towards a specific antigen. When the immune system has learnt to recognize e.g. the RAS peptides as foreign, the immune response can be measured by using DTH (delayed type hypersensitivity reaction)

TG02 in colorectal cancer

TG02 will be the second TG cancer immune activator to enter the clinic from the Company's peptide-based immuno-therapy platform. This is an open label, non-randomized phase Ib exploratory trial to determine safety and anti-tumor immune activation using TG02, first as monotherapy then in combination with a CPI, in patients with locally recurrent rectal cancer scheduled to have surgery. Currently, the plan is to include 20 patients in Australia and New Zealand. The first patient is scheduled to be enrolled in first half of 2017.

Clinical trials with collaboration partners

In late 2015, Targovax entered into an agreement with US-based Ludwig Cancer Research (LCR) and the Cancer Research Institute (CRI).

The first clinical trial to be initiated as part of this collaboration is a non-randomized, open-label, phase I/II trial which will explore the combination of lead product ONCOS-102 with MedImmune's CPI durvalumab, an anti-PD-L1 antibody currently in development. MedImmune is the global biologics research and development arm of AstraZeneca plc. The trial will recruit up to 78 patients with advanced peritoneal disease who have failed prior standard chemotherapy and have histologically confirmed platinum-resistant or refractory epithelial ovarian or colorectal cancer.

The objectives of the trial will include an assessment of safety, clinical efficacy, and immunological activity of ONCOS-102 in combination with durvalumab. The trial is being conducted in the USA and sponsored by Ludwig Cancer Research on behalf of the Cancer Research Institute.

Targovax also has an ongoing clinical collaboration with the Czech biotech company Sotio. The objective of the Sotio collaboration is to study the safety and tolerability of ONCOS-102 when combining Targovax's oncolytic virus and Sotio's dendritic cell therapy DCVAC/PCa in prostate cancer patients.

Through these collaborations, Targovax is able to leverage its own clinical development expertise with access to leading external expertise and extensive clinical trial networks. In both collaborations, the sponsor of the trial will be the collaboration partner. The plan is to recruit the first patients into both these trials during the first half of 2017.

Preclinical development

The International Journal of Cancer has recently published preclinical *in vivo* data in a mesothelioma xenograft model demonstrating synergy between ONCOS-102 and pemetrexed and cisplatin. These findings support the rationale for the ongoing trial of ONCOS-102 in combination with pemetrexed and cisplatin in patients suffering from malignant mesothelioma.

Important events in 2016

In March, Targovax conducted an interim survival analysis of a first cohort of the ongoing open label, phase I/II of TG01/GM-CSF and gemcitabine in patients with resected pancreatic cancer. Of the 19 patients included in the cohort, 15 patients could be followed up for survival. 1-year survival data showed that 14 of these 15 patients were still alive at the time of analysis.

In April, Targovax conducted an interim DTH immunological response of a second cohort of the same trial, assessing early immune activation. Four of the five first recruited patients (of a total of up to 13 patients) showed an 8-week immune response. These results were in line with the analysis of the first cohort (in March 2015) where 15 of 18 eligible patients showed a

detectable immune response suggesting that immune activation can be achieved with lower immune activator doses. The Company completed recruitment in the open label Phase I/II TG01 trial in combination with chemotherapy of patients with resected pancreatic cancer in June. 32 patients have been included in the trial.

In June, the first patient was recruited and dosed in the Phase Ib/II trial evaluating ONCOS-102 for the treatment of malignant pleural mesothelioma (MPM), a rare type of cancer in the lining of the lung, in combination with chemotherapy. A month later, the International Journal of Cancer published preclinical in-vivo data demonstrating synergy of ONCOS-102 with pemetrexed and cisplatin.

In July, Targovax listed its shares on Oslo Axess and raised NOK 110 million in new equity, securing funding for further development of the company's ongoing and planned trials. A further NOK 4 million was raised in a subsequent repair offering in August.

In November, Øystein Soug was appointed CEO of the Company.

In November, Targovax was granted a European Patent for the ONCOS platform lead product, ONCOS-102, extending patent coverage following the award of a similar US patent in June. These patents both expire in 2029.

Important events after balance sheet date

CFO appointed

In January, Targovax announced the appointment of Erik Digman Wiklund as the Company's new Chief Financial Officer. He will take up this role in April 2017. Erik joins from the nutraceutical company Aker Biomarine Antarctic AS, where he held the position as Director of Product Innovation. He will also bring experience from Algeta ASA and McKinsey & Company.

Encouraging top line two-year survival data from TG01 clinical trial

In February 2017, Targovax announced encouraging top line two-year survival data from its TG01 clinical trial in resected pancreatic cancer patients. Data from this patient cohort showed that 68 percent of evaluated patients, or 13/19, were still alive after two years if survival is counted from time of resection which occurred on average two months prior to first treatment, or 12/19 if counted from time of first treatment. While the cohort is small and there is no control arm, this rate compares favorably with the available published historical two-year survival rates of resected cancer patients treated with gemcitabine alone of between 30 percent and 53 percent. This is a key milestone for Targovax and triggers a further iteration of plans for the future clinical development of TG01.

Key figures in the consolidated accounts

Income statement (2015 figures in brackets)

In 2016 Targovax had revenues related to a non-core service fee amounted to NOK 0 (NOK 0.1 million).

Total operating expenses for 2016 amounted to NOK 120 million (NOK 90 million), of which payroll and related expenses amounts to NOK 49 million (NOK 35 million). The operating expenses are reported net of governmental grants, which amounted to NOK 8 million in the period (NOK 9 million). The prior year comparison includes the impact of Oncos only from second half of 2015.

Operating loss amounted to NOK 120 million in 2016 (NOK 90 million). Financial income amounted to NOK 1 million or the year (NOK 2 million). The group has financial expenses of NOK 4 million (NOK 3 million).

Cash flow

Net cash was NOK 172 million at the end of the year, compared to NOK 174 million at the end of 2015.The change in net cash level was driven by the NOK 114 million capital increase undertaken in July offset primarily by operating activities.

Net cash outflow for the year was negative NOK 110 million from operating activities (NOK 81m), and positive NOK 108 million from financing activities (NOK 191m). The difference between the operating loss and negative cash flow from operating activities is due to activities completed in 2016 not yet invoiced at 31 December 2016. The increase in cash flow from financing activities has led to the opportunity to expand the operational activities, hence the outflow from operational activities have increased.

Financial position

As at 31 December 2016, Targovax had total assets of NOK 525 million, compared to NOK 545 million by the end of 2015.

Total current assets amounted to NOK 186 million (NOK 185 million), of which cash and cash equivalents amounted to NOK 172 million (NOK 174 million).

Total non-current assets were NOK 340 million (NOK 360 million), of which intangible assets amounted to NOK 338 million (NOK 358 million).

Booked equity amounted to NOK 401 million, decreased from NOK 423 million in 2015. The equity ratio amount to 76.4 percent compared to 77.6 percent in 2015.

Going concern

The financial statements for 2016 have been prepared under the going concern assumption, as stipulated in Section 3.3a of the Norwegian Accounting Act. With reference to the Group's financial results, financial position and forecasts for years to come, it is hereby confirmed that grounds for this assumption do exist.

Risk factors and risk management

Targovax is subject to several operational and financial risk factors and uncertainties which may affect parts or all the activities in the group. The Group proactively manages such risks and management and the Board of Directors regularly analyse operations and potential risk factors to take measures to reduce risk exposure.

Operational risk

Targovax's activity is development of pharmaceutical medications. Development of pharmaceuticals normally goes through several stages before commercialization and risk of failure is generally inherent throughout the process.

The group is in an early phase, with two clinical trials ongoing and several clinical studies planned to start in 2017. As the results from these studies are yet to be revealed, the uncertainty related to the outcome of these may be regarded as the most important risk factor.

Also, delays in the work with ongoing clinical trials, or in the preparations for new clinical studies, are important risk factors. Chemistry, manufacturing and controls for Targovax's drug products are under development and unforeseen incidents and delays may have an impact on the progress of ongoing and planned clinical studies.

As many studies depend on both funding and technology from external partners for completion,

uncertainties append to these partners' willingness to carry the studies through.

Development of pharmaceuticals is highly time consuming and costly and as Targovax depends on third parties to conduct its clinical trials, delays or other unforeseen discrepancies outside Targovax's control may occur. Such delays in trials might increase the cost of the trial and additional capital requirements might arise.

Targovax also conduct clinical trials in combination with third party products. Limited access or any other constraints in terms of use of such products may adversely impact the progress or clinical development of Targovax's trials and products.

To secure progress according to plans and budgets, Targovax has implemented and execute routines and practises, including monitoring, evaluation and reporting, to secure planned and approved project developments.

The clinical trials also include volunteer patients and Targovax put great emphasis on the safety of these as well as general regulatory framework of the development of pharmaceuticals. Recruitment of patients may be delayed due to patients' willingness to participate, competing trials and doctors' priorities.

The Group's lead product candidates, ONCOS-102 and TG01 are currently in clinical phase I/II and phase Ib/II, respectively.

The success, competitive position and future revenues will depend in part on Targovax´s ability to protect its intellectual property and know-how. To date, Targovax holds certain exclusive patent rights and has filed several patent applications, however, there will always exist uncertainties related to predicting the degree and range of the protection from patents.

Financial risks

Being an early phase research and development group, Targovax is accumulating financial losses. Operating losses are expected to persist during the development phases of the Groups' products, and potentially cash generating operations are not expected until one or more of the group's products are commercialised.

General monitoring of risks related to the financial development is secured through control of financial reporting. This is achieved through day-to-day follow-up by management, supervised by the Board of Directors, through periodical reporting and evaluation. Non-conformances and improvement opportunities are followed up and corrective measures implemented continuously.

Funding of ongoing operations is and will be for some time depending on external sources, mainly equity contributions. Significant changes to financial market conditions, may affect the climate for investor investments.

To maintain and expand the Company's base of potential investors and securing access to risk capital when needed, the Targovax management continuously promote and present the group through road shows and participation on industry- and investor seminars.

Interest rate fluctuations may in the future affect the Group's business, financial condition, results of operations, cash flows, time to market and prospects. Currently, the Group has no long-term debt other than its debt to Tekes. The debt to Tekes carry an annual interest equal to the European Central Bank's steering

rate less 3 percentage points, but in no event less than 1 percent. The current interest is 1 percent per annum.

Fluctuations in exchange rates could affect the Group's cash flow and financial condition. The currency exposure includes both transaction risk and risk related to translation of operating expenses.

Transaction risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group undertakes various transactions in foreign currencies and is consequently exposed to fluctuations in exchange rates. The exposure arises largely from research expenses. The group is mainly exposed to fluctuations in EUR, GBP, and CHF. Translation risk in the Company arises when amounts denominated in foreign currencies are converted to NOK, the Company's reporting and functional currency. One of the Group's subsidiaries has EUR as its reporting and functional currency.

Targovax has costs and payments in several currencies, EUR the most prominent but also USD and other. Cash inflow takes place in NOK through capital increases. Targovax manages currency risk by matching expected outflows with holdings in all major currencies.

Market developments

Pharmaceutical market overall

During the last decade, the global pharmaceutical industry has demonstrated an annual growth of 6.4 percent. The world pharmaceutical market was estimated to USD 800 billion at ex-factory prices in 2015[3]. For the coming five-year period, the annual growth rate is expected to drop slightly below 5 percent.

The largest single market is North America, in 2015 accounting for 48 percent, compared to Europe accounting for 22 percent. The main driver behind the growth in recent years has been emerging markets, and in the 2009-2014 period growth in Asia, Africa and Latin America was around twice the global growth. However, in some Asian countries like China growth has recently started to slow down. In 2015 the Brazilian and Chinese markets grew by 14.0 percent and 7.0 percent, respectively, compared with an average market growth of 5.9 percent for the total European market and 8.5 percent for the US market.

The cancer market

General

In 2014 worldwide spending on cancer drugs passed USD 100 billion, according to a 2015 report by IMS Health, which also forecasts the worldwide cancer market to grow by about 6-8 percent per year, reaching USD 117-147 billion in 2018. However, we should note that this figure does not include confidential rebates and discounts which on some pricey drugs can be 30-50 percent of the list price, a situation especially common in the US market. Nevertheless, growth is expected to be significant, and the increasing use of expensive immune-oncology medicines (especially immune checkpoint inhibitors) in the treatment of cancer may well push the growth rate to even higher levels than forecast.

The Cancer Epidemiology

The World Health Organisation ("WHO") estimates that cancer accounted for more than 8 million deaths in 2012

[3] Key Data from European Federation of Pharmaceutical Industries and Associations (efpia) annual reports 2013-2016

globally, which makes it the world's most deadly disease. The same year, more than 32 million individuals lived with a five-year cancer diagnosis, while 14 million new cases of cancer were reported. Today, cancer accounts for about one in every seven deaths worldwide and by 2030, the American Cancer Society expects the number of new incidents of cancer to be close to 22 million per year, and that the number of deaths by cancer will increase to 13 million.

Types of cancer treatment

The cancer therapy (oncology) market is highly diversified, and the optimal cancer treatment should be individualized, depending on the type, stage and differentiation of the cancer, as well as the patient's overall physical condition and age. A patient's treatment plan may consist of one or many different treatment modalities, depending on the situation. For some cancer patient's treatment is of a curative intent, while for others, the intent is to relieve suffering and to increase quality of life (palliative care). Traditionally, surgery, chemotherapy, radiation therapy and hormone therapy are among the most common treatments. However, new and innovative approaches like targeted therapies and immunotherapy are increasingly being utilized for the treatment of cancer.

Immunotherapy

Clinicians and scientists agree that the immune system can be used to fight cancer, and have in recent years managed to design therapies which uses a patient's own immune system to fight cancer. Immunotherapy is a form of therapy designed to activate a patient's immune system in the fight against cancer. The immune system can be utilised in several ways, but the most common is to increase or "boost" the immune system and to stimulate it to recognise the cancer cells as foreign bodies that are to be removed. This is normally achieved by giving patients antibodies, immune activators or non-specific cancer immunotherapies and adjuvants. Immunotherapy is now an important form of treatment in the fight against many types of cancer.

Within immunotherapy there are several different variations and approaches. One approach is to inject a virus directly into a tumor, which subsequently kills some of the cancer cells through a process in which the cell membrane is broken down (often referred to as "lysis"). When the cell membrane is broken down, unique tumor antigens ('neoantigens') are released and the immune system learns to recognise the unique cancer cells of each patient. As a result, the patient's immune cells (e.g. T cells) will start to find and kill cancer cells.

Another approach focuses on a family of proteins called RAS. These proteins are ubiquitously expressed in all cell lineages and play an important role in regulating cell growth and division. Mutation of RAS can cause sustained cell division and thus drive cancer development. RAS-mutation is an early cancer marker present in up to 30 percent of all cancers[4] and one therapeutic technique is to use peptide-based cancer immune activator candidates that target RAS-mutations. These peptides are injected into the skin of the patient and subsequently the immune system learns to recognise the RAS-mutations and activate T cells to kill the cancer cells with RAS-mutated proteins.

[4] Fernandez-Medarde, A. and Santos, E.; RAS in cancer and Developmental Diseases Genes & Cancer. 2011, 2(3): 344-358

External environment

The group does not pollute the external environment more than what is considered normal for this industry. All production and distribution is outsourced. When selecting suppliers, Targovax evaluate each candidate's ethical and responsible business conduct including environment, health and safety policy.

Corporate social responsibility

Targovax is an early clinical stage immuno-oncology company dedicated to the development of highly targeted immunotherapies for cancer patients.

We believe that creating value for patients, customers and society strengthens our business and provides value for shareholders, and that our commitment to corporate social responsibility will enhance this by building strong relationships with our stakeholders.

Our commitment to corporate social responsibility is driven by our values: trust, quality, teamwork and innovation and is reflected in Targovax's focus to develop innovative immunotherapies to fight cancer.

Targovax has a set of Corporate Social Responsibility principles agreed by the Board on 3 September 2015. They consist of principles related to:

- Social commitment
- Business conduct
- Anti-corruption
- Human rights
- Labour rights and work conditions
- Whistleblowing
- Environmental responsibility

The complete content of the principles is published on the Company's website www.targovax.com.

Targovax conducts social commitment through its mission to extend and transform the lives of cancer patients with highly targeted immunotherapies. This mission encompasses all activities from developing products, gaining approval by relevant authorities, working with patient organizations and hospitals and finally getting the products to the market.

The group is developing two highly targeted approaches in immuno-oncology: a virus-based immunotherapy platform based on engineered oncolytic viruses armed with potent immune-stimulating transgenes for patients with solid tumors and a peptide-based immunotherapy platform for patients with RAS-mutated cancers. Both treatment approaches harness the patient's own immune system to fight cancer.

Personnel and organization

The group has a policy to outsource non-core operations and highly specialised services. The Board consider the work environment within the group to be good. No accidents or injuries resulting in absence was registered in 2016. Absence due to illness in the group was 1.3 percent in 2016, considerably lower than the industry standard.

As at 31 December 2016, Targovax had a total of 26 employees, compared with 27 employees at the end of 2015.

Health, Safety and Environment

Targovax aims to be a workplace with equal opportunities in all areas. The group has traditionally recruited from environments where the number of women and men is relatively equally represented. In terms of gender equality, 38 percent of the Board members are women, as are 50 percent of the senior

management team. Working time arrangements at the group are independent of gender.

Targovax's policy is to promote equal human rights and opportunities and prevent discrimination because of gender, ethnicity, nationality, ancestry, colour or religion. Targovax is working actively to promote the anti-discrimination act in our business. The activities include recruitment, salary and working conditions, promotion, professional development and protection against harassment.

Targovax aims to be a workplace where there is no discrimination due to disability. Targovax works actively to design and facilitate the physical environment so that the Group's various functions can be used by as many as possible.

Corporate governance and ethics

Ensuring good governance practices involves all people in Targovax. This includes governance as documented in the guidelines for corporate governance, ethical conduct and anti-corruption based on the Targovax values and respect for human rights. Targovax supplier requirements in terms of adherence to our practices, guidelines and values are an integral part of all stages of the procurement process including selection and auditing.

Our corporate values set out our expectation for everyone to behave ethically in everything they do. Our values are trust, quality, teamwork and innovation

Targovax considers solid corporate governance as a prerequisite to creating value for shareholders and gaining the confidence of investors. Targovax will strive to comply with the generally accepted principles of good corporate governance through its internal controls and management structure. Targovax believes that its current guidelines for corporate governance are in line with the latest version of the Norwegian Code of Practice for Corporate Governance, and a description of this is given at the end of the Annual report. A complete description of the recommendation is available at the Norwegian Corporate Governance Board (NCGB) web pages (www.nues.no).

For further details, please see the section entitled Corporate Governance in this Annual Report and on the group's homepage.

Shareholder information

During 2016 the Targovax share was traded in the NOK 7.70 – 17.00 range. During 2016 some 17.6 million shares were traded, with a total value of NOK 199 million. Closing price on 31 December was NOK 11.75 per share, corresponding to a market-value of NOK 496 million.

As of 2 March 2017, there were 42,199,719 shares outstanding in Targovax, distributed to 3063 shareholders. HealthCap is the largest shareholder, holding about 26.4 percent of total shares outstanding. The 20 largest shareholders control 67 percent of total shares outstanding.

Key management and members of the Board holds a total of 922,968 shares in the Company, representing some 2.2 percent of total shares outstanding.

The estimated share ownership situation on 2 March 2017:

Shareholder		Estimated ownership	
		Shares m	*Relative*
HealthCap	Sweden	11,2	26,4 %
RadForsk	Norway	4,1	9,7 %
Nordea	Norway	2,7	6,4 %
KLP	Norway	1,7	4,0 %
Rasmussengruppen	Norway	1,4	3,2 %
Nordnet Livsforsikring	Norway	1,2	2,8 %
Statoil	Norway	0,9	2,2 %
Danske Bank (nom.)	Norway	0,7	1,8 %
Timmuno AS	Norway	0,7	1,7 %
Prieta AS	Norway	0,7	1,7 %
Nordnet Bank AB (nom.)	Sweden	0,7	1,5 %
Nordea 1 SICAV	Norway	0,4	1,0 %
Sundt AS	Norway	0,4	0,9 %
DNB	Norway	0,3	0,7 %
Thorendahl Invest AS	Norway	0,3	0,6 %
Avanza Bank AB (nom.)	Sweden	0,3	0,6 %
Netfonds Livsforsikring AS	Norway	0,2	0,5 %
Bank of NY Mellon (nom.)	Belgium	0,2	0,5 %
Bank of NY Mellon (nom.)	Belgium	0,2	0,5 %
Tobech Invest AS	Norway	0,2	0,5 %
Top 20		**28,4**	**67,3 %**
Other shareholders (3043)		*13,8*	*32,7 %*
Total		**42,2**	**100,0 %**

Remuneration to management

The remuneration of the management is intended to ensure the Group's continued ability to attract and retain the most qualified management team members and to provide solid basis for succession planning.

The Compensation Committee submits recommendations on compensation policy and adjustments in remuneration of the management team members for the approval of the Board of Directors. The remuneration of the management team may consist of fixed salary and supplements, incentive programs, and pension schemes. Subject to individual agreement, members of the management team are also entitled to other fixed benefits.

Information about the work in the Compensation Committee and applied and proposed compensation principles for the management team in 2016 and 2017 respectively are in the Compensation Report submitted in note 11 to the Annual Accounts.

Financial results and allocation of profits in Targovax ASA

Targovax ASA is the holding company in the Targovax group. Targovax ASA reported a loss before tax of NOK 74 million (NOK 61m). Total cash amount to NOK 158 million at the end of 2016 compared to NOK 166 million at the end of 2015. Equity at the end of 2016 amount to NOK 472 million compared to NOK 430 million at the end of 2015.

Targovax ASA´s annual result amounted to a loss of NOK 74 million. The Board of Directors proposed that the loss is transferred to accumulated loss.

Outlook

Targovax's focus during the next 12 months will be to progress the previously described trials with its lead program ONCOS-102 in melanoma and mesothelioma and continue the follow-up phase of the TG01 trial in resected pancreatic cancer. We will also advance TG02 into the clinic in colorectal cancer.

Furthermore, Targovax, together with its clinical trial collaborators LCR/CRI and Sotio are starting trials in various other solid tumor indications.

2017 is a very important year for clinical data reporting. As outlined above, the year has started encouragingly with the two-year overall survival data from the first patient cohort in the TG01 trial in resected pancreatic cancer.

The Company believes the interim data readout in the second half of 2017 from the earlier-mentioned phase I trial of ONCOS-102 in checkpoint inhibitor refractory melanoma patients will provide a meaningful clinical

proof of concept for the ONCOS platform and is set to be another key value inflection point for the Company.

During 2017, Targovax aims to upgrade its listing to the main list at Oslo Børs. The criteria for the upgrade has already been met.

Oslo, 15 March 2017

The Board of Directors of Targovax ASA

Jonas Einarsson Chairman of the Board	Per Samuelsson Board member
Bente-Lill Romøren Board member	Lars Lund-Roland Board member
Johan Christenson Board member	Robert Burns Board member
Eva-Lotta Allan Board member	Diane Mellett Board member

Øystein Soug
Chief Executive Officer

Responsibility Statement from the Board of Directors and the Managing Director

We confirm, to the best of our knowledge that the financial statements for the period 1 January to 31 December 2016 have been prepared in accordance with current applicable accounting standards, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the entity and the group taken as a whole. We also confirm that the Board of Directors' Report includes a true and fair view of the development and performance of the business and the position of the entity and the group, together with a description of the principal risks and uncertainties facing the entity and the group.

Oslo, 15 March 2017

The Board of Directors of Targovax ASA

Jonas Einarsson Chairman of the Board	Per Samuelsson Board member
Bente-Lill Romøren Board member	Lars Lund-Roland Board member
Johan Christenson Board member	Robert Burns Board member
Eva-Lotta Allan Board member	Diane Mellett Board member

Øystein Soug
Chief Executive Officer

Management

The Company's management team consists of eight individuals. Set out below are brief biographies of the members of Management. Holdings of shares and share options as at 16 March 2016 and includes close associates.

Øystein Soug – Chief Executive Officer

Øystein Soug has 20 years' experience from international banking, industry and biotech. The last six years before joining the Company he was CFO of Algeta ASA, where Mr Soug built up the functions of Finance, IR, Compliance, IT and HR. During his period in Algeta, the company started and completed a 900 patient Phase III trial, licenced its lead drug Xofigo with Bayer, built a US sales organization, launched Xofigo in the US, raised some USD 200 million in the capital markets and was sold for USD 2.9 billion to Bayer. Before Mr Soug's current CEO role, he was CFO of Targovax from May 2015 to October 2016. Prior to biotech, Mr Soug held several positions with the Orkla Group and the European Bank for Reconstruction and Development (EBRD). He has a MSc in Economics and Finance from Universität St. Gallen in Switzerland. Mr Soug is a Norwegian citizen, and resides in Norway.

Shares	100 000
Share options	540 000

Jon Amund Eriksen – Chief Technology Innovation Officer

Jon Amund Eriksen is co-founder and co-inventor of the Targovax technology. He has more than 30 years of experience in the pharmaceutical and biotech industry (Nycomed, Norsk Hydro, GemVax, Pharmexa and Lytix Biopharma). Mr Eriksen has previously held several senior positions as scientist, project leader and manager within development of cancer immunotherapy from discovery and early preclinical to phase III clinical development. He is co-inventor of several patents for peptide cancer immune activators. Mr Eriksen holds a MSc in Chemistry from the University of Oslo. He is a Norwegian citizen, and resides in Norway.

Shares	728 601
Share options	160 000

Magnus Jäderberg – Chief Medical Officer

Magnus Jaderberg is a pharmaceutical physician with more than 30 years in various R&D functions including clinical research, medical affairs, pharmacovigilance, strategic product development and general management. He is experienced in all phases of clinical research, including clinical pharmacology, dose finding, registration, post-launch product differentiation and surveillance. Dr Jäderberg's therapeutic area expertise includes immune oncology with late stage development, registration and launch of Rapamune (sirolimus) and

Yervoy® (ipilimumab). Prior to joining Targovax, he held roles at national, European and global level at GSK, Pharmacia, Wyeth and most recently as Chief Medical Officer, Bristol Myers Squibb (Europe). Dr Jaderberg qualified in medicine at Karolinska Institute, Stockholm, Sweden, and is a fellow of the Faculty of Pharmaceutical Medicine of the Royal Colleges of Physicians of the United Kingdom. He is a Swedish citizen, and resides in the United Kingdom.

Shares	20 000
Share options	510 000

Anne Kirsti Aksnes – Vice President, Clinical Development

Anne Kirsti Aksnes has more than 20 years of experience within clinical research and development in the pharmaceutical and biotech industry and 10 years of experience working in clinical physiology. Previously, she was VP Clinical Research in Algeta ASA (now Bayer AS), where Mrs Aksnes had a key role in the strategic, scientific and clinical development as well as in medical communications. She holds a medical doctorate degree (PhD) at Karolinska Institute, Sweden. Mrs Aksnes is a Norwegian citizen, and resides in Norway.

Shares	12 000
Share options	153 000

Berit Iversen – Vice President, CMC

Berit Iversen has more than 25 years of experience within Research & Development and Operation in the pharmaceutical and biotech industry, including analytical sciences, quality control, validation and quality assurance from preclinical product development through to regulatory approval of products. She has held different managing positions within CMC, Analytical development and Quality Control, in Nycomed/GE-Healthcare and in Invitrogen Dynal, now Thermo Fischer Scientific. Before joining Targovax, Ms Iversen was responsible for CMC and QA in Lytix Biopharma She holds a MSc degree in chemistry from the University of Oslo. Ms Iversen is a Norwegian citizen, and resides in Norway.

Shares	7 587
Share options	90 000

Tiina Hakonen – Site manager Helsinki

Tiina Hakonen has more than 20 years of experience within clinical research and development in the pharmaceutical and biotech industry.

She is experienced in all phases of clinical research. Ms Hakonen has held different management positions in Global Pharma and CRO organizations in Biostatistics and Data Management.

She has a Master of Science (Statistics) degree from the University of Oulu, Finland. Ms Hakonen is a Finnish citizen, and resides in Finland.

Shares	0
Share options	45 000

Tina Madsen – Vice President, Quality Assurance

Tina Madsen has more than 20 years of experience within research & development and commercial manufacturing in the pharmaceutical and biotech industry, including quality assurance, process development and formulation. She has held managing positions within formulation and process development in Alpharma and QA in GE Healthcare. Before joining Targovax, Ms Madsen was Director of Product Quality Assurance in Algeta ASA (now Bayer AS). She holds a MSc in Pharmacy. Ms Madsen is a Danish citizen, and resides in Norway.

Shares	6 300
Share options	53 000

Peter Skorpil – Vice President, Business Development

Peter Skorpil has extensive experience in licensing, commercial assessments, business intelligence and partnering. Previously, he was Commercial Director in Pronova BioPharma and Business Development Manager for Clavis Pharma where Mr Skorpil was responsible for, among other things, out-licensing and managing Clavis partners. He has also worked as a venture capital analyst at NeoMed Management. Mr Skorpil holds an MBA from Brandeis University, Massachusetts, USA and a PhD in molecular biology from University of Geneva, Switzerland. He is a Swiss citizen, and resides in Norway.

Shares	10 000
Share options	45 000

Board of Directors

Set out below are brief biographies of the Board members.

Jónas Einarsson, Chairperson

Jónas Einarsson is the CEO of the Norwegian Radium Hospital Research Foundation. The Norwegian Radium Hospital Research Foundation is an experienced pre-seed investor and project developer focused on cancer. He sits on the board of Directors of several Norwegian biotech companies and was one of the initiators behind Oslo Cancer Cluster and the Oslo Cancer Cluster Innovation Park. Mr Einarsson is a Norwegian citizen, and resides in Norway.

Shares	0
Share options	0
RSU	0

Bente-Lill Bjerkelund Romøren, Board member

Bente-Lill Bjerkelund Romøren is a consultant with 40 years of experience gained from national and international management positions in the pharmaceutical industry. She was formerly CEO of Novo Nordisk Scandinavia. Ms Bjerkelund Romøren's experience spans senior management, marketing, sales, business development, licensing, market access, public affairs, clinical trials and lifecycle management. She has good knowledge of the health care system as well as regulations and framework for the pharmaceutical market. Ms Bjerkelund Romøren has board member experience from private and public sector (health care) and holds position as chairman of the Board in Photocure ASA and Farmastat AS and is a Board member in Radiumhospitalets Forskningsstiftelse. She holds a MSc degree in chemistry from the Norwegian Institute of Technology in Trondheim. Ms Bjerkelund Romøren is a Norwegian citizen, and resides in Norway.

Shares	0
Share options	0
RSU	10 929

Johan Christenson, Board member

Dr Johan Christenson has been a Partner at HealthCap since 2001. He has been in the life science sector covering science, medicine, drug development and venture investments since 1981. Prior to joining HealthCap, Dr Christenson was with SEB Företagsinvest (the venture capital arm of SEB) to supervise the health care portfolio. He was Global Product Director and member of the global therapy area management team of Pain and Inflammation at AstraZeneca. Dr Christenson has a MD degree and a PhD in basic neuroscience from Karolinska Institute. He held a position as Assistant Dean at the Karolinska Institute Graduate School for two years. Dr Christenson has four years of clinical specialist training in paediatrics and paediatric neurology. He is a Swedish citizen, and resides in Sweden.

Shares	0
Share options	0
RSU	0

Lars-Lund Roland, Board member

Lars Lund-Roland is a management consultant and associate partner at Narum Gruppen and has for the last three and a half years been CEO of Bringwell AB (publ), a Nordic health and welfare company listed in Stockholm, that commercializes OTC pharmaceuticals, nutrition and food supplements. Prior to this, he has been Managing Director of MSD Norway (Merck & Co Inc. subsidiary) for 10 years and has gained more than twenty-five years of big-pharma experience from various executive positions within marketing and sales at Merck & Co., Inc. Mr Lund-Roland currently holds board positions at Vaccibody AS and Idia AS and has served as Board member of Infodoc AS and Health Tech AS, two Norwegian health technology companies, as well as on the board of the Norwegian Association of Pharmaceutical Manufacturers. He is a Business Economist Graduate from Norwegian Business School BI, has a BSc in Healthcare from Buskerud University College and leadership education from the Sr. Executive programs at Columbia Business School and Harvard. Mr Lund-Roland is a Norwegian citizen, and resides in Norway.

Shares	4 417
Share options	0
RSU	20 811

Per Samuelsson, Board member

Per Samuelsson is a partner at Odlander Fredrikson/HealthCap, the life sciences venture capital firm, which he joined in 2000. Prior to this, Mr Samuelsson gained more than 15 years of investment banking experience, mainly with Aros Securities in Sweden. In his final position with Aros Securities, as a Director in the firm's corporate finance department, Mr Samuelsson specialized in the areas of merger transactions, initial public offerings, and equity incentive programs. Prior to this, he was Head of Research, also at Aros Securities. Mr Samuelsson currently holds several Board positions at Nordic Nanovector ASA, NVC Holding AB, Oncopeptides AB, RSPR Pharma AB and SwedenBIO. He received his MSc in Engineering from the Institute of Technology in Linköping, Sweden. Mr Samuelsson is a Swedish citizen, and resides in Sweden.

Shares	0
Share options	0
RSU	0

Robert Burns, Board member

Robert Burns is a consultant and advisor to companies developing immune based therapies in cancer. He has experience over more than 30 years in building biotechnology companies focused on immuno-oncology and was a member of the board of Directors of Oncos prior to the Combination. Dr Burns was previously Chairman of Haemostatix Limited before its acquisition by Ergomed plc. He was also previously CEO at 4-Antibody AG, Affitech A/S (NASDAQ/OMX), and Celldex Therapeutics Inc (NASDAQ), each immuno-oncology immune activator and antibody discovery companies. Prior to Celldex Therapeutics, Dr Burns was Director of Technology Licensing at the Ludwig Institute for Cancer Research, an international independently financed not-for-profit research group focused on cancer immune activators and antibody based cancer immunotherapies. He holds a PhD in Chemistry and is a UK citizen, residing in Oxford, UK.

Shares	34 063
Share options	21 235
RSU	40 984

Eva-Lotta Coulter (known as Eva-Lotta Allan), Board member

Eva-Lotta Allan is an experienced biotechnology deal-maker with over 25 years of business development experience from the biotechnology and life science industry in both private and public companies. She has significant operational and investor relations expertise. Ms Allan is Chief Business Officer at Immunocore, an immune-oncology company specializing in the development of soluble T cell receptor based drugs. Immunocore secured Europe's largest private life sciences financing in July 2015. She was previously at Ablynx NV, where Ms Allan served as Chief Business Officer for close to seven years and brought in multiple strategic partnerships. She is on the board of the Bioindustry Organisation (BIA) in the UK and has served as a Non-Executive Director of Isconova AB. Prior to Ablynx, Ms Allan served as Senior Director of Business Development and Site Operations (Europe) at Vertex Pharmaceuticals where she was also a Director of the Board of Vertex Europe. Ms Allan received her degree in microbiology from the University of Stockholm. Ms Allan is a Swedish citizen, and resides in the UK.

Shares	0
Share options	0
RSU	23 169

Diane Mellett, Board member

Diane Mellett is a consultant to a number of biotech and medical device companies. She has qualified in both US and UK law and advises biotechnology companies in commercial contract and intellectual property matters. Ms Mellett was formerly General Counsel for Cambridge Antibody Technology (CAT) (LSE: NASDAQ) and led the secondary NASDAQ listing of that company as well as serving on the Board of Directors. During her time at CAT, Ms Mellett led a successful defense of a contractual dispute with Abbott Pharmaceuticals (now Abbvie) covering the company's major collaboration partnership covering Humira®, the most successful revenue generating antibody therapy in the pharmaceutical industry to date. She is a UK citizen, and resides in France.

Shares	0
Share options	0
RSU	34 098

Corporate Governance Report

Targovax ASA (the "Company" and together with its subsidiaries, the "Group") considers good corporate governance to be a prerequisite for value creation, trustworthiness and for access to capital.

In order to secure strong and sustainable corporate governance, it is important that the Group ensures good and healthy business practices, reliable financial reporting and an environment of compliance with legislation and regulations.

The Norwegian Corporate Governance Board (NCGB or NUES) has issued "The Norwegian Code of Practice for Corporate Governance" (the "Code of Practice"), most recently revised 30 October 2014, for companies listed on Oslo Børs and Oslo Axess. The Code of Practice is available at www.nues.no. The Code of Practice is based on a "comply or explain principle" whereby listed companies must comply with the Code of Practice or explain why they have chosen an alternative approach. How the Company has adapted to this Code of Practice is described in the Company's Corporate Governance Policy. Each chapter represents the 15 topics in the Code of Practice. It starts with a text box with the recommendations, explains how the policy is followed up by the Company, and finally concludes with any deviations from the Code of Practice.

1. Implementation and reporting

The board of directors must ensure that the company implements sound corporate governance.

The board of directors must provide a report on the company's corporate governance in the directors' report or in a document that is referred to in the directors' report. The report on the company's corporate governance must cover every section of the Code of Practice. If the company does not fully comply with this Code of Practice, the company must provide an explanation of the reason for the deviation and what solution it has selected.

The board of directors should define the company's basic corporate values and formulate ethical guidelines and guidelines for corporate social responsibility in accordance with these values.

Corporate Social Responsibility principles were adopted by the Board of Directors on 3 September 2015 to ensure sound corporate social responsibility. These formalized corporate responsibility principles include principles related to the protection of basic human rights, labor and social issues, environmental responsibility, and business conduct and anti-corruption. The implementation of corporate social responsibility principles in the Group's day-to-day operations, its business strategies and towards various stakeholders is further described at in the Board of Directors report 2015.

Internal policies also include a Code of Conduct that defines expectations and ethical behavior for all employees and members of the Board of Directors. The Targovax Code of Conduct provides the ethical framework for operations and interaction with society and various stakeholders.

Targovax requires members of the Board of Directors and employees to observe high standards of business and personal ethics in the conduct of their duties and responsibilities. They must practice fair dealing, honesty and integrity in every aspect in dealing with other employees, business relations and customers, the public, the business community, shareholders, suppliers, competitors and government authorities.

Deviations from the recommendation: None

2. Business

> **The company's business should be clearly defined in its articles of association.**
>
> **The company should have clear objectives and strategies for its business within the scope of the definition of its business in its articles of association.**
>
> **The annual report should include the business activities clause from the articles of association and describe the company's objectives and principal strategies.**

The fundamental objective of the Company is to position Targovax as an emerging leader in the immuno-oncology field, committed to innovation and to providing new options for difficult to treat patients. The strategy is to:

i. apply its two proprietary immunotherapeutic technologies in multiple cancer indications where there remains a significant unmet medical need
ii. prioritize its pipeline candidates based on the emerging preclinical and clinical data
iii. develop the most promising product candidates, both through its own clinical trials and through collaborations
iv. more specifically evaluate the combination of its product candidates and checkpoint inhibitors (CPIs)
v. optimize the Group's manufacturing capabilities to ensure later stage clinical trials and commercial supply
vi. expand its intellectual property profile and
vii. retain the option to bring products to market directly, particularly in orphan indications or to partner with pharmaceutical companies.

The Company's Articles of Associations are available at www.targovax.com.

Deviations from the recommendation: None

3. Equity and dividends

> The company should have an equity capital at a level appropriate to its objectives, strategy and risk profile.
>
> The board of directors should establish a clear and predictable dividend policy as the basis for the proposals on dividend payments that it makes to the general meeting. The dividend policy should be disclosed.
>
> The background to any proposal for the board of directors to be given a mandate to approve the distribution of dividends should be explained.
>
> Mandates granted to the board of directors to increase the company's share capital should be restricted to defined purposes. If the general meeting is to consider mandates to the board of directors for the issue of shares for different purposes, each mandate should be considered separately by the meeting. Mandates granted to the board should be limited in time to no later than the date of the next annual general meeting. This should also apply to mandates granted to the board for the company to purchase its own shares.

The Company shall have an equity capital that is suitable for its objectives, strategy and risk profile. Targovax and its subsidiaries' (the "Group's") equity at 31 December 2016 was NOK 401 million, which corresponds to an equity ratio of 76.4 percent. The Board of Directors regards the present equity structure as appropriate and adapted to the Company's objectives, strategy and risk profile. Moreover, for biotech companies at a relatively early stage, like Targovax, access to debt is usually restricted and not available outside of government support structures.

The Company's long-term objectives include making distributions of net income in the form of dividends but Targovax has paid no dividend to date. The Group is focusing its resources on the development of its immuno-oncology platforms and does not anticipate paying any cash dividend in the foreseeable future.

Mandates granted to the Board of Directors to increase the Company's share capital shall be restricted to defined purposes. If the General Meeting is to consider mandates to the Board of Directors for the issue of shares for different purposes, each mandate shall be considered separately by the meeting. Mandates granted to the Board of Directors shall be limited in time to no later than the date of the next Annual General Meeting. This shall also apply to mandates granted to the Board of Directors for the Company to purchase its own shares.

In connection with the Company's share incentive arrangements and pursuant to the Section 10-14 of the Norwegian Limited Companies Act, the Board of Directors is granted an authorization to increase the Company's share capital by up to the lower of (a) NOK 268 838,08 and (b) 10 percent of the share capital of the Company. This applies until the Annual General Meeting in 2017.

For the period between the Annual General Meetings in 2017 and 2018, the Board of Directors proposes an authorization to increase the Company's share capital by up to the lower of (a) NOK 800 000 and (b) 10 percent of outstanding shares and options and RSU's (i.e. fully diluted).

Deviations from the recommendation: None

4. Equal treatment of shareholders and transactions with close associates

> **The company should only have one class of shares.**
>
> **Any decision to waive the pre-emption rights of existing shareholders to subscribe for shares in the event of an increase in share capital should be justified. Where the board of directors resolves to carry out an increase in share capital and waive the pre-emption rights of existing shareholders on the basis of a mandate granted to the board, the justification should be publicly disclosed in a stock exchange announcement issued in connection with the increase in share capital.**
>
> **Any transactions the company carries out in its own shares should be carried out either through the stock exchange or at prevailing stock exchange prices if carried out in any other way. If there is limited liquidity in the company's shares, the company should consider other ways to ensure equal treatment of all shareholders.**
>
> **In the event of any not immaterial transactions between the company and shareholders, a shareholder's parent company, members of the board of directors, executive personnel or close associates of any such parties, the board should arrange for a valuation to be obtained from an independent third party. This will not apply if the transaction requires the approval of the general meeting pursuant to the requirements of the Public Companies Act. Independent valuations should also be arranged in respect of transactions between companies in the same group where any of the companies involved have minority shareholders.**
>
> **The company should operate guidelines to ensure that members of the board of directors and executive personnel notify the board if they have any material direct or indirect interest in any transaction entered into by the company.**

General information

The Company has only one class of shares. Each share in the Company carries one vote, and all shares carry equal rights, including the right to participate in general meetings. All shareholders shall be treated on an equal basis, unless there is just cause for treating them differently. Shareholders who are registered in the Norwegian Central Securities Depository (VPS) may vote in person or by proxy. Invitations are sent to the shareholders or to the bank/broker where the shareholder's securities account is held.

Share issues without pre-emption rights for existing shareholders

Any decision to waive the pre-emption rights of existing shareholders to subscribe for shares in the event of an increase in the share capital shall be justified. Where the Board of Directors resolves to carry out a share issue without pre-emption rights for existing shareholders, then the justification shall be publicly disclosed in an announcement issued in connection with the share issue.

Approval of agreements with shareholders and other closely-related parties

The Board of Directors shall arrange for a valuation to be obtained from an independent third party in the event of a not immaterial transaction between the Company and its shareholders, a shareholder's parent company, members of the Board of Directors, executive management or closely-related parties of any such parties. An independent valuation shall also be carried out in the event of transactions between companies within the same group where any of the companies involved have minority shareholders.

Members of the Board of Directors and executive management must notify the Board of Directors if they have a significant interest, direct or indirect, in any transaction carried out by the Company other than by virtue of their position within the Company. The Company has no such significant agreements at present.

Transactions with own shares

Any transactions the Company carries out in its own shares shall be carried out either through the Oslo Stock Exchange or at prevailing stock exchange prices if carried out in another way. If there is limited liquidity in the Company's shares, the Company shall consider other ways to ensure equal treatment of all shareholders. The Company has not conducted trades in its own shares.

Deviations from the recommendation: None

5. Freely negotiable shares

> **The company's shares must, in principle, be freely negotiable. Therefore, no form of restriction on negotiability should be included in a company's articles of association.**

The Company's constituting documents do not impose any transfer restrictions on the Company's shares and the Company's shares are freely transferable, subject to any restrictions that may exist under applicable securities laws.

Deviations from the recommendation: None

6. General meetings

The board of directors should take steps to ensure that as many shareholders as possible may exercise their rights by participating in general meetings of the company, and that general meetings are an effective forum for the views of shareholders and the board.

Such steps should include:

- making the notice calling the meeting and the support information on the resolutions to be considered at the general meeting, including the recommendations of the nomination committee, available on the company's website no later than 21 days prior to the date of the general meeting
- ensuring that the resolutions and supporting information distributed are sufficiently detailed and comprehensive to allow shareholders to form a view on all matters to be considered at the meeting
- setting any deadline for shareholders to give notice of their intention to attend the meeting as close to the date of the meeting as possible
- the board of directors and the person chairing the meeting making appropriate arrangements for the general meeting to vote separately on each candidate nominated for election to the company's corporate bodies
- ensuring that the members of the board of directors and the nomination committee and the auditor are present at the general meeting
- making arrangements to ensure an independent chairman for the general meeting

Shareholders who cannot attend the meeting in person should be given the opportunity to vote. The company should:

- provide information on the procedure for representation at the meeting through a proxy,
- nominate a person who will be available to vote on behalf of shareholders as their proxy
- to the extent possible prepare a form for the appointment of a proxy, which allows separate voting instructions to be given for each matter to be considered by the meeting and for each of the candidates nominated for election

Exercising rights

The Board of Directors takes reasonable steps to ensure that as many shareholders as possible can exercise their voting rights in the Company's general meetings and that the general meetings are an effective forum for the views of shareholders and the Board of Directors.

Among other things, the Board of Directors ensures that:

- The notice and the supporting documents and information on the resolutions to be considered at the general meeting, including the recommendations of the Nomination Committee, are available on the Company's website no later than 21 days prior to the date of the general meeting
- The resolutions and supporting documentation, if any, are sufficiently detailed to allow shareholders to understand and form a view on matters that are to be considered at the General Meeting
- The registration deadline, if any, for shareholders to participate at the General Meeting is set as closely as practically possible to the date of the General Meeting and pursuant to the provisions in the Articles of Association
- The Board of Directors and the person chairing the meeting are making appropriate arrangements for the General Meeting to vote separately on each candidate nominated for election to the Company's Board and Committees, if applicable
- Representatives of the Board are present at general meetings. Representatives of the Nomination Committee as well as the auditor should be present at general meetings where matters of relevance for such committees/persons are on the agenda

Participation without being present

Shareholders who cannot be present at the General Meeting are given the opportunity to vote using proxies. The Company provides in this respect:

- Information on the procedure for representation at the meeting through a proxy
- A person who will be available to vote on behalf of shareholders as their proxy
- To the extent possible, a form for the appointment of a proxy, which allows separate voting instructions to be given for each matter to be considered by the meeting and for each of the candidates nominated for election

Deviations from the recommendation: The Company does not have an arrangement in place to ensure independent chairing of the General Meeting. However, the Board of Directors will on an ad hoc basis evaluate independent chairing when necessary. Historically, it has not been deemed necessary to have an independent chair.

Although Targovax encourages the members of the Board and the Nomination Committee to be present at the Annual General Meeting, their attendance is not always possible.

7. Nomination Committee

The company should have a nomination committee, and the general meeting should elect the chairperson and members of the nomination committee and should determine the committee's remuneration.

The nomination committee should have contact with shareholders, the board of directors and the company's executive personnel as part of its work on proposing candidates for election to the board.

The nomination committee should be laid down in the company's articles of association. The general meeting should stipulate guidelines for the duties of the nomination committee.

The members of the nomination committee should be selected to take into account the interests of shareholders in general. The majority of the committee should be independent of the board of directors and the executive personnel. At least one member of the nomination committee should not be a member of the corporate assembly, committee of representatives or the board. No more than one member of the nomination committee should be a member of the board of directors, and any such member should not offer himself for re-election to the board. The nomination committee should not include the company's chief executive or any other executive personnel.

The nomination committee's duties are to propose candidates for election to the corporate assembly and the board of directors and to propose the fees to be paid to members of these bodies.

The nomination committee should justify its recommendations.

The company should provide information on the membership of the committee and provide suitable arrangements for shareholders to submit proposals to the committee for candidates for election.

The Company has a Nomination Committee consisting of three members: Ludvik Sandnes (Chair), Johan Christenson and Anders Tuv. The Company's general meeting elects the members and the Chairperson of the Nomination Committee and determines their remuneration. The current Nomination Committee was elected at the general meeting 13 April 2016.

The Nomination Committee is laid down in the Company's Articles of Association. The objectives, duties and functions of the Nomination Committee are described in the Company's "Charter for the Nomination Committee" which were adopted by the general meeting 14 September 2015.

Two out of three of the members of the Nomination Committee are independent of the Company's Board of Directors and executive management. Two of the members are also not members of the Board of Directors. Neither the CEO nor others of the executive management team are members of the Nomination Committee

The Nomination Committee shall give recommendations for the election of shareholder elected members of the Board of Directors and the members of the Nomination Committee, and remuneration to the members of the Board of Directors and the members of the Nomination Committee.

The Nomination Committee shall contact the Company's two largest shareholders, as registered in the VPS on 1 November each year, and request such shareholders to each propose a candidate to be appointed as a member of the Nomination Committee. If any candidates are proposed by such shareholders, the Nomination Committee shall include those candidates among the three candidates in the recommendation to the General Meeting for election of members to the Nomination Committee.

The Nomination Committee shall justify its recommendations.

Targovax's shareholders are entitled to nominate candidates to the Board of Directors of Targovax ASA. Information on how to send input and proposals can be found on Targovax's website under "Investor Relations" and "Committees"

Deviations from the recommendation: None

8. Board; composition and independence

Where a company has a corporate assembly, the composition of the corporate assembly should be determined with a view to ensuring that it represents a broad cross-section of the company's shareholders.

The composition of the board of directors should ensure that the board can attend to the common interests of all shareholders and meets the company's need for expertise, capacity and diversity. Attention should be paid to ensuring that the board can function effectively as a collegiate body.

The composition of the board of directors should ensure that it can operate independently of any special interests. The majority of the shareholder-elected members of the board should be independent of the company's executive personnel and material business contacts. At least two of the members of the board elected by shareholders should be independent of the company's main shareholder(s).

The board of directors should not include executive personnel. If the board does include executive personnel, the company should provide an explanation for this and implement consequential adjustments to the organisation of the work of the board, including the use of board committees to help ensure more independent preparation of matters for discussion by the board, cf. Section 9.

The chairman of the board of directors should be elected by the general meeting so long as the Public Companies Act does not require that the chairman must be appointed either by the corporate assembly or by the board of directors as a consequence of an agreement that the company shall not have a corporate assembly.

The term of office for members of the board of directors should not be longer than two years at a time.

The annual report should provide information to illustrate the expertise of the members of the board of directors, and information on their record of attendance at board meetings. In addition, the annual report should identify which members are considered to be independent.

Members of the board of directors should be encouraged to own shares in the company.

The Board of Directors consists of eight members, and currently has the following composition: Jònas Einarsson (Chair), Per Samuelsson, Bente-Lill Romøren, Johan Christenson, Lars Lund-Roland, Robert Burns, Eva-Lotta Allan, and Diane Mellett. The current Board of Directors was elected at the General Meeting 13 April 2016.

Participation on Board of Directors meetings and Board committee meetings during 2016:

Participation in meetings	Board Meetings	Audit Committee	Compensation committee	Governance Committee
Jònas Einarsson	13	5		
Bente-Lill Romøren	13			1
Johan Christenson	13			1
Lars Lund-Roland	13	5	5	
Robert Burns	11		5	
Eva-Lotta Allan	11			1
Diane Mellett	11			1
Per Samuelsson	13	5	5	

The composition of the Company's Board of Directors is considered to ensure that the shareholders' interests are maintained, and that the Company's need for a diversified and experienced Board of Directors with sufficient capacity is in place. The members of the Board of Directors represent a combination of expertise, capabilities and experience from the pharmaceutical industry and finance business.

The composition of the Board of Directors ensures that it can act independently of any special interests. All of the shareholder-elected members of the Board of Directors are independent of the Company's executive personnel and material business connections. In addition, five of the members of the Board of Directors are considered to be independent of the Company's major shareholder(s). A major shareholder means in this connection a shareholder that owns or controls 10 percent or more of the Company's shares or votes, and independence shall entail that there are no circumstances or relations that may be expected to be able to influence independent assessments of the person in question.

The Board of Directors does not include executive personnel. The Chairperson of the Board of Directors is elected by the General Meeting.

The term of office for members of the Board of Directors are no longer than one year at the time. Members of the Board of Directors may be re-elected.
For further information about the members of the Board of Directors, including number of shares and who are considered independent, see Note 11 in the Company's annual report.

Deviations from the recommendation: None

9. The work of the Board

The board of directors should produce an annual plan for its work, with particular emphasis on objectives, strategy and implementation.

The board of directors should issue instructions for its own work as well as for the executive management with particular emphasis on clear internal allocation of responsibilities and duties.

In order to ensure a more independent consideration of matters of a material character in which the chairman of the board is, or has been, personally involved, the board's consideration of such matters should be chaired by some other member of the board.

The Public Companies Act stipulates that large companies must have an audit committee. The entire board of directors should not act as the company's audit committee. Smaller companies should give consideration to establishing an audit committee. In addition to the legal requirements on the composition of the audit committee etc., the majority of the members of the committee should be independent.

The board of directors should also consider appointing a remuneration committee in order to help ensure thorough and independent preparation of matters relating to compensation paid to the executive personnel. Membership of such a committee should be restricted to members of the board who are independent of the company's executive personnel.

The board of directors should provide details in the annual report of any board committees appointed.

The board of directors should evaluate its performance and expertise annually.

General

An annual plan for the Board of Directors' work is produced, with particular emphasis on objectives, strategy and implementation. The Board of Directors Handbook adopted by the Board of Directors on the 3 September 2015 includes a set of instructions and policies instructions for its own work, as well as for the executive personnel, with particular emphasis on clear allocations of internal responsibilities and duties.

The Board of Directors, working with the Corporate Governance Committee, will, starting 2016, carry out an annual evaluation of its own performance and expertise and presents the evaluation report to the Nomination Committee.

The Board of Directors has established three permanent Board Committees, which is described in further detail below. The current members of the committees were elected at the Board of Directors meeting 25 September 2015. The members of the committee are appointed for one year. These committees do not pass resolutions, but supervise the work of the Company's management on behalf of the Board of Directors and prepare matters for Board of Directors consideration within their specialized areas. In this preparatory process, the committees have the opportunity to draw

on company resources, and to seek advice and recommendations from sources outside the Company. The Board of Directors also establishes ad-hoc sub-committees as needed, e.g. research, development, finance, manufacturing and in connection with M&A activities.

Audit Committee

The members of the Audit Committee are Jònas Einarsson, Per Samuelsson and Lars Lund-Roland. The CFO acts as the committee's secretary. The composition of the committee meets the requirements of the Norwegian Code of Practice for Corporate Governance as regards independence, and all the committee members are considered to be independent of Executive Management. The mandate of the committee is set out in the Charter for the Audit Committee and is in brief as follows:

- Prepare for the Board of Directors a report describing its supervision of the financial reporting process, including review of implementation of accounting principles and policies.
- Monitor the effectiveness of the Company's internal control and risk management systems, noting any deficiencies and monitor management in remedying any such deficiencies.
- Have regular contact with the external auditor regarding the annual and consolidated accounts.
- Review and monitor the independence of the statutory auditor, ref. the Norwegian Auditors Act, chapter 4 and in particular whether services other than audits delivered by the statutory auditor or the audit firm are a threat against the statutory auditor's independence. The committee supervises implementation of and compliance with the Company's Ethics Code of Conduct and supervises the Company's compliance activities relating to corruption as further described in the provisions herein.

Five meetings were held in 2016.

Compensation committee

The members of the Compensation Committee are Per Samuelsson, Lars Lund-Roland and Robert Burns. The composition of the committee meets the requirements of the Norwegian Code of Practice for Corporate Governance as regards independence, and all the committee members are considered to be independent of Executive Management. The mandate of the committee is set out in the Charter for the Compensation Committee and is in brief as follows:

- The role of the committee shall be to oversee the Group's compensation policy for its CEO, Management, employees, and consultants, recommend changes to the Group's compensation policy to the Board of Directors as and when appropriate and prepare matters for final decision by the Board of Directors. Recommendations and proposals for compensation to members of the Board of Directors shall be the responsibility of the Nomination Committee.

Five meetings were held in 2016.

Corporate Governance Committee

The members of the Corporate Governance Committee are Johan Christenson, Diane Mellett, Eva-Lotta Allan and Bente-Lill Romøren. The composition of the committee meets the requirements of the Norwegian Code of Practice for Corporate Governance as regards independence, and all the committee members are considered to be independent of Executive Management. The mandate of the committee is set out in the Charter for the Governance Committee and is as follows:

- Develop and review the Groups policies and practices for corporate governance, and annually recommend changes to such policies and practices, if any, to the Board of Directors
- Lead the Board of Directors in its annual review of the Board of Directors' performance and its competence
- Monitor the functioning of the Board committees and sub-groups and make recommendations to the Board of Directors with regard to the composition of Board committees and sub-groups
- Lead the Board of Directors in its annual review of the CEO's performance

One meeting was held in 2016.

Deviations from the recommendation: None

10. Risk management and internal control

> **The board of directors must ensure that the company has sound internal control and systems for risk management that are appropriate in relation to the extent and nature of the company's activities. Internal control and the systems should also encompass the company's corporate values, ethical guidelines and guidelines for corporate social responsibility.**
>
> **The board of directors should carry out an annual review of the company's most important areas of exposure to risk and its internal control arrangements.**

To manage the Company specific risks and risk inherent in the industry, and to comply with international and national regulations, the Company have implemented a periodic review process to identify, analyze and handle the main risk factors facing the Group. The Audit Committee will periodically receive written reports, highlighting the main risks and proposed actions to address these as well as any significant weaknesses in the internal control regime.

Once a year the Board of Directors will review and discuss the Company's risks and the implemented internal control regime.

Risk Management is further described under "Directors' Report", in the Risk section.

Deviations from the recommendation: None

11. Remuneration of the board

> The remuneration of the board of directors should reflect the board's responsibility, expertise, time commitment and the complexity of the company's activities.
>
> The remuneration of the board of directors should not be linked to the company's performance. The company should not grant share options to members of its board.
>
> Members of the board of directors and/or companies with which they are associated should not take on specific assignments for the company in addition to their appointment as a member of the board. If they do nonetheless take on such assignments this should be disclosed to the full board. The remuneration for such additional duties should be approved by the board.
>
> Any remuneration in addition to normal directors' fees should be specifically identified in the annual report.

The compensation of the Board of Directors and its sub-committees is decided by the Annual General Meeting, based on a recommendation from the Nomination Committee. Separate rates are set for the Board of Directors' chair and other members, respectively. Separate rates are also adopted for the Board of Directors' sub-committees, with similar differentiation between the Chair and the other members of each committee.

The Annual General Meeting 13 April 2016 decided to remunerate the Board of Directors with a combination of cash and Restricted Share Units (RSUs).

The Board of Directors members must elect to receive at least 1/3 of the compensation in RSUs. The total compensation to each member of the Board of Directors for both the period 2015-2016 and 2016-2017 have been set out in the minutes from the ordinary general meeting.

The number of RSUs to be granted to a member of the Board of Directors is calculated as the non-cash compensation in NOK, divided by the market price for the Targovax ASA share. The market price is calculated as volume weighted average share price the 10 trading days prior to the grant date.

The cash compensation is not linked to the Company's performance or similar. None of the members of the Board of Directors has a pension plan or agreement concerning pay after termination of their office with the Company.

Robert Burns, member of the Board of Directors, was granted share options in Oncos Therapeutics Oy when he was a member of the Board of Directors of that company. By virtue of the combination with Oncos on 2 July 2015, these share

options were converted into share options in Targovax ASA. The details of his options are set out in Note 12 to the consolidated financial statements. He is the only member of the Board of Directors with share options in the Company. There are no plans to issue new options to the members of the Board of Directors going forward.

Information about all compensation paid to each member of the Board of Directors is presented in Note 11 to the consolidated financial statements.

Deviations from the recommendation: None

12. Remuneration of executive personnel

> The board of directors is required by law to prepare guidelines for the remuneration of the executive personnel. These guidelines are communicated to the annual general meeting. The board of director's statement on the remuneration of executive personnel should be a separate appendix to the agenda for the general meeting. It should also be clear which aspects of the guidelines are advisory and which, if any, are binding. The general meeting should vote separately on each of these aspects of the guidelines.
>
> The guidelines for the remuneration of the executive personnel should set out the main principles applied in determining the salary and other remuneration of the executive personnel. The guidelines should help to ensure convergence of the financial interests of the executive personnel and the shareholders.
>
> Performance-related remuneration of the executive personnel in the form of share options, bonus programmes or the like should be linked to value creation for shareholders or the company's earnings performance over time. Such arrangements, including share option arrangements, should incentivise performance and be based on quantifiable factors over which the employee in question can have influence. Performance-related remuneration should be subject to an absolute limit.

The Board of Directors has established guidelines for the remuneration of executive personnel. Such guidelines set out the main principles in determining the salary and other remuneration of executive personnel. These guidelines shall be communicated to the Annual General Meeting. The Board of Director's statement on the remuneration of executive personnel is an appendix to the agenda for the Annual General Meeting.

Performance-related remuneration of the executive personnel in the form of share option grants, bonus programs or similar are linked to value creation for shareholders over time. Such arrangements' intention is to incentivise performance and be based on quantifiable factors over which the employee in question can have influence. Performance-related

remuneration is subject to an absolute limit (while there is no upside limit on granted share options nor on granted share units).

Information about all compensation paid to each member of the executive management is presented in Note 11 to the consolidated financial statements.

Deviations from the recommendation: None

13. Information and communication

> **The board of directors should establish guidelines for the company's reporting of financial and other information based on openness and taking into account the requirement for equal treatment of all participants in the securities market.**
>
> **The company should publish an overview each year of the dates for major events such as its annual general meeting, publication of interim reports, public presentations, dividend payment date if appropriate etc.**
>
> **All information distributed to the company's shareholders should be published on the company's web site at the same time as it is sent to shareholders.**
>
> **The board of directors should establish guidelines for the company's contact with shareholders other than through general meetings.**

General information

The Company shall provide timely and precise information about the Company and its operations to its shareholders, the stock exchange when applicable and the financial markets in general. Such information will be given in the form of annual reports, quarterly reports, press releases, notices to relevant market place exchange as well as investor presentations in accordance with what is deemed most suitable. The Company shall seek to clarify its long-term potential, including strategies, value drivers and risk factors. All information distributed to the Company's shareholders are published on Targovax's web site at the same time as it is sent to the shareholders.

Each year the Company publishes an overview of the dates of major events, such as Annual General Meeting and publications of quarterly reports. The Company's quarterly presentations
are webcast directly and may be found on Targovax's website, along with the quarterly and annual reports, under "Investor Relations".

Information to shareholders

The Company has procedures for establishing discussions with shareholders to enable the Company to develop a balanced understanding of the circumstances and focus of shareholders. Such discussions will always be in compliance with the principle of equal treatment of the Company's shareholders.

Deviations from the recommendation: None

14. Take-overs

The board of directors should establish guiding principles for how it will act in the event of a take-over bid.

In a bid situation, the company's board of directors and management have an independent responsibility to help ensure that shareholders are treated equally, and that the company's business activities are not disrupted unnecessarily. The board has a particular responsibility to ensure that shareholders are given sufficient information and time to form a view of the offer.

The board of directors should not hinder or obstruct take-over bids for the company's activities or shares.

Any agreement with the bidder that acts to limit the company's ability to arrange other bids for the company's shares should only be entered into where it is self-evident that such an agreement is in the common interest of the company and its shareholders. This provision shall also apply to any agreement on the payment of financial compensation to the bidder if the bid does not proceed. Any financial compensation should be limited to the costs the bidder has incurred in making the bid.

Agreements entered into between the company and the bidder that are material to the market's evaluation of the bid should be publicly disclosed no later than at the same time as the announcement that the bid will be made is published.

In the event of a take-over bid for the company's shares, the company's board of directors should not exercise mandates or pass any resolutions with the intention of obstructing the take-over bid unless this is approved by the general meeting following announcement of the bid.

If an offer is made for a company's shares, the company's board of directors should issue a statement making a recommendation as to whether shareholders should or should not accept the offer. The board's statement on the offer should make it clear whether the views expressed are unanimous, and if this is not the case it should explain the basis on which specific members of the board have excluded themselves from the board's statement. The board should arrange a valuation from an independent expert. The valuation should include an explanation, and should be made public no later than at the time of the public disclosure of the board's statement.

Any transaction that is in effect a disposal of the company's activities should be decided by a general meeting, except in cases where such decisions are required by law to be decided by the corporate assembly.

In the event of a take-over process, the Board of Directors and the Company's executive management each have an individual responsibility to ensure that the Company's shareholders are treated equally and that the Company's activities are not unnecessarily interrupted. The Board of Directors has a particular responsibility in ensuring that the shareholders have sufficient information and time to form a view on the offer.

The Board of Directors will not seek to hinder or obstruct any takeover bid for the Company's operations or shares. In the event of such a bid as discussed in section 14 of the Norwegian Code of Practice for Corporate Governance, the Board of Directors will, in addition to complying with relevant legislation and regulations, seek to comply with the recommendations in the Code of Practice. This includes obtaining a valuation from an independent expert. On this basis, the Board of Directors will make a recommendation as to whether or not the shareholders should accept the bid. There are no other written guidelines for procedures to be followed in the event of a takeover bid.

The Company has not found it appropriate to draw up any explicit basic principles for Targovax's conduct in the event of a takeover bid, other than the actions described above. The Board of Directors otherwise concurs with what is stated in the Code of Practice regarding this issue.

Deviations from the recommendation: None

15. Auditor

The auditor should submit the main features of the plan for the audit of the company to the audit committee annually.

The auditor should participate in meetings of the board of directors that deal with the annual accounts. At these meetings the auditor should review any material changes in the company's accounting principles, comment on any material estimated accounting figures and report all material matters on which there has been disagreement between the auditor and the executive management of the company.

The auditor should at least once a year present to the audit committee a review of the company's internal control procedures, including identified weaknesses and proposals for improvement.

The board of directors should hold a meeting with the auditor at least once a year at which neither the chief executive nor any other member of the executive management is present.

The board of directors should establish guidelines in respect of the use of the auditor by the company's executive management for services other than the audit.

The board of directors must report the remuneration paid to the auditor at the annual general meeting, including details of the fee paid for audit work and any fees paid for other specific assignments.

The auditor submits the main features of the plan for the audit of the Company to the Audit Committee annually. The auditor attends at least one meeting each year with the Board of Directors and the Audit Committee at which the Company's management is not represented. In addition, the auditor participates at meeting of the Board of Directors that approves the annual accounts. At least once a year, the Audit Committee will meet with the auditor to consider the auditor's views on the Group's accounting principles, risk areas and internal control procedures.

The Audit Committee receives an annual summary from the external auditor of services other than auditing that have been provided to the Company. The Company has established guidelines for the management's use of the external auditor for services other than auditing.

The auditor's fees, presented in Note 11 to the consolidated financial statements, have stated for the relevant categories of auditing and other services. The auditor's fee is determined at the Annual General Meeting.

Deviations from the recommendation: None

Accounts and Notes – Targovax group

Consolidated statement of profit and loss

(Amounts in NOK thousands except per share data)	Note	2016	2015
Other revenues		37	146
Total revenue		**37**	**146**
External R&D expenses	8,9	-45 001	-25 231
Payroll and related expenses	9,10,11,12	-49 235	-35 431
Other operating expenses	9,13	-25 311	-29 100
Total operating expenses		**-119 548**	**-89 762**
Operating profit/ loss (-)		**-119 511**	**-89 616**
Financial income	14	1 241	2 339
Financial expenses	14	-4 444	-2 608
Net financial items		**-3 203**	**-269**
Loss before income tax		**-122 714**	**-89 885**
Income tax expense	15	260	-1 930
Loss for the period		**-122 454**	**-91 816**
Earnings/ loss (-) per share			
Basic and dilutive earnings/ loss (-) per share	21	-3.55	-5.06

The Notes on pages 52 to 96 are an integral part of these consolidated financial statements.

Consolidated Statement of other comprehensive income

(Amounts in NOK thousands except per share data)	2016	2015
Income / loss (-) for the period	-122 454	-91 816
Items that may be reclassified to profit or loss:		
Exchange differences arising from the translation of foreign operations	-16 174	21 793
Total comprehensive income/ loss (-) for the period	**-138 628**	**-70 023**
Total comprehensive income/ loss (-) for the period attributable to owners	**-138 628**	**-70 023**

The Notes on pages 52 to 96 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

(Amounts in NOK thousands)	Note	31.12.2016	31.12.2015
ASSETS			
Intangible assets	16	338 213	358 070
Property, plant, and equipment	17	1 299	1 590
Total non-current assets		**339 512**	**359 659**
Receivables	19	14 203	11 557
Cash and cash equivalents	20	171 629	173 898
Total current assets		**185 833**	**185 455**
TOTAL ASSETS		**525 345**	**545 114**
EQUITY AND LIABILITIES			
Shareholders equity			
Share capital	21	4 219	2 688
Share premium reserve		627 796	522 502
Other reserves		17 055	6 957
Retained earnings		-253 521	-131 067
Translation differences		5 618	21 793
Total equity		**401 168**	**422 873**
Non-current liabilities			
Interest-bearing liabilities	22	39 714	38 112
Deferred tax	15	55 278	58 709
Total non-current liabilities		**94 992**	**96 821**
Current liabilities			
Accounts payable and other current liabilities	23	4 681	6 307
Accrued public charges	23	3 348	1 826
Other short-term liabilities	23	21 155	17 287
Total current liabilities		**29 185**	**25 420**
TOTAL EQUITY AND LIABILITIES		**525 345**	**545 114**

The Notes on pages 52 to 96 are an integral part of these consolidated financial statements.

Oslo, 15 March 2017

The Board of directors of Targovax ASA

Jónas Einarsson Chairman of the Board	Per Samuelsson Board member
Bente-Lill Romøren Board member	Lars Lund-Roland Board member
Johan Christenson Board member	Robert Burns Board member
Eva-Lotta Allan Board member	Diane Mellett Board member

Øystein Soug
Chief Executive Officer

Consolidated statement of changes in equity

(Amounts in NOK thousands)	Note	Share capital	Share premium	Other reserves	Translation differences	Retained earnings (Accumulated losses)	Total equity
Balance at 1 January 2015		**943**	**97 792**	**780**	-	**-38 841**	**60 673**
Loss for the period						-91 816	-91 816
Exchange differences arising from the translation of foreign operations		-	-	-	21 793	-	21 793
Other comprehensive income/loss, net of tax		-	-	-	-	-	-
Total comprehensive income for the period					**21 793**	**-91 816**	**-70 023**
Issue of ordinary shares - Acquiring Oncos Therapeutics OY	21	943	234 792	-	-	-	235 735
Transaction costs - Oncos Therapeutics OY			-260	-	-	-	-260
Issue of ordinary shares - Capital increase - Private Placement	21	800	199 200	-	-	-	200 000
Transaction costs - Private Placement			-9 207	-	-	-	-9 207
Share issuance, employee share options	21	3	185	-	-	-	188
Reclassification of share-based payment Oncos Therapeutics OY		-	-	410	-	-410	-
Recognition of share-based payments	12	-	-	5 768	-	-	5 768
Balance at 31 December 2015		**2 688**	**522 502**	**6 957**	**21 793**	**-131 067**	**422 873**
Loss for the period						-122 454	-122 454
Exchange differences arising from the translation of foreign operations		-	-	-	-16 174	-	-16 174
Other comprehensive income/loss, net of tax		-	-	-	-	-	-
Total comprehensive income for the period					**-16 174**	**-122 454**	**-138 628**
Issue of ordinary shares - Capital increase - Private Placement and repair offering	21	1 529	113 065				114 593
Transaction costs - Private Placement and repair offering			-7 753				-7 753
Share issuance, employee share options	21	2	-18	-	-	-	-16
Recognition of share-based payments & Restricted Stock Units	12	-	-	10 098	-	-	10 098
Balance at 31 December 2016		**4 219**	**627 796**	**17 055**	**5 618**	**-253 521**	**401 168**

The Notes on pages 52 to 96 are an integral part of these consolidated financial statements.

Consolidated statement of cashflow

(Amounts in NOK thousands)	Note	FY 2016	FY 2015
Cash flow from operating activities			
Loss before income tax		-122 714	-89 885
Adjustments for:			
Finance income	14	-1 241	-2 339
Finance expense	14	4 444	2 608
Share option expense	12	10 098	5 717
Depreciation	13	284	148
Change in receivables	19	-2 646	-3 026
Change in other current liabilities	23	2 085	5 887
Net cash flow from /(used in) operating activities		**-109 690**	**-80 890**
Cash flow from investing activities			
Purchases of property, plant, and equipment (PPE)	17	-37	-158
Acquisition of subsidiary, net of cash acquired	16	-	1 313
Net cash received from/(paid in) investing activities		**-37**	**1 155**
Cash flow from financing activities			
Interest received		533	1 009
Interest paid	14	-548	-526
Other finance expense	14	-286	-
Loan from TEKES	14	1 360	-
Share issue expense - Acquisition of Oncos OY	21	-	-260
Share issue expense - Private Placement and repair offering	21	-7 753	-9 207
Proceeds from issuance of shares -Private Placement and repair offering	21	114 593	200 000
Proceeds from exercise of options	21	-16	188
Net cash generated from financing activities		**107 883**	**191 204**
Net increase/(decrease) in cash and cash equvivalents		**-1 844**	**111 468**
Net exchange gain/loss on cash and cash equivalents		-424	-123
Cash and cash equivalents at beginning of period		**173 898**	**62 552**
Cash and cash equivalents at end of period		**171 629**	**173 898**

The Notes on pages 52 to 96 are an integral part of these consolidated financial statements.

Notes to the financial statements – Targovax Group

1. General information

The Company is a public limited liability company incorporated and domiciled in Norway. The address of the registered office is Lilleakerveien 2C, 0283 Oslo, Norway.

Targovax ASA ("the Company") and its subsidiaries (together the Group) is a clinical stage immuno-oncology company dedicated to the development of targeted immunotherapy treatments for cancer patients.

The Company's development pipeline is based on two novel proprietary platforms:

- A virus-based immunotherapy platform (ONCOS) based on engineered oncolytic viruses armed with potent immune-stimulating transgenes targeting solid tumors, potentially reinstating the immune system's capacity to recognize and attack cancer cells
- A peptide-based immunotherapy platform (TG-Peptides) targeting the difficult to treat RAS mutations found in more than 85 percent of patients with pancreatic cancers, 50 percent of colorectal cancer and 20-30 percent of all cancers

Both treatment approaches harness the patient's own immune system to fight a growing cancer.

These financial statements have been approved for issue by the Board of Directors on 15 March 2017, and are subject to approval by the Annual General Meeting in April 2017.

2. Summary of significant accounting principles

The principal accounting policies applied in the preparation of these consolidated financial statements are described in the respective note, or if not, set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Amounts are in thousand Norwegian kroner unless stated otherwise.

Functional currency

The functional currency is determined in each entity in the Group based on the currency within the entity's primary economic environment. Transactions in foreign currency are translated to functional currency using the exchange rate at the date of the transaction. At the end of each reporting period foreign currency monetary items are translated using the closing rate, non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction and non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. Changes in the exchange rate are recognized continuously in the accounting period.

Presentation currency

The Group's presentation currency is NOK. This is also the parent company's functional currency. The statement of financial position figures of entities with a different functional currency are translated at the exchange rate prevailing at the end of the reporting period for balance sheet items, including goodwill, and the exchange rate at the date of the transaction for profit and loss items. The monthly average exchange rates are used as an approximation of the transaction exchange rate. Exchange differences are recognized in other comprehensive income ("OCI").

When investments in foreign subsidiaries are sold, the accumulated translation differences relating to the subsidiary attributable to the equity holders of the parent are recognized in the statement of comprehensive income. When a loss of control, significant influence or joint control is present the accumulated exchange differences related to investments allocated to controlled interests is recognized in profit and loss.

When a partial disposal of a subsidiary (not loss of control) is present the proportionate share of the accumulated exchange differences is allocated to non-controlling interests.

2.1 Basis for preparation of the annual accounts

The consolidated financial statements of Targovax ASA have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, as well as Norwegian disclose requirements listed in the Norwegian Accounting Act.
The consolidated financial statements are based on historical cost.

The consolidated financial statements have been prepared on the basis of uniform accounting principles for similar transactions and events under otherwise similar circumstances.

2.2 Accounting principles

Foreign exchange

The Group record transactions at initial recognition based on the average month exchange rate in the month of transaction. The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with International Financial Reporting Standards. However, if exchange rates fluctuate significantly, the use of the average rate for a period may be inappropriate and an exchange rate closer to transaction date is used.

Any exchange differences are recognized in statement of profit and loss under financial items in the period in which they arise.

2.3 Adoption of new and revised IFRS standards

Standards and interpretations affecting amounts reported in the current period

All relevant new and revised IFRSs and IFRIC interpretations that are mandatory for periods commencing 1 January 2016 and earlier have been adopted for all periods presented in these financial statements.

Standards and interpretations in issue but not yet adopted

IFRS15 Revenue from Contracts with Customers:

The Group is in the research and development phase and the IFRS 15, will not have a material effect on the financial statements

IFRS 16 Lease:

IFRS 16 replaces existing IFRS leases requirements, IAS 17 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new leases standard requires lessees to recognize assets and liabilities for most leases, which is a significant change from current requirements. The effective date of the standard is January 1 2019, but it is not yet approved by the EU.

The Group has not made any assessment of any impact IFRS 16 will have on the financial statements.

2.4 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2016. The subsidiaries include Targovax OY, located at Helsinki, Finland and Oncos Therapeutics AG, Meggen, Switzerland, all 100% owned and controlled subsidiaries. Targovax OY is the parent company of Oncos Therapeutics AG.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

In general, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it ceases to recognize the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognized in statement of profit and loss. Any investment retained is recognized at fair value.

The functional currency of the subsidiaries is the local currency in the country in which they are domiciled. All transactions in foreign currency are translated to functional currency on the date of transaction. Monetary items denominated in foreign currency are translated to the functional currency using the exchange rate at the reporting date. All exchange differences are recognized in statement of profit and loss.
The Group's presentation currency is NOK, which is also the parent company's functional currency.

On consolidation of foreign subsidiaries that have a functional currency other than NOK, items of income and expenses are translated into the Group's presentation currency at the average exchange rate for the period. The assets and liabilities of these entities are translated into the Group's presentation currency at the exchange rate at the reporting date. Currency differences arising on translation of foreign subsidiaries are attributed to equity and presented as other comprehensive income in the consolidated condensed statement of profit and loss and other comprehensive income. On disposal of a subsidiary, accumulated translation differences associated with the subsidiary are charged to statement of profit and loss.

2.5 Business combinations and intangible assets

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of

the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IAS 39 Financial Instruments: Recognition and Measurement, is measured at fair value with the changes in fair value recognized in the statement of profit and loss.

Intangible assets comprises the patented technology were recognized at fair value at the date of acquisition of Targovax OY (previous Oncos Therapeutics OY) July 2015. Until the development of the patented technology is finalized no depreciation is recorded and the carrying amount will be tested for impairment at least once a year, or more often if there are indicators of impairment.
When finalized, the patented technology will be depreciated by the straight-line method over the estimated useful life.

2.6 Going concern

As a result of the private placement in the third quarter 2016 and the current liquidity situation, Directors have an expectation that the Group has available financial resources sufficient for the planned activities in the next 12 months as of 31 December 2016. The Group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

3. Important accounting estimates and discretionary assessments

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment of intangible assets
Where a finite useful life of the acquired intangible asset cannot be determined, the asset is not subject to amortization, but is tested when indication, or at least annually for impairment. Acquired intangible assets will not be subject to amortization until market authorization is obtained with the regulatory authorities and the intangible assets are available for use. After market authorization, the intangible assets will be amortized using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

Acquired intangible assets related to development of the ONCOS-102 platform are recognized in the consolidated statement of financial position, amounting to 338 MNOK. The value is tested for impairment 31 December 2016. Due to the nature of the intangible assets there are uncertainties in estimating the value in the impairment test. This is further described in Note 16.

Estimated value of share-based payments

At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision to original estimates, if any, in the statement of profit and loss, with a corresponding adjustment to equity. The estimated turnover rate for unvested share options is 0 percent for all share option plans. See Note 12 Share-based compensation.

Deferred tax

The Group cannot render probable future taxable income large enough to justify recognizing a deferred tax asset in the balance sheet. However, this assumption must be continually assessed and changes could lead to a significant asset being recognized in the future. This assumption requires significant management judgment. See Note 15 Taxes.

4. Acquisition of Oncos Therapeutics

On 2 July 2015, the Company acquired all the shares in Oncos Therapeutics Oy ("Oncos"), an unlisted privately funded company based in Finland. Oncos is a clinical-stage biotechnology company, which also is focusing on the design and development of targeted cancer immunotherapy. The transaction was structured as a share for share exchange whereby Targovax ASA issued 9 429 404 new shares to the shareholders of Oncos as consideration for the shares in Oncos (the “Oncos Acquisition”).

Following the Oncos Acquisition, Oncos is a wholly-owned subsidiary of the Company at the closing date of the agreement 2 July 2015 (the "Acquisition date").

The combination of Targovax and Oncos complementary technologies creates a unique platform for the development of cutting-edge immune activators and immunotherapies. The combined group of Targovax and Oncos is positioned as a leading immuno-oncology company with clinical experience to date validates safety and mechanism of action of both technology platforms.

The main drivers for Oncos are the patented technology and mainly the product technology for the ONCOS-102 product. The allocation of value to the patented technology is done by a cost based valuation approach, analyzing the total fund invested in the intangible assets and additional value created as part of the product development.

No residual value of the purchase price is recognized as goodwill, and no other excess values than patented technology is identified as part of the transaction.

Total transaction costs related to the acquisition are NOK 4 million.

No contingent consideration arrangements are identified as part of the acquisition.

The fair values of the identifiable assets and liabilities of Oncos, as at the date of acquisition, as a result of the preliminary purchase price allocation were:

(Amounts in NOK/EUR thousands)	NOK	EUR
Assets		
Intangible assets	327 409	37 227
Tangible assets	1 298	148
Other current assets	6 324	719
Cash and cash equivalents	1 313	149
Total assets	**336 344**	**38 243**
Liability		
Deferred tax	51 952	5 907
Other non-current liabilities	33 584	3 819
Other current liabilities	15 073	1 714
Total liabilities	**100 609**	**11 439**
TOTAL CONSIDERATION (THE "PURCHASE PRICE")	**235 735**	**26 803**

For further information regarding the acquisition please see Note 4 in the Annual report for 2015.

5. Segments

The Group's activities during 2016 have been to continue the development and implementation of a strategy with the aim of developing highly targeted immunotherapy treatments for cancer patients.

There was increased operational activity in Finland and Norway after the acquisition of Oncos Therapeutics OY. The Group's lead product has not yet obtained regulatory approval. For management purposes, the Group is organized as one business unit and the internal reporting is structured in accordance with this. The Group is thus currently organized in one operating segment.

6. Financial instruments and risk management objectives and policies

The Group's financial assets and liabilities comprise cash in banks, receivables and trade creditors that originate from its operations. All financial assets and liabilities are carried at amortized cost. All financial assets and liabilities are short-term and their carrying value approximates fair value.

The Group does currently not use financial derivatives. The Group is subject to market risk, credit risk and liquidity risk.

Market risk
Interest rate fluctuations could in the future materially and adversely affect the Group's business, financial condition, results of operations, cash flows, time to market and prospects.

Currently, the Group has no long-term debt other than its debt to Tekes. The debt to Tekes carries an annual interest equal to the European Central Bank's steering rate less 3 percentage points, but in no event less than 1%. The current interest is 1% per annum. The Group may in the future be exposed to interest rate risk primarily in relation to any future interest bearing debt issued at floating interest rates and to variations in interest rates of bank deposits. Consequently, movements in interest rates could have a material and adverse effect on the Group's business, financial condition, results of operations, cash flows, time to market and prospects.

The following table demonstrates the Group's sensitivity to a 1 percent point change in interest rates on cash and cash equivalents and interest-bearing borrowings at 31 December 2016 and 2015.

(Amounts in NOK thousands)	2016		2015	
	1% point increase	1% point decrease	1% point increase	1% point decrease
Loss before income tax effect	1 319	-1 319	1 358	-1 358

Foreign currency risk

Fluctuations in exchange rates could affect the Group's cash flow and financial condition

The Group has currency exposure to both transaction risk and translation risk related to its operating expenses. Transaction risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is different from the Group's presentation currency. The Group undertakes various transactions in foreign currencies and is consequently exposed to fluctuations in exchange rates. The exposure arises largely from research expenses. The Group is mainly exposed to fluctuations in EUR, USD, GBP and CHF. Targovax hedges foreign currency by aligning the cash positions with future expected currency outflows. The Group does not have derivatives for hedge accounting at year-end.

The following tables demonstrate the Group's currency rate sensitivity on monetary assets and liabilities in the loss before income tax and other comprehensive income at 31 December 2016 and 2015.

Group's sensitivity to a 10% increase/decrease in EUR against NOK

(Amounts in NOK thousands)	2016		2015	
	10% increase	10% decrease	10% increase	10% decrease
Loss before income tax effect	2 747	-2 747	-261	261
Other comprehensive income	-2 677	2 677	-3 519	3 519

Group's sensitivity to a 10% increase/decrease in USD against NOK

(Amounts in NOK thousands)	2016		2015	
	10% increase	10% decrease	10% increase	10% decrease
Loss before income tax effect	1 611	-1 611	-19	19
Other comprehensive income	-	-	-	-

Group's sensitivity to a 10% increase/decrease in GBP against NOK

(Amounts in NOK thousands)	2016		2015	
	10% increase	10% decrease	10% increase	10% decrease
Loss before income tax effect	-212	212	-219	219
Other comprehensive income	-4	4	-10	10

Group's sensitivity to a 10% increase/decrease in CHF against NOK

(Amounts in NOK thousands)	2016		2015	
	10% increase	10% decrease	10% increase	10% decrease
Loss before income tax effect	-170	170	-139	139
Other comprehensive income	9	-9	41	-41

Credit risk

Credit risk is the risk of a counterparty defaulting. The Group has limited credit risk. Outstanding receivables are limited and primarily government grants receivable from various government agencies. No impairment has been recognized. The carrying value of the assets represents the Group's maximum exposure to credit risk.

Cash at bank:

(Amounts in NOK thousands)	2016		2015		Rating (S&P)
	Amount	In %	Amount	In %	
Nordea Bank Norge ASA	157 679	92%	165 868	95%	**AA-**
Danske Bank Abp	7 888	5%	7 148	4%	**A**
DNB Bank ASA	5 436	3%	-	0%	**A+**
Credit Suisse AG	626	0%	881	1%	**A**
Total	**171 629**	**100%**	**173 898**	**100%**	

Fair value of financial instruments

The carrying value of receivables, cash and cash equivalents, borrowings, deferred tax, and other short term payables and accrued liabilities are assessed to approximate fair value.

(Amounts in NOK thousands)	2016		2015	
	Carrying amounts	Fair value	Carrying amounts	Fair value
Receivables	14 203	14 203	11 557	11 557
Cash and cash equivalents	171 629	171 629	173 898	173 898
Total financial assets	**185 833**	**185 833**	**185 455**	**185 455**
Interest-bearing borrowings	39 714	39 714	38 112	38 112
Accounts payable and other current liabilities	4 681	4 681	6 307	6 307
Accrued public charges	3 348	3 348	1 826	1 826
Other short-term liabilities	21 155	21 155	17 287	17 287
Total financial liabilities	**68 899**	**68 899**	**63 532**	**63 532**

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- *Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities*
- *Level 2: Inputs other than quoted prices including Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices)*
- *Level 3: Inputs in asset or liability that are not based on observable market data (that is, unobservable inputs)*

(Amounts in NOK thousands)	Level 1	Level 2	Level 3	Total
Interest-bearing borrowings	-	-	39 714	39 714
Total financial instruments at fair value	**-**	**-**	**39 714**	**39 714**

Liquidity risk

The Group manages liquidity risk by estimating and monitoring cash and liquidity needs on an on- going basis, and maintaining adequate reserves and banking facilities. The Group has sufficient cash available to meet its obligations as at 31 December 2016, and related to planned activities in the next 12 months. All liabilities, other than the debt to Tekes, at year-end are short term and fall due within one year of the reporting date, their carrying value approximates their fair value.

The Group is properly funded for its current activities, but will need new funding for the next phases of the development program. The funding strategy and development strategy are directly connected. There will be no cash flow commitments related to the development program before properly commitments to funding is in place.

The following tables analyses the Group's current and non-current financial liabilities, at 31 December 2016 and 2015 respectively, into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the tables are the financial undiscounted cash flows.

At 31 December 2016 (Amounts in NOK thousands)	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing borrowings	-	207	337	38 525	17 865	**56 934**
Accounts payable and other current liabilities	-	4 681	-	-	-	**4 681**
Accrued public charges	-	3 348	-	-	-	**3 348**
Other short-term liabilities	-	21 155	-	-	-	**21 155**
	-	**29 392**	**337**	**38 525**	**17 865**	**86 119**

At 31 December 2015 (Amounts in NOK thousands)	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing borrowings	-	220	342	28 917	29 871	**59 350**
Accounts payable and other current liabilities	-	6 307	-	-	-	**6 307**
Accrued public charges	-	1 826	-	-	-	**1 826**
Other short-term liabilities	-	17 287	-	-	-	**17 287**
	-	**25 640**	**342**	**28 917**	**29 871**	**84 770**

7. Revenue recognition

Revenue comprises the fair value of consideration received or due consideration for the sale of services in regular business activities. Revenue is presented net of value added tax. Revenue is recognized when the service is performed.

(Amounts in NOK thousands)	2016	2015
Other revenue	37	146
Total operating revenue	**37**	**146**

The Group's products are still in the research and development phase, and it has no revenue from sales of products yet. Other revenue in 2016 and 2015 arises from a non-core service fee.

8. Research and development expenses

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Internal and external development costs related to the Group's development of products are recognized in the statement of profit and loss in the year incurred unless it meets the asset recognition criteria of IAS 38 "Intangible Assets".

Uncertainties related to the regulatory approval process and other factors generally means that the criteria are not met until the time when the marketing authorization is obtained with the regulatory authorities. This assessment requires significant management discretion and estimations.

The Group is developing new products. Uncertainties related to the regulatory approval process and results from ongoing clinical trials, generally indicate that the criteria for asset recognition is not met until the time when marketing authorization is obtained from relevant regulatory authorities.

The following external research and development expenditures have been expensed:

(Amounts in NOK thousands)	**2016**	**2015**
R&D related consultancy and other expenses	38 406	21 874
Cost of manufacturing for R&D	9 749	9 597
Patent expenses	2 913	651
Government grants	-6 068	-6 891
Total external research and development expenses	**45 001**	**25 231**

The following table gives an overview of the Group's research and development expenditures compared to the total operating expenses:

(Amounts in NOK thousands)	2016		2015	
	Total	R&D	Total	R&D
External R&D expenses	45 001	45 001	25 231	25 231
Payroll and related expenses	49 235	24 449	35 431	13 497
Other operating expenses	25 311	970	29 100	384
Total	**119 548**	**70 420**	**89 762**	**39 111**

9. Government grants

Government grants are recognized at the value of the contributions at the transaction date. Grants are not recognized until it is probable that the conditions attached to the contribution will be achieved. The grant is recognized in the statement of profit and loss in the same period as the related costs, and are presented net.

Government grants are normally related to either reimbursements of employee costs and classified as a reduction of payroll and related expenses or related to other operating activities and thus classified as a reduction of other operating expenses.

Government grants have been recognized in statement of profit and loss as a reduction of the related expense with the following amounts:

(Amounts in NOK thousands)	2016	2015
External R&D expenses	6 068	6 891
Payroll and related expenses	1 640	2 225
Other operating expenses	67	-
Total	***7 774***	***9 115***

R&D projects have been approved for SkatteFunn for the period 2011 through 2016. For the full year 2016 the Group has recognized NOK 4 936 071 (2015: 4 361 331) as cost reduction in Payroll and related expenses and Other Operating expenses.

For the period 2013 through 2016, the Group has been awarded a grant from The Research Council (program for user-managed innovation arena (BIA)) of NOK 12 361 000 in total. For the full year ended 31 December 2016, the Group has recognized NOK 2 059 000(4 473 000) as cost reduction in External R&D expenses and Payroll and related expenses.

The Group has been awarded grants from EU regarding the EU project "ADVance" of EUR 262 779 and the Group has for the full year 2016 recognized NOK 358 155 as cost reduction in External R&D expenses.

NOK 421 195 has been recognized as a government grant in relation to an additional loan approval of EUR

146 981 to one of the existing TEKES loans during 2016. See note 22 for information about Tekes loans.

Grants receivables as at 31 December 2016 are detailed as followed:

(Amounts in NOK thousands)	*2016*	*2015*
Grants from SkatteFunn	4 936	4 361
Grants from Research Counsil (BIA)	686	1 491
Grants from ADVance	358	-
Total grants receivable	***5 981***	***5 852***

10. Payroll and related expenses

Payroll and related expenses are recognized in the statement of profit and loss in the period in which the related costs are incurred or services are provided.

Defined contribution plans

Targovax ASA has a defined contribution pension plan as required by the Norwegian Law and as well an applicable contribution pension plan as required by Finnish Law for all employees employed in Targovax OY. These pension plans apply to all employees of Targovax ASA and Targovax OY respectively. Currently, members of the Management team with residence outside Norway and Finland are not part of the company's respective national pension plans. The company pays these executives an annual amount in addition to base salary in lieu of their participation in a company scheme. For defined contribution pension plans, contributions are paid to pension insurance plans and charged to the statement of profit and loss in the period to which the contributions relate.

Bonus scheme

Bonuses are based on the corporate objectives as well as individual objectives. The Group recognizes a liability and an expense for bonuses based on a short-term incentive plan for employees linked to achievement of specific targets determined by the Board. See note 11.

Total payroll and related expenses for the Group are:

(Amounts in NOK thousands)	2016	2015
Salaries and bonus	33 659	26 154
Employer's national insurance contributions	3 640	3 278
Share-based compensation [1] - see Note 12	10 098	5 875
Pension expenses – defined contribution plan	2 394	1 723
Other	1 084	626
Governmental grants	-1 640	-2 225
Total payroll and related expenses	**49 235**	**35 431**
1) Share-based compensation has no cash effect.		

Number of employees calculated on a full-time basis as at 31 December	26.2	26.5
Number of employees as at 31 December	27	27

Targovax ASA has a defined contribution pension scheme that complies with requirements of Norwegian occupational pension legislation (OTP). The contribution is expensed when it is accrued. Targovax OY has a defined contribution pension scheme that complies with requirements of Finnish law.

11.Related parties and Management

Targovax Compensation Report

This report describes the compensation programs developed and established during the year for Targovax. It is intended to describe programs for senior executives and to explain how they were compensated in 2016 and will be in 2017. See Note 10 and 12 for accounting principle for payroll and related expenses and equity-settled share-based payments.

Section 1: Introduction by the Compensation Committee

Dear Shareholder,

It is our pleasure to present Targovax Compensation Report for the year 2016. We encourage all shareholders to read the entire Compensation Report before attending the Annual General meeting in April 2017.

2016 was a successful year for Targovax, significant developments in 2016 were:

- Private placement of NOK 114m in third quarter 2016
- Listing of our shares on Oslo Axess July 2016
- Granting of European and US patents for ONCOS- 102, extending the protection till 2029
- Preparation of five new clinical trials in five indications

As per end of 2016, the initiation of several new trials with ONCOS-102, a first trial of TG02, and the potential ongoing clinical trial in phase II for TG01 have first priority. The outcomes of these trials represent the foundation on which Targovax will build its future value.

Targovax is a clinical stage company with a broad pipeline of opportunities in immuno-oncology. The total compensation philosophy reflects this in that equity incentives play an important role in compensating, motivating, and retaining the work force. Moreover, the Committee believes that it is essential that a substantial part of Management's compensation is aligned with the interests of Targovax' shareholders. The "drive" of the organization and in particular key employees is essential to reach the milestones that will advance Targovax and underpin value creation. To make this journey successful, Targovax needs to attract and retain senior and talented individuals that are willing to build lasting careers with the company.

During the year the Compensation Committee has engaged closely with Management in order to ensure a shared view of the compensation policy and discuss and give feedback to the essential tactics necessary to fulfil

the needs of the company. Long-term incentive has been the most critical approach to ensure a successful compensation policy. The Compensation Committee is convinced that the suggested compensation policy will support and fulfil the essential needs of sustainable engagement and value creation.

The Committee will continue to measure and monitor the effectiveness of the compensation policies and return with further amendments when needed.

Per Samuelson, Robert Burns, Lars Lund-Roland

Targovax Compensation Committee, 15 March 2017

Section 2 – Compensation Committee activity

The Compensation Committee

The Board of Directors with the assistance of the Compensation Committee determines the compensation policy for Targovax. The Committee is of the view that compensation practices must support the strategic aims of the business and enable the recruitment, motivation, and retention of senior executives as well as key employees. Targovax' practices must take into account the views of regulatory and governance bodies and the expectations of shareholders and the wider employee population. The Board of Directors approves the total compensation of the CEO, which is communicated to the shareholders through the Annual General Meeting. The Board of Directors has final approval of the compensation of the Management team, upon recommendation of the CEO and the Compensation Committee

Committee activity

The committee was established in 2015 after the merger was concluded. The CEO attended selected meetings, providing input and assisting with specific queries. The CEO did not participate in conversations regarding his own level of compensation.

The committee covered the following matters during the year:

- Review of the overall compensation strategy and policies
- Review of the market competitive positioning of the compensation for each member of the Management team
- Recommendation on the base salary increase of the CEO and a review of recommendations made by the CEO for the other members of the Management team
- Recommendation on fulfillment of objectives for 2016 and on cash bonuses for the Management team
- Recommendation on the grant of share options to the members of the Management team.

Together with the Nomination Committee, the Compensation Committee also proposed an equity program for Board members, intended to form part of Board compensation from Annual General meeting 2015 and onward.

Section 3 – Overview of the compensation policy

The compensation policy

The compensation policy applied in 2016 is as follows:

Principle	Summary
Market competitive compensation	Targovax offers market competitive reward opportunities on a level adequate to enable the company to attract, retain, and motivate the talent needed to achieve our vision and business objectives. We balance the need to provide market competitive levels of reward against a desire to be cost-effective when determining reasonable and responsible reward outcomes.
Pay for commitment	An appropriate proportion of the reward package is performance-based for top executives to ensure reward is linked to the achievement of key financial and non-financial objectives with a balance of short and long term performance components - with priority being given to securing the long term commitment of key employees.
Transparency	Compensation programs are designed and communicated in a manner that reinforces the linkage between business objectives, our vision, and culture.
Business alignment and consistency	Compensation decisions are made within an international framework to ensure local practices are aligned and consistent with our principles and policies. Our compensation practices will remain flexible enough to evolve as the business priorities of Targovax change.
Shareholder alignment	Our compensation programs will align the interests of all employees in driving value creation for our shareholders. We will share the success of the company wherever possible with our employees.

Element	Applied in 2016	Proposed for 2017
Base salary	✔	✔
Short term incentive for top executives: Annual cash bonus	✔	✔
Long term incentive for all employees: Share options	✔	✔
Equity as part of Board fee	✔	✔
Benefits	✔	✔
Pension	✔	✔

Section 4 – Compensation policy for each element

The policy for each element of compensation is described below setting out the policy applied for 2016 and 2017.

Base salary

Base salaries for individual members of the Management team are reviewed annually by the Committee. The salaries are set by taking into consideration the scope of the role, the level of experience of the individual, the geographical location of the role, internal relativity, and external economic environment.

The overall performance rating, employee potential, and current compensation market competitiveness will be combined to assess any proposed salary revision.

Short term incentives: annual bonus

The corporate objectives are set by the Board and determined for and agreed with the CEO. The bonus of the CEO is determined by achievements of corporate objectives. Other Management Team bonus are based on the corporate objectives as well as individual objectives.

The level of performance achieved and the amount of bonus to be awarded members of the Management Team is reviewed by the Committee, in discussion with the CEO, and approved by the Board.

Objectives for 2016 revolve around a) development and execution of clinical plans b) establishment of collaborations and c) investor relations and preparations for a fund raising.

Maximum bonus percentages	2016 (% of base salary)
Øystein Soug (Chief Executive Officer)	25%
Magnus Jäderberg (Chief Medical Officer)	30%

The Committee may, at its discretion, review the operation of the annual bonus plan and make recommendations to the Board for approval. Any review will take into account the overall impact of the compensation package, the mix between fixed and variable pay, and the balance between short and long term performancemeasurement.

With respect to performance in 2016, the following bonuses will be paid in 2017:

Bonus pay-outs	2016 (% of target bonus)
Øystein Soug (CEO)	89%
Magnus Jäderberg (CMO)	82%

Long term incentives

The Committee's proposal for 2017 long term incentives and the policy applied in 2016 are described below.

Long term incentives proposal for 2017

Eligibility

New employees are eligible for option grants upon joining the company. Employees will be eligible for an annual option award on a discretionary basis, taking into account overall performance, work responsibility, importance of retention, organization level, and position.

The Board of Directors will exercise discretion as to who will receive an equity award in any given year, based on recommendations made by the Committee.

The Board of Directors intends to grant awards under the plan, alongside the existing option plan, on an annual basis.

The Board members are not eligible to participate.

Grant size and exercise price

The Compensation Committee shall recommend to the Board the size of the overall option grant. The grant schedule will be determined, and reviewed, on the basis of market competitiveness of the equity component of the compensation package and the overall size of the available share pool approved by shareholders.

Share option grants will not be subject to any performance-based vesting conditions.

The exercise price is determined at grant and reflects the share price on the day of the grant.

Long-term incentives in 2016

In 2016, Targovax granted share options under the current share option plan in which all employees are eligible to participate.

The share option grants are not subject to any performance-based vesting conditions. Under the current plan, share options have been granted to employees upon joining the company. Additional grants have been awarded to employees on a discretionary basis taking into account the number of options held, overall performance, competitiveness of terms, work responsibility, importance of retention, organization level, and position.

Employee vesting schedule

Granted share options vest over a four-year period as follows: 25 percent of the options vest on the first anniversary of the grant date; and the remaining 75 percent of the options vest in equal monthly tranches over the next 36 months. Most options expire seven years after the grant date.

In the case of termination of employment, the employee will not vest further share options beyond notice of termination. The terminated employee can, as a rule, exercise vested share options for a maximum period of six months after termination.

In the event of a Take-over or a Statutory Merger all unvested options shall vest if, within 24 months following the completion of such trade sale or merger, the option holder's employment is terminated by the Group.

Limits

The Board of Targovax seeks authorization from shareholders at the Annual General Meeting to issue a maximum number of share options in total for all grants. This authorization is sought every year and at the Annual General Meeting in April 2016, the Board was authorized to increase the Group's share capital in connection with share incentive arrangements to employees and consultants by up to NOK 268,838.08. The authorization to increase the share capital covers:

- Already granted options, vested as well as unvested; and
- Planned future grants of options

For the next period this cap will be proposed at the lower of (a) NOK 800 000 and (b) 10% of outstanding shares and options and RSU's (i.e. fully diluted).

At the end of 2016, 2,513,170 share options were outstanding, of which 1,103,903 were vested and exercisable at year-end 2016. Current Management Team members and Board of Directors held 1,596,000 share options. 589,811 options were held by other employees and the remaining 327,359 by previous employees, previous Oncos board members, consultants, and inventors.

By the end of 2016, one Board member who had previously been granted options in legacy Oncos before the merger in 2015, held 21,235 Targovax options converted from these legacy Oncos options. Targovax has never and does not plan to grant options to Board members.

Pension

Targovax ASA has a defined contribution pension plan as required by the Norwegian Law and as well an applicable contribution pension plan as required by Finnish Law for all employees employed in Targovax OY. These pension plans apply to all employees of Targovax ASA and Targovax OY respectively.

Currently, members of the Management team with residence outside Norway and Finland are not part of the company's respective national pension plans. The company pays these executives an annual amount in addition to base salary in lieu of their participation in a company scheme.

Other benefits

Benefits to the Management team may comprise certain other items such as healthcare, accident insurance, etc. on customary terms.

Severance payment

Øystein Soug (CEO) is entitled to severance pay equal to the more beneficial of (i) 12 months' base salary as per the date of the termination or (ii) payment of base salary until 31 December 2018. Magnus Jäderberg (CMO) is entitled to severance pay equal to 12 months' salary in the event of termination of his employment. Apart from this, no employee, including any member of Management, has entered into employment agreements which provide for any special benefits upon termination.

Statement for 2016

The Board of Directors complies with the decision made at Targovax ASA's Ordinary General Meeting on 13 April 2016 to approve of the Board of Directors' statement concerning principles for Management compensation pursuant to Norwegian Public Limited Companies Act section 6–16a. The principles for 2016 were identical to the principles listed above.

Section 5 – Compensation tables for 2016 and 2015

Remunerations and other benefits in 2016:

(Amounts in NOK thousands)	Fixed annual salary as at 31 Dec. 2016	Earned salaries in 2016	Bonus earned in 2015, paid in 2016	Pension expenses	Benefits in kind in 2016	Exercise of share options	Total remuneration in 2016
Management:							
Øystein Soug, Chief Executive Officer [1]	2 400	1 597	181	64	9	-	1 851
Jon Amund Eriksen, Chief Technology Innovation Officer	1 489	1 509		64	206	-	1 779
Magnus Jäderberg, Chief Medical Officer [2]	2 296	2 218	705		578	-	3 501
Tina Madsen, VP Quality Assurance	1 036	1 032	75	58	8	-	1 173
Peter Skorpil, VP Business Development	968	935	70	52	9	-	1 067
Anne Kirsti Aksnes, VP Clinical Development	1 270	1 114	77	61	7	-	1 260
Berit Iversen, VP CMC	1 036	1 032	72	58	7		1 170
Tiina Hakonen, Site Manager Helsinki	822	759	48	170	2		980
Total Management [3, 4]	**11 317**	**10 196**	**1 229**	**528**	**827**	**-**	**12 781**

1) Øystein Soug was appointed CEO of the Group on 1 November 2016 and was before that CFO of the Group.
2) Fixed annual salary is the annual salary in GBP multiplied by the average exchange rate throughout the year.
3) Gunnar Gårdemyr resigned from his position as CEO of the Group on 1 November 2016. During 2016 his remuneration consists of TNOK 2,694 in salary, TNOK 254 in bonus, TNOK 64 in pension and TNOK 178 in benefits in kind.
4) Antti Vuolanto resigned from his position as Executive VP of the Group on 18 August 2016. During 2016 his remuneration consists of TNOK 1,356 in salary, TNOK 502 in bonus, TNOK 414 in pension, TNOK 110 in share based payments and TNOK 2 in benefits in kind.

In 2016, the annual general meeting of the Company resolved that all current board members shall receive NOK 200,000 for the period from the annual general meeting in 2015 and until the annual general meeting in 2016. If the current board members have served for a shorter period than since the annual general meeting in 2015, the remuneration shall be pro rata adjusted down (based on the number of days served compared to the full period). The members of the board of directors may choose to receive their remuneration, or parts thereof, in the form of restricted stock units (RSUs).

The annual general meeting further resolved that Robert Forbes Burns, Eva-Lotta Allan, and Diane Mary Mellett in addition shall receive an extraordinary remuneration in the amount of NOK 100,000 in subject to mandatory settlement in restricted stock units ("**RSUs**").

Three of the board members Jónas Einarsson (chairman), Johan Christenson, and Per Samuelsson have decided to waive any remuneration until the Company has sufficient financing in place. In accordance with their wishes, the annual general meeting resolved that no remuneration shall be granted to these board members for the period from the annual general meeting in 2015 to the annual general meeting in 2016.

At the same annual general meeting, it was resolved that for the period from the annual general meeting in 2016 to annual general meeting in 2017, the chairman of the board shall receive NOK 350,000 and all other board members shall receive NOK 200,000 for the period. The remuneration shall be payable immediately after the annual general meeting in 2017. If a board member has not served for the entire period, the remuneration shall be pro rata adjusted down (based on the number of days served compared to the full period). With respect

to Jónas Einarsson (chairman), Johan Christenson, and Per Samuelsson, the payment of the remuneration is subject to the Company having sufficient financing in place prior to the annual general meeting in 2017.

The Nominations Committee is reviewing the compensation for 2017-2018. The fees are decided by the Annual General Meeting.

NOK 0.8 million, excluding National Insurance Contribution, was recognized as expense in provision for Board remunerations to be paid in cash for the period April 2016 to December 2016 and NOK 0.8 million was recognized as expense for Board remunerations in RSU's for the period 2015-2016 and NOK 0.6 million for the period April 2016 to December 2016. Neither the Board of Directors nor Management have exercised options for shares in 2016.

The Group has recognized as expense NOK 1.3 million, excluding National Insurance Contribution, in provision for bonuses to Management for 2016.

There are no outstanding loans or guarantees made to the Board of Directors or the Management.

Holding of shares, options for shares and RSU's, including those of close associates, as at 31 December 2016:

(Amounts in NOK thousands)	Holding of shares as at 31 Dec. 2016	% ownership	Granted options 2016	Holding of options as at 31 Dec. 2016	Granted RSU's 2016 [5]	Holding of RSU's as at 31 Dec. 2016
Board of Directors of Targovax ASA:						-
Jónas Einarsson, Chairperson [1]				-		-
Bente-Lill Bjerkelund Romøren, Board member				-	10 929	10 929
Johan Christenson, Board member [2]				-		-
Lars Lund Roland, Board member				-	20 811	20 811
Per Samuelsson, Board member [2]				-		-
Robert Burns, Board member	34 063	0.08%	21 235	21 235	40 984	40 984
Eva-Lotta Coulter, Board member				-	23 169	23 169
Diane Mellett, Board member				-	34 098	34 098
Total Board of Directors	**34 063**	**0.08%**	**21 235**	**21 235**	**129 991**	**129 991**
Management:						
Øystein Soug, Chief Executive Officer [3]	100 000	0.24%	150 000	540 000		
Jon Amund Eriksen, Chief Technology Innovation Officer [4]	728 601	1.73%	-	160 000		
Magnus Jäderberg, Chief Medical Officer	20 000	0.05%	120 000	510 000		
Tina Madsen, VP Quality Assurance	6 300	0.01%	-	53 000		
Peter Skorpil, VP Business Development	10 000	0.02%	-	45 000		
Anne Kirsti Aksnes, VP Clinical Development	12 000	0.03%	100 000	153 000		
Berit Iversen, VP CMC	7 587	0.02%	20 000	90 000		
Tiina Hakonen, Site Manager Helsinki	-	0.00%	20 000	45 000		
Total Management	**884 488**	**2.10%**	**410 000**	**1 596 000**	**-**	**-**
Total	**918 551**	**2.18%**	**431 235**	**1 617 235**	**129 991**	**129 991**

1) Jónas Einarsson, Chairperson of the Board of Directors, is CEO of the Radium Hospital Research Foundation which owns 4 077 255 shares at 31.12.2016

2) Johan Christenson and Per Samuelsson, both Member of the Board, are partners at HealthCap, HealthCap owns 11 155 584 shares at 31.12.2016

3) The shares are held through Abakus Invest AS

4) The shares are held through Timmuno AS

5) Granted RSU's to the Board of Directors are a part of the yearly Board remuneration fee which the Board members can select either to receive in cash or in RSU's. Jónas Einarsson, Per Samuelsson, and Johan Christenson decided to waive the remuneration fee for the period between AGM 2015 to 2016.

Remunerations and other benefits in 2015:

(Amounts in NOK thousands)	Fixed annual salary as at 31 Dec. 2015	Earned salaries in 2015	Bonus earned in 2014, paid in 2015	Pension expenses	Benefits in kind in 2015	Total remuneration in 2015
Management:						
Gunnar Gårdemyr, Chief Executive Officer (appointed 12 January 2015)	2 310	2 247			153	2 400
Øystein Soug, Chief Financial Officer (appointed 11 May 2015)	1 400	821		36	6	863
Jon Amund Eriksen, Chief Operating Officer	1 445	1 435		57	218	1 710
Magnus Jäderberg, Chief Medical Officer[1] (appointed 2 July 2015)	2 588	2 588	270		616	3 474
Antti Vuolanto, Executive Vice President[2] (appointed 2 July 2015)	1 234	1 256		313	2	1 571
Tina Madsen, VP Quality Assurance	1 006	896		51	19	967
Peter Skorpil, VP Business Development (appointed 8 April 2015)	940	597		35	9	641
Anne Kirsti Aksnes, VP Clinical Development (appointed 01.01.2016)	1 037	924		53	13	989
Total Management [3]	**11 961**	**10 764**	**270**	**544**	**1 037**	**12 615**
Total	**11 961**	**10 764**	**270**	**544**	**1 037**	**12 615**

1) Fixed annual salary is the annual salary in GBP multiplied by the average exchange rate throughout the year.
2) Fixed annual salary is the annual salary in EUR multiplied by the average exchange rate throughout the year.
3) The Group's Head of HR is a hired consultant and therefore not included in this table - please refer to the table Related party transactions

Holding of shares and options for shares as at 31 December 2015:

(Amounts in NOK thousands)	Holding of shares as at 31 Dec. 2015	% ownership	Granted options 2015 [5]	Holding of options as at 31 Dec. 2015
Board of Directors of Targovax ASA:				
Jónas Einarsson, Chairperson [1]				-
Johan Christenson, Board member [2]				-
Per Samuelsson, Board member [2]				-
Robert Burns, Board member	29 063	0,11 %	21 235	21 235
Total Board of Directors	**29 063**	**0,11 %**	**21 235**	**21 235**
Management:				
Gunnar Gårdemyr, Chief Executive Officer (appointed 12 January 2015)	20 000	0,07 %	500 000	500 000
Øystein Soug, Chief Financial Officer (appointed 11 May 2015) [3]	20 000	0,07 %	390 000	390 000
Jon Amund Eriksen, Chief Operating Officer [4]	724 650	2,70 %	160 000	160 000
Magnus Jäderberg, Chief Medical Officer (appointed 2 July 2015)	20 000	0,07 %	390 000	390 000
Antti Vuolanto, Executive Vice President (appointed 2 July 2015)	61 773	0,23 %	181 000	181 000
Tina Madsen, VP Quality Assurance			53 000	53 000
Peter Skorpil, VP Business Development (appointed 8 April 2015)	2 000	0,01 %	45 000	45 000
Anne Kirsti Aksnes, VP Clinical Development (appointed 01.01.2016)			53 000	53 000
Total Management	**848 423**	**3,16 %**	**1 772 000**	**1 772 000**
Total	**877 486**	**3,26 %**	**1 793 235**	**1 793 235**

1) Jónas Einarsson, Chairperson of the Board of Directors, is CEO of the Radium Hospital Research Foundation which owns 3 410 589 shares at 31.12.2015

2) Johan Christenson and Per Samuelsson, both Member of the Board, are partners at HealthCap, HealthCap owns 8 488 918 shares at 31.12.2015

3) The shares are held through Abakus Invest AS

4) The shares are held through Timmuno AS

5) Granted options to Robert Burns, Magnus Jäderberg, and Antti Vuolanto include conversion of Oncos Therapeutics OY's option program to Targovax' option program 2 July 2015

All amounts in the tables exclude National Insurance Contribution. The Group has recognized as expense NOK 4.9 million in share-based compensation to Management in 2015. Neither the Board of Directors nor Management have exercised options for shares in 2015. There are no outstanding loans or guarantees made to the Board of Directors or the Management.

Total outstanding options for shares by range of exercise price at 31 December 2016:

Exercise price in NOK	7.50	9.30	12.39	21.50	25.00	37.60	Total
Board of Directors of Targovax ASA:							
Robert Burns, Board member						21 235	21 235
Total Board of Directors				-	-	**21 235**	**21 235**
Management:							
Øystein Soug, Chief Executive Officer		150 000			390 000		540 000
Jon Amund Eriksen, Chief Technology Innovation Officer					160 000		160 000
Magnus Jäderberg, Chief Medical Officer			120 000		390 000		510 000
Tina Madsen, VP Quality Assurance				53 000			53 000
Peter Skorpil, VP Business Development					45 000		45 000
Anne Kirsti Aksnes, VP Clinical Development			100 000	53 000			153 000
Berit Iversen, VP CMC	25 000		20 000		45 000		90 000
Tiina Hakonen, Site Manager Helsinki			20 000		25 000		45 000
Total Management	**25 000**	**150 000**	**260 000**	**106 000**	**1 055 000**	-	**1 596 000**
Total	**25 000**	**150 000**	**260 000**	**106 000**	**1 055 000**	**21 235**	**1 617 235**

Total outstanding options for shares by range of exercise price at 31 December 2015:

Exercise price in NOK	0.51	21.50	25.00	37.60	Total
Board of Directors of Targovax ASA:					
Robert Burns, Board member				21 235	21 235
Total Board of Directors	-	-	-	**21 235**	**21 235**
Management:					
Gunnar Gårdemyr, Chief Executive Officer (appointed 12 January 2015)		300 000	200 000		500 000
Øystein Soug, Chief Financial Officer (appointed 11 May 2015)			390 000		390 000
Jon Amund Eriksen, Chief Operating Officer			160 000		160 000
Magnus Jäderberg, Chief Medical Officer (appointed 2 July 2015)			390 000		390 000
Antti Vuolanto, Executive Vice President (appointed 2 July 2015)	10 258		170 742		181 000
Tina Madsen, VP Quality Assurance		53 000			53 000
Peter Skorpil, VP Business Development (appointed 8 April 2015)			45 000		45 000
Anne Kirsti Aksnes, VP Clinical Development (appointed 01.01.2016)		53 000			53 000
Total Management	**10 258**	**406 000**	**1 355 742**	-	**1 772 000**
Total	**10 258**	**406 000**	**1 376 977**	**21 235**	**1 793 235**

Related party transactions:

(Amounts in NOK thousands)	2016		2015	
	Expensed	Payable at 31 December	Expensed	Payable at 31 December
Knudtzon	196	-	392	92

Targovax entered into a consulting agreement with Knudtzon, a Zurich based company, on 26 June 2015. Knudtzon is a related party of Nikolaj Knudtzon, who was a member of Targovax Management Team, Head of HR, from June 2015 to March 2016. Knudtzon was entitled to a consultancy fee of NOK 73,500 per month.

Remuneration to the statutory auditor (excl. VAT):

(Amounts in NOK thousands)	2016	2015
Statutory audit	494	268
Other attestation services	232	979
Tax services	401	39
Other services	82	527
Total	**1 208**	**1 813**

12.Share-based compensation

Equity-settled share-based payments are measured at the fair value of the equity instruments at the grant date.

The fair value of the employee services received in exchange for the grant of the options is recognized as an expense, based on the Company's estimate of equity instruments that will eventually vest. The total amount to be expensed is determined by reference to the fair value of the options granted excluding the impact of any non-market service and performance vesting conditions. The grant date fair value of the options granted is recognized as an employee expense with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options (vesting period).

The fair value of the options granted is measured using the Black-Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility, weighted average expected life of the instruments, expected dividends, and the risk-free interest rate.

Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are recognized as share capital (nominal value) and share premium reserve.

At the end of each reporting period, the group revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision to original estimates, if any, in statement of profit and loss, with a corresponding adjustment to equity. Changes to the estimates may significantly influence the expense recognized during a period.

Share options

At the Annual general meeting in April 2016 the Board was authorized to increase the Group's share capital in connection with share incentive arrangements to employees and consultants by up to NOK 268,838.08.

The Company has granted share options under its long term incentive program (the "LTI Option Program"). The Option Program applies to the Management as well to employees in general. Certain former employees and former board members have also been granted options under the LTI Option Program.

Additionally, the Company has in the past granted options as payment for inventions (the "IPR Option Program").

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) in Targovax ASA.

Each share option converts into one ordinary share of the Company on exercise. Options may be exercised at any time from the date of vesting until expiry. The options generally vest over a period of four years: 25 percent of the options vest on the first anniversary of the grant date and the remaining 75 percent of the options vest in equal monthly tranches over the next 36 months. Options expire seven years after the grant date.

In general, the exercise price of the options is set at the fair value of the shares at grant date.

There were granted 655 000 share options during 2016 and 2 090 062 share options during 2015. As a result of the Oncos transaction 2 July 2015 380 827 share options in Oncos were converted into Targovax share options in 2015. At the convertions the exercise price, lifetime and quantity have been adjusted. The adjustments have been made so that fair value of the outstanding award is equal to the

fair value of the outstanding awards after conversion. Hence, there is no incremental value to be expensed after the conversion. The conversion of the share options entailed no added value.

Certain former employees and former board members have also been granted options under the LTI Option Program as replacement for historical option holdings

As of 31 December 2016, there are in total 2,513,170 outstanding options for all option programs, 2 409 256 options under the LTI Option Program and 103 914 options under the IPR Option Program.

Fair value of the options has been calculated at grant date. The fair value of the options were calculated using the Black-Scholes model. The expected volatility for options issued in 2016 is estimated at average of 89,56%, based on the volatility of comparable listed companies. The volume weighted average interest rate applied to the share options grants in 2016 is 0.8941%.

The following table shows the changes in outstanding options in 2016 and 2015:

	FY 2016		FY 2015	
	No. of options	Weighted avg. excercise price (in NOK)	No. of options	Weighted avg. excercise price (in NOK)
Outstanding at 1 January	2 545 889	23.25	100 000	7.50
Granted during the period	655 000	11.82	2 090 062	24.09
Exercised during the period	-78 358	4.97	-25 000	7.50
Convertion of Oncos option program 2/7-2015	-	-	380 827	21.77
Forfeited	-601 927	22.90	-	-
Expired	-7 434	25.00	-	-
Outstanding no. of options at end of period	**2 513 170**	**20.93**	**2 545 889**	**23.25**

1) See Note 11 Related parties and Executive Management for further information on granted share options to Executive Management.

The average fair value of options granted in 2016 was 7.03 per share and NOK 12.86 per share in 2015. The weighted- average assumptions used to determine the Black Scholes fair value of options granted in 2016 and 2015 were:

	2016	2015
Volatility (%)	89.56	83.00
Expected life (in years)	3.66	3.05
Risk-free interest rate (%)	0.89	0.74
Share price (NOK)	11.65	24.90
Exercise price (NOK)	11.82	24.09

The expensed share options, NOK 8.7 million in 2016 and 5.8 million in 2015, includes management estimate for employee turnover. The estimated turnover rate used for the year 2016 and 2015 was 0%.

At 31 December 2016, the range of exercise prices and weighted average remaining contractual life of the options were as follows:

	Outstanding Options			Vested options	
Exercise price	**Outstanding Options Per 31.12.2016**	**Weighted average remaining Contractual Life**	**Weighted Average Exercise Price**	**Vested options 31.12.2016**	**Weighted Average Exercise Price**
0,00 - 0,51	73 876	5,5	0,51	23 837	0,51
0,51 - 7,50	25 000	0,85	7,5	25 000	7,5
7,50 - 15,04	595 000	6,87	11,62	5 000	15,04
15,04 - 21,50	337 250	3,26	21,13	219 261	21,5
21,50 - 25,00	1 381 030	3,92	25	733 116	25
25,00 - 37,60	101 014	5,25	37,6	97 689	37,6
Total	2 513 170	4,6	20,93	1 103 903	24,45

At 31 December 2015, the range of exercise prices and weighted average remaining contractual life of the options were as follows:

	Outstanding options			Vested options	
Exercise price	Outstanding options per 31.12.2015	Weighted average remaining contractual life	Weighted average exercise price	Vested options 31.12.2015	Weighted average exercise price
0.51	102 234	6.51	0.51	52 195	0.51
7.50	75 000	1.85	7.50	75 000	7.50
15.04	20 000	6.92	15.04	0	0
21.50	486 000	5.11	21.50	7 810	21.50
25.00	1 761 641	5.64	25.00	216 967	25.00
37.60	101 014	6.25	37.60	91 992	37.60
Total	2 545 889	5.50	23.25	443 964	21.71

During the first two months of 2017, additional 22 000 share options were granted to other employees.

Restricted Stock Units

The ordinary general meeting 13 April 2016 decided to remunerate the Board of Directors with a combination of cash and Restricted Stock Units (RSUs).

The number of RSUs to be granted to the members of the Board of Directors is calculated as the NOK amount of the RSU opted portion of total compensation to the Board member, divided by the market

price for the Targovax ASA share. The market price is calculated as volume weighted average share price the 10 trading days prior to the grant date, NOK 12.20 for the grant at 13 April 2016.

The Board members must elect to either (i) receive 100% of the compensation in RSUs, (ii) receive 1/3 of the compensation in cash and 2/3 in RSUs, or (iii) receive 2/3 of the compensation in cash and 1/3 in RSUs. The total compensation to each member of the Board of Directors for both the period 2015-2016 and 2016-2017 have been set out in the minutes from the ordinary general meeting.

A total of 129 991 RSUs have thus been granted. The RSUs granted for the period 2015 – 2016 vested on 13 April 2016, while the RSUs granted for the period 2016- 2017 will vest on 13 April 2017.

The expensed RSU's in 2016 was NOK 1.4 million.

The following table shows the outstanding and granted RSU's to Board of Directors of the Group at 31 December 2016:

Name	Position	RSUs	
		Granted 2016	Outstanding 31.12.2016
Key management:			
Bente-Lill Romøren	Board member	10 929	10 929
Diane Mellett	Board member	34 098	34 098
Eva-Lotta Allan	Board member	23 169	23 169
Lars Lund-Roland	Board member	20 811	20 811
Robert Burns	Board member	40 984	40 984
Total Restricted Stock Units to Board of Directors of the Group		**129 991**	**129 991**

13.Other operating expenses

Expenditure on other operating expenses is recognized in the statement of profit and loss as an expense in the period in which it is incurred

(Amounts in NOK thousands)	2016	2015
Consultancy, advisors' expenses and IR	12 425	21 408
Travel expenses	3 996	1 961
Facilities expenses	4 342	1 946
IT services and IT-related accessories	1 630	1 275
Conferences and training	936	295
Other	1 765	2 068
Depreciation	284	148
Government Grants	-67	-
Total operating expenses	**25 311**	**29 100**

14.Financial items

Financial income consists of interest income and foreign exchange gain. Financial expense mainly consist of interest expense and exchange loss.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The Group's financial assets consist of receivables and cash. Management determines the classification of its financial assets at initial recognition, and the classification of financial assets depends on the nature and purpose of the financial assets.

Financial liabilities; The Group's financial liabilities consist of accounts payable, other current liabilities and interest-bearing liabilities. Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable and other current liabilities are recognized initially at fair value net of directly attributable transaction costs.

After initial recognition, interest-bearing liabilities are subsequently measured at amortized cost using the Effective Interest (EIR) method. Gains and losses are recognized in statement of profit and loss when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as financial costs in the statement of profit and loss.

Financial assets; The Group's financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets are added to the fair value of the asset. The assets are subsequently measured at amortized cost using the effective interest method, less any impairment losses. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership to another party. Financial assets are assessed for indicators of impairment at the end of the reporting period and are considered impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in statement of profit and loss when the liabilities are derecognized as well as through the

EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as financial costs in the statement of profit and loss.

Financial income and expense

All financial income and financial expense, except for foreign exchange income/expense, are related to financial assets and financial liabilities carried at amortized cost.

Financial income is:

(Amounts in NOK thousands)	2016	2015
Interest income on bank deposit	519	993
Interest income on tax repaid	15	16
Currency gain - other operating items	708	1 329
Total finance income	**1 241**	**2 339**

Financial expenses are:

(Amounts in NOK thousands)	2016	2015
Interest expense - Tekes Loan	604	514
Amortized interest costs - Tekes loan	2 845	1 327
Other interest expense	21	-2
Currency loss - other operating items	971	765
Other finance expense	2	4
Total finance expenses	**4 444**	**2 608**

Financial assets

Currently, all the Group's financial assets are categorized as receivables. The Group have TNOK 7 in trade receivables as at 31 December 2016 and none in 2015. At 31 December 2016 and 2015 the receivables mainly consist of grants receivables and receivables related to VAT. The Group has currently not recognized any non-current financial assets.

15.Tax

Income tax expense comprise current income tax (tax payable) and deferred tax.

Deferred taxes are recognized based on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax assets arising from deductible temporary differences are recognized to the extent that it is probable that taxable profits will be available so temporary differences can be utilized.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

The tax losses can be carried forward indefinitely in Norway and in Finland it can be carried forward and offset against taxable income in ten years for tax purposes. The Group considers that a deferred tax asset related to accumulated tax losses cannot be recognized in the statement of financial position until the product under development has been approved for marketing by the relevant authorities. However, this assumption is continually assessed and changes could lead to significant deferred tax asset being recognized in the future. This assumption requires significant management judgment.

The Group is in the research phase of its product development and has incurred significant tax losses related to its operations. Targovax ASA has a total tax loss carried forward of NOK 197 million at 31 December 2016 (31 December 2015: NOK 120 million).

Accumulated tax losses from Targovax OY's operations amounts to EUR 18.6 million as of 31 December 2016 and EUR 13.7 million as of 31 December 2015. With a current tax rate in Finland of 20%, the corresponding deferred tax asset is EUR 3.7 million as at 31 December 2016 and EUR 2.7 million as at 31 December 2015. Targovax OY has not recognized any deferred taxes under FGAAP. Tax losses in Finland can be carried forward and offset against taxable income in ten years for tax purposes. Oncos has not generated taxable income in prior years and is not expected to generate taxable income in the nearest future. Due to the uncertainty for future taxable profit within the ten years limitation of use, the company has assessed that it cannot be considered as probable that future taxable profit can be used against the tax losses carried forward.

However, the Group has recognized a deferred tax liability on temporary differences on the acquired intangible assets, ref. Note 4, per 31 December 2016 of NOK 55 million and
per 31 December 2015 of NOK 59 million.

(Amounts in NOK thousands)	2016	2015
Tax loss carried forward	-366 477	-212 310
Intangible and fixed assets	268 978	286 299
Borrowings	14 706	9 449
Other current liabilities	-	-13 305
Share options	-207	-79
Temporary differences 31.12	-82 999	70 054
Deferred tax asset (24%/20%)	24 499	10 690
Deferred tax asset not recognized	24 499	48 019
Deferred tax liablity 31.12	55 278	58 709

(Amounts in NOK thousands)	2016	2015
Statutory income tax rate	**25 %**	**27 %**
Tax effect of income / loss (-)	-28 219	-22 423
Tax effect permanent differences	-1 235	-1 878
Change in deferred tax not recognized	29 714	22 372
Tax expense	**260**	**-1 930**

16.Intangible assets and impairment test

Intangible assets

Intangible assets that relate to intellectual property rights acquired through licensing or assigning patents and know-how are carried at historical cost less accumulated amortization, where the useful life is finite and the asset is likely to generate economic benefits exceeding costs. Where a finite useful life of the acquired intangible asset cannot be determined, the asset is not subject to amortization, but is when indication, or at least tested annually for impairment. Acquired intangible assets will not be subject to amortization until market authorization is obtained with the regulatory authorities and the intangible assets are available for use. Depreciation on items of Intangible assets will be depreciated using the straight-line method to allocate their cost to their residual values over their estimated useful lives.

Research costs are recognized in the statement of profit and loss as incurred. Internal development costs related to the Group's development of products are recognized in the statement of profit and loss in the year in which they are incurred unless they meet the recognition criteria of IAS 38, "Intangible assets." Uncertainties related to the regulatory approval process and other factors generally means that the criteria are not met until the time when the marketing authorization is obtained with the regulatory authorities.

Impairment of non-financial assets

Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

As of 31 December 2016, the recognized intangible assets in the Group amounts to NOK 338m. This is a decrease, as of 31 December 2015, from NOK 358m due to NOK/EUR foreign exchange fluctuations. The intangible assets are derived from the acquisition of Oncos Therapeutics OY which was completed in July 2015 and related to the development of ONCOS-102, which is a virus-based immunotherapy platform.

Intangible assets are tested for impairment at least annually, or when there are indications of impairment.

The intangible assets are still under development and therefore currently difficult to calculate the value based on a pure discounted cash flow model without significant risk of estimation errors. Hence the valuation is based on an alternative approach. The value is estimated based on combination of a discounted cash flows method and a method based on a hypothetical out-licensing royalty.

The valuation is sensitive to many assumptions. There are significant uncertainties to time to market and the commercial results of biotech products in a development phase such as ONCOS-102. The results from the valuation in this impairment test is limited to ensure sufficient certainty for the recognized amount in the financial statement, and should not be considered as a complete valuation of the full potential of ONCOS-102.

ONCOS-102 has been impairment tested for four indications:

- Malignant mesothelioma
- Melanoma
- Ovarian cancer
- Advanced prostate cancer

A discounted cash flow model is in its nature uncertain, especially for an early stage compound like ONCOS-102. The applied model assumes out-licensing during late stage development. Key model assumptions are based on parameters observed in the market today, as well as management's own cost forecasts.

Results and sensitive analysis

The impairment test indicated that the value of the intangible assets exceeds the book value.

The table below shows how the value of intangible assets will be affected by changes in various assumptions, given that the remainders of the assumptions are constant.

Assumptions	Sensitivity	Changes in recoverable amount
Discount rate	+/- 1% point	-56 MNOK/+63 MNOK
Royalty	+/- 1% point	+31 MNOK/-31 MNOK
Probability of success	+/- 1% point	+60 MNOK/-60 MNOK

These sensitivities do not change the conclusion that the value of the intangible assets exceeds the book value. The impairment test is most sensitive to ONCOS-102 probability to succeed in the marked. If the product does not succeed the valuation will be 0. If the product succeeds the value will increase significantly other assumptions unchanged. Assumed probability to succeed is based on the product's current phase in its development and statistics for drug development during the last ten years.

17.Property, plant and equipment

Property, Plant and equipment (non-current assets) are carried at cost less accumulated depreciation and accumulated impairment losses. Acquisition cost includes expenditures that are directly attributable to the acquisition of the individual item. Other non-current assets are depreciated on a straight-line basis over the expected useful life of the asset. If significant individual parts of the assets have different useful lives, they are recognized and depreciated separately. Depreciation commences when the assets are ready for their intended use.

At the end of each reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss.

Property, plant and equipment consist of:

- Office equipment with estimated useful live of 5 years. No impairment losses have been recognized. No impairment losses have been recognized.

- As part of Oncos's lease of offices in Finland, the landlord agreed to finance the construction works and machinery and equipment purchases made by Oncos in 2010 – 2012 pertaining to the premises (approximately EUR 1.4 million exclusive VAT). The Group is now repaying such investment as part of the rent. The rental agreement may be terminated by the Group in August 2020 and by the landlord in August 2025. Should the lease be terminated by the Group prematurely (i.e. before August 2020), the Group would be liable to pay liquidated damages to the landlord (amounting to 1/150 of the landlord's total investment per month of premature termination).

(Amounts in NOK thousands)	Furniture, fittings, and equipment	Total
Cost:		
2015		
Opening balance	1 458	1 458
Additions	158	158
Exchange differences	118	118
At 31 December 2015	1 735	1 735
2016		
Opening balance	1 735	1 735
Additions	37	37
Exchange differences	-71	-71
At 31 December 2016	1 701	1 701
Accumulated depreciation and impairment:		
2015		
Opening balance	11	11
Depreciation charge	134	134
At 31 December 2015	145	145
2016		
Opening balance	145	145
Depreciation and impairment charge	257	257
At 31 December 2016.	402	402
Carrying amount:		
At 31 December 2015	**1 590**	**1 590**
At 31 December 2016.	**1 299**	**1 299**

18.Lease

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease. The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. To understand if the lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract

Lease payments under operating leases are recognized as an expense on a straight-line basis over the lease term. Incentives received on negotiating or renewing operating leases are also amortized on a straight-line basis over the lease terms. Any prepaid lease payments are recognized in the balance sheet and amortized over the lease term on a straight-line basis. Any contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

The Group has not entered into any finance lease arrangements. The only significant agreement classified as operating lease is the rental agreement for premises:

The Group rents premises in Oslo, Norway for office purposes. The rental agreement, initiated at 18 December 2015 and which Targovax ASA was located as at 31 December 2016, expires on 31 December 2020. The agreement is non-cancellable and expected minimum payment in 2017 is NOK 1 685 000 (excl VAT). The Company is in addition to this amount charged for a proportionate share of common variable costs related to building management. Recognized lease expenses for 2016 is NOK 1902 447 and for 2015 it was 622 301.

The Group also rents premises in Helsinki, Finland for office and laboratory purposes. The rent is approximately EUR 230,000 per annum (excl VAT). As part of the lease, the landlord agreed to finance the construction works and machinery and equipment purchases made by Oncos in 2010 – 2012 pertaining to the premises (approximately EUR 1.4 million excl VAT). The Group is now repaying such investment as part of the rent. The rental agreement may be terminated by the Group in August 2020 and by the landlord in August 2025. Should the lease be terminated by the Group prematurely (i.e. before August 2020), the Group would be liable to pay liquidated damages to the landlord (amounting to 1/150 of the landlord's total investment per month of premature termination).

There are currently no environmental issues that may affect the Group's utilization of the tangible fixed assets. The Group does not own any assets which are necessary for production.

19.Receivables


Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's receivables mainly comprise deposit for office leases, prepaid expenses and government grants in the Statement of financial position, see Note 9 for further information of the recognition of grants in the statement of profit and loss.

(Amounts in NOK thousands)	2016	2015
Trade receivables	7	-
Receivable government grants	5 981	5 871
VAT receivable	1 753	814
Other prepayments	6 463	4 873
Total receivables	**14 203**	**11 557**

20.Cash and cash equivalents

Cash and short-term deposits in the Statement of financial position comprise cash at bank and other short-term highly liquid investments with original maturities of three months or less.

At 31 December 2016 and 2015 the Group only held cash deposits.

(Amounts in NOK thousands)	2016	2015
Bank deposits	171 629	173 898
Total cash and cash equivalents	**171 629**	**173 898**

Restricted cash specification:

(Amounts in NOK thousands)	2016	2015
Income tax withholding from employee compensation	2 055	1 842
Rent deposits [1]	3 311	2 429
Other [1]	228	242
Total restricted cash	**5 594**	**4 513**

1 Classified as Receivables.

21.Share capital and shareholder information

Share capital as at 31 December 2016 is 4 219 080 (31 December 2015: 2 688 381) being 42 109 800 ordinary shares at nominal value NOK 0.10 (31 December 2015: 26 883 808 at NOK 0.10). All shares carry equal voting rights.

The movement in the number of shares during the period was as follows:

	2016	2015
Ordinary shares at beginning of period	26 883 808	9 429 404
Share issuance - private placement and repair offering	15 228 634	8 000 000
Aquisition of Oncos Therapeutics OY	0	9 429 404
Share issuance, employee share options	78 358	25 000
Ordinary shares at end of period	**42 190 800**	**26 883 808**

The Group had 1 784 shareholders as at 31 December 2016:

Shareholder	# shares	%
HealthCap	11 155 584	26.4 %
Radiumhospitalets Forskningsstiftelse	4 077 255	9.7 %
VPF Nordea Avkastning	1 295 421	3.1 %
Verdipapirfondet KLP AksjeNorge	1 200 000	2.8 %
VPF Nordea Kapital	1 137 289	2.7 %
Portia AS	950 000	2.3 %
Nordnet Livsforsikring AS	838 281	2.0 %
Kommunal Landspensjonskasse	803 333	1.9 %
Timmuno AS	724 650	1.7 %
Prieta AS	720 000	1.7 %
Nordnet Bank AB	695 687	1.6 %
Statoil Pensjon	668 916	1.6 %
Datum Invest AS	653 838	1.5 %
Cressida AS	650 000	1.5 %
Danske Bank AS	603 211	1.4 %
Cipi Lamp UCITS Swedbank SMB	543 747	1.3 %
Op-Europe Equity Fund	530 000	1.3 %
Sundt AS	523 170	1.2 %
Viola AS	500 000	1.2 %
Eltek Holding AS	442 000	1.0 %
20 largest shareholders	**28 712 382**	**68.1 %**
Other shareholders (1764)	13 478 418	31.9 %
Total shareholders	**42 190 800**	**100.0 %**

The Group had 193 shareholders as at 31 December 2015:

Shareholder	# shares	%
HealthCap	8 488 918	31,6 %
Radiumhospitalets Forskningsstiftelse	3 410 589	12,7 %
Trojan AS	2 462 000	9,2 %
Arctic Funds PLC	907 000	3,4 %
Timmuno AS	724 650	2,7 %
Prieta AS	720 000	2,7 %
Portia AS	631 945	2,4 %
Danske Bank A/S	587 971	2,2 %
Nordnet Bank AB	570 022	2,1 %
KLP Aksje Norge VPF	460 000	1,7 %
Eltek Holding AS	442 000	1,6 %
Statoil Pensjon	433 716	1,6 %
Storebrand Vekst	425 000	1,6 %
Pactum AS	400 000	1,5 %
Birk Venture AS	378 980	1,4 %
Op-Europe Equity Fund	357 869	1,3 %
Trygve Schiørbecks Eftf. AS	286 449	1,1 %
Viola AS	280 000	1,0 %
Kommunal Landspensjonskasse	270 000	1,0 %
Verdipapirfondet DNB Grønt NORDEN	250 919	0,9 %
20 largest shareholders	**22 488 028**	**83,6 %**
Other shareholders (173)	4 395 780	16,4 %
Total shareholders	**26 883 808**	**100,0 %**

HealthCap, Radiumhospitalets Forskningsstiftelse, Timmuno AS and Prieta AS have entered into lock-up agreements for their shares for the period until the earliest of:
(1) completion of an initial public offering
(2) the day falling 12 Months after the completion of the private placement 9 July 2015

Earnings per share

Earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated as profit or loss attributable to ordinary shareholders of the Company, adjusted for the effects of all dilutive potential options.

Amounts in NOK thousand	2016	2015
Loss for the period	-122 454	-91 816
Average number of outstanding shares during the period	34 528	18 150
Earnings/ loss per share - basic and diluted	**-3.55**	**-5.06**

Share options issued have a potential dilutive effect on earnings per share. No dilutive effect has been recognized as potential ordinary shares only shall be treated as dilutive if their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations. As the Group is currently loss-making an increase in the average number of shares would have anti-dilutive effects.

22.Interest-bearing debt

Interest-bearing liabilities have been granted by governmental institution with special terms such as a low interest rate (1% currently), hence the loans shall be divided to financial liability and government grant components.

The financial liability shall be initially recognized at fair value and subsequently at amortized cost using effective interest method. The grant component shall be recognized as income on a systematic basis over the periods in which the entity recognizes as expenses the related costs for which the grants are intended to compensate. The interest rate used to discount the cash flows of the loans should reflect the market rate of interest for the Company at the time when the tranches have been withdrawn.

However, as per management, Targovax could only raise finance from the owners or/and from venture capitalists at 8% rate or from the Government at 1% rate. Oncos has access only to these two 'loan markets'. These funding limits also set restrictions to the estimation of the fair market rate that shall be used to discount the cash flows. Further, there is no proper peer group for life science companies, hence there is no comparable yield curve available in Europe. Any other interest rate than in the bridge loan interest will be highly judgmental due to the very tight credit status of the company (cannot provide any collateral). Therefore, the 8% bridge loan interest represents managements best and only estimate of a market rate interest and is used in separating the government grant component from the Tekes loans. The additional interest expense resulting from recognizing the loan by using the effective interest method, is booked as addition to interest expenses in the statement of profit and loss. The separated government grant is booked as other operating income in the statement of profit and loss in the period when it has been received.

Tekes is a publicly financed funding agency that finances research and development activities for young innovative companies in Finland.

The Group has received three R&D loans, for the commercialization of ONCOS-102, from Tekes under loan agreements dated September 2010, January 2012 and December 2013, respectively, in the total outstanding amount of EUR 5 989 293 as of 31 December 2016 (EUR 5,842,312 as of 31 December 2015). This includes an additional loan approval of EUR 146 981 to one of the existing TEKES loans during 2016, hence a grant element of EUR 46 355 was recognized in 2016.

Pursuant to IFRS, these loans have a grant element due to the low interest rate they carry. The loan periods of the R&D loans are 10 years, of which the first five years are free of repayment. However, one of the three loans have a term of 13-year duration with 8 years free of repayment. The loans are repaid in equal annual installments during the latter five years. Annual interest is paid yearly throughout the entire loan period. The applicable interest rate under the R&D loans is the European Central Bank's steering rate less 3 percentage points per annum, although not less than 1%.

For the IFRS adjustment of the Tekes loans described above the Company applied the transitional exemptions for first time adopters under IFRS 1. As a consequence, Tekes loans granted prior to 1 January 2013 were not adjusted to fair value. In the purchase price allocation from the 2015 acquisition of Oncos, these loans have been adjusted to fair value by discounting future cash flows using the 8 % interest rate, resulting in a fair value adjustment of TNOK 9,283.9 and a carrying amount of TNOK 33,584.0 in the statement of financial position at the acquisition date. Based on the effective interest rate method, an increase in interest expense of TNOK 2 845,4 has been recorded in the statement of profit and loss and other comprehensive income as at 31 December 2016, and TNOK 726,2 as at 31 December 2015.

Should the project fail, it is possible to get a remission on part of the debt in accordance with the EU competition legislation. The final amount of the non-recovered part of the principal depends on factors such as the time and the materialized interest rate trend. The final sum will be determined when an eventual decision on non-recovery is made. Targovax Group has issued an on-demand guarantee in favor of Tekes for the repayment obligation of Oncos Therapeutics OY under the R&D loans. The loan agreements include no financial covenants.

23.Current liabilities

The Group's financial liabilities consist of trade and accounts payable and other current liabilities as withholding taxes and accrued expenses, and are classified as "current liabilities". Trade and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Accounts payable and other financial liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Current liabilities consist of:

(Amounts in NOK thousands)	2016	2015
Trade and other payables	4 681	6 307
Withholding taxes and social security payables	3 348	1 826
Accruals for expenses	21 155	17 287
Total current liabilities	**29 185**	**25 420**

24. Events after the reporting date

During the first two months of 2017 the Group granted 22 000 new share options to other employees (see note 12).

Accounts and notes Targovax ASA

Statement of profit and loss - Targovax ASA

(Amounts in NOK thousands except per share data)	Note	2016	2015
Other revenues	7	9 356	1 152
Total revenue		**9 356**	***1 152***
External R&D expenses	8,9	-22 653	-19 807
Payroll and related expenses	9,10,11,12	-41 931	-21 973
Other operating expenses	9,13	-18 902	-22 437
Total operating expenses		**-83 486**	***-64 217***
Operating profit/ loss (-)		**-74 130**	**-63 065**
Financial income	14	1 194	2 339
Financial expenses	14	-819	-676
Net financial items		**375**	**1 663**
Loss before income tax		**-73 755**	**-61 402**
Income tax expense	15		
Loss for the period		**-73 755**	**-61 402**
Earnings/ loss (-) per share			
Basic and dilutive earnings/ loss (-) per share	21	-2.14	-3.38

Statement of comprehensive income – Targovax ASA

(Amounts in NOK thousands except per share data)	2016	2015
Income / loss (-) for the period	-73 755	-61 402
Items that may be reclassified to profit or loss:		
Exchange differences arising from the translation of foreign operations		
Total comprehensive income/ loss (-) for the period	**-73 755**	**-61 402**
Total comprehensive income/ loss (-) for the period attributable to owners	**-73 755**	**-61 402**

The Notes on pages 102 to 127 are an integral part of these financial statements.

Statement of financial position – Targovax ASA

(Amounts in NOK thousands)	Note	31.12.2016	31.12.2015
ASSETS			
Investments in subsidiaries	16	323 954	273 134
Property, plant, and equipment	17	238	269
Total non-current assets		**324 191**	**273 403**
Receivables	19	11 599	7 846
Cash and cash equivalents	20	157 683	165 868
Total current assets		**169 282**	**173 715**
TOTAL ASSETS		**493 473**	**447 118**
EQUITY AND LIABILITIES			
Shareholders equity			
Share capital	21	4 219	2 688
Share premium reserve		627 796	522 502
Other reserves		14 375	5 256
Retained earnings		-173 999	-100 244
Total equity		**472 391**	**430 203**
Current liabilities			
Accounts payable and other current liabilities	22	2 581	4 915
Accrued public charges	22	2 800	1 588
Other short-term liabilities	22	15 701	10 413
Total current liabilities		**21 082**	**16 915**
TOTAL EQUITY AND LIABILITIES		**493 473**	**447 118**

The Notes on pages 102 to 127 are an integral part of these financial statements.

Oslo, 15 March 2017

The Board of directors of Targovax ASA

Jónas Einarsson Chairman of the Board	Per Samuelsson Board member
Bente-Lill Romøren Board member	Lars Lund-Roland Board member
Johan Christenson Board member	Robert Burns Board member
Eva-Lotta Allan Board member	Diane Mellett Board member

Øystein Soug
Chief Executive Officer

Statement of changes in equity – Targovax ASA

(Amounts in NOK thousands)	Note	Share capital	Share premium	Other reserves	Retained earnings (Accumulated losses)	Total equity
Balance at 1 January 2015		**943**	**97 792**	**780**	**-38 841**	**60 673**
Loss for the period					-61 402	-61 402
Other comprehensive income/loss, net of tax		-	-	-	-	**-**
Total comprehensive income for the period					**-61 402**	**-61 402**
Issue of ordinary shares - Acquiring Oncos Therapeutics OY	21	943	234 792	-	-	235 735
Transaction costs - Oncos Therapeutics OY			-260	-	-	-260
Issue of ordinary shares - Capital increase - Private Placement	21	800	199 200	-	-	200 000
Transaction costs - Private Placement			-9 207	-	-	-9 207
Share issuance, employee share options	21	3	185	-	-	188
Recognition of share-based payments	12	-	-	4 476	-	4 476
Balance at 31 December 2015		**2 688**	**522 502**	**5 256**	**-100 244**	**430 203**
Loss for the period					-73 755	-73 755
Other comprehensive income/loss, net of tax		-	-	-	-	**-**
Total comprehensive income for the period					**-73 755**	**-73 755**
Issue of ordinary shares - Capital increase - Private Placement and repair offering	21	1 529	113 065			114 593
Transaction costs - Private Placement and repair offering			-7 753			-7 753
Share issuance, employee share options	21	2	-18	-	-	-16
Recognition of share-based payments & RSU's	12	-	-	9 119	-	9 119
Balance at 31 December 2016		**4 219**	**627 796**	**14 375**	**-173 999**	**472 391**

The Notes on pages 102 to 127 are an integral part of these financial statements.

Statement of cashflow – Targovax ASA

(Amounts in NOK thousands)	Note	2016	2015
Cash flow from operating activities			
Loss before income tax		-73 755	-61 402
Adjustments for:			
Finance income	14	-1 194	-2 339
Finance expense	14	819	676
Share option expense	12	9 119	4 476
Depreciation	13	68	39
Change in receivables	19	-3 752	-3 185
Change in other current liabilities	23	4 167	10 886
Net cash flow from /(used in) operating activities		**-64 529**	**-50 849**
Cash flow from investing activities			
Purchases of property, plant, and equipment (PPE)	17	-37	-158
Investment in subsidiary	16	-50 819	-37 399
Net cash received from/(paid in) investing activities		**-50 857**	**-37 557**
Cash flow from financing activities			
Interest received	14	532	1 009
Interest paid	14	-	-7
Other finance expense	14	-157	-
Share issue expense - Acquisition of Oncos OY	21	-	-260
Share issue expense - Private Placement and repair offering	21	-7 753	-9 207
Proceeds from issuance of shares -Private Placement and repair offering	21	114 593	200 000
Proceeds from exercise of options	21	-16	188
Net cash generated from financing activities		**107 199**	**191 722**
Net increase/(decrease) in cash and cash equvivalents		**-8 186**	**103 316**
Cash and cash equivalents at beginning of period		**165 868**	**62 552**
Cash and cash equivalents at end of period		**157 683**	**165 868**

The Notes on pages 102 to 127 are an integral part of these financial statements.

Notes to the financial statements – Targovax ASA

1. General information

The Company is a public limited liability company incorporated and domiciled in Norway. The address of the registered office is Lilleakerveien 2C, 0283 Oslo, Norway.

Targovax ASA ("the Company") is a clinical stage immuno-oncology company dedicated to the development of targeted immunotherapy treatments for cancer patients.

The Company is targeting complementary approaches to cancer immunotherapy: A peptide immune activator platform developed for patients with RAS-mutated cancers and an immunotherapy platform based on engineered oncolytic viruses armed with potent immune-stimulating transgenes for patients with solid tumors. Both treatment approaches harness the patient's own immune system to fight the cancer.

These financial statements have been approved for issue by the Board of Directors on 15 March 2017, and are subject to approval by the Annual General Meeting in April 2017.

2. Summary of significant accounting principles/Critical accounting estimates and judgments

The principal accounting policies applied in the preparation of these financial statements are described in the respective note, or if not, set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Amounts are in thousand Norwegian kroner unless stated otherwise.

Functional currency

The functional currency of the Company is NOK. Transactions in foreign currency are translated to functional currency using the exchange rate at the date of the transaction. At the end of each reporting period foreign currency monetary items are translated using the closing rate, non-monetary items that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction and non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. Changes in the exchange rate are recognized continuously in the accounting period.

Presentation currency

The Company's presentation currency is NOK. This is also the parent company's functional currency.

2.1 Basis for preparation of the annual accounts

The financial statements of Targovax ASA have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union, as well as Norwegian disclose requirements listed in the Norwegian Accounting Act.

The financial statements are based on historical cost.

The financial statements have been prepared on the basis of uniform accounting principles for similar transactions and events under otherwise similar circumstances.

2.2 Accounting principles

Foreign exchange

The Company record transactions at initial recognition based on the average month exchange rate in the month of transaction. The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with International Financial Reporting Standards. However, if exchange rates fluctuate significantly, the use of the average rate for a period may be inappropriate and an exchange rate closer to transaction date is used.
Any exchange differences are recognized in statement of profit and loss under financial items in the period in which they arise.

2.3 Adoption of new and revised IFRS standards

2.3.1 Standards and Interpretations affecting amounts reported in the current period

All relevant new and revised IFRSs and IFRIC interpretations that are mandatory for periods commencing 1 January 2016 and earlier have been adopted for all periods presented in these financial statements.

2.3.2 Standards and Interpretations in issue but not yet adopted

IFRS15 Revenue from Contracts with Customers:
The Company is in the research and development phase and the IFRS 15, will not have a material effect on the financial statements

IFRS 16 Lease:
IFRS 16 replaces existing IFRS leases requirements, IAS 17 Leases. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new leases standard requires lessees to recognize

assets and liabilities for most leases, which is a significant change from current requirements. The effective date of the standard is January 1 2019, but it is not yet approved by the EU.

The Company has not made any assessment of any impact IFRS 16 will have on the financial statements.

2.4 Going concern

As a result of the private placement in the third quarter 2016 and the current liquidity situation, Directors have an expectation that the Company has available financial resources sufficient for the planned activities in the next 12 months as of 31 December 2016. The Company therefore continues to adopt the going concern basis in preparing its financial statements.

3. Important accounting estimates and discretionary assessments

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimated value of share-based payments

At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision to original estimates, if any, in the statement of profit and loss, with a corresponding adjustment to equity. The estimated turnover rate for unvested share options is 0 percent for all share option plans. See Note 12 Share-based compensation.

Deferred tax

The Company cannot render probable future taxable income large enough to justify recognizing a deferred tax asset in the balance sheet. However, this assumption must be continually assessed and changes could lead to a significant asset being recognized in the future. This assumption requires significant management judgment. See Note 15 Taxes.

4. Acquisition of Oncos Therapeutics

On 2 July 2015, the Company acquired all the shares in Oncos Therapeutics Oy ("Oncos"), an unlisted privately funded company based in Finland. Oncos is a clinical-stage biotechnology company, which also is focusing on the design and development of targeted cancer immunotherapy. The transaction was structured as a share for share exchange whereby Targovax ASA issued 9 429 404 new shares to the shareholders of Oncos as consideration for the shares in Oncos (the “Oncos Acquisition”).

Following the Oncos Acquisition, Oncos is a wholly-owned subsidiary of the Company at the closing date of the agreement 2 July 2015 (the "Acquisition date").

The combination of Targovax and Oncos complementary technologies creates a unique platform for the development of cutting-edge immune activators and immunotherapies. The combined group of Targovax and Oncos is positioned as a leading immuno-oncology company with clinical experience to date validates safety and mechanism of action of both technology platforms.

The main drivers for Oncos are the patented technology and mainly the product technology for the ONCOS-102 product. The allocation of value to the patented technology is done by a cost based valuation approach, analyzing the total fund invested in the intangible assets and additional value created as part of the product development.

No residual value of the purchase price is recognized as goodwill, and no other excess values than patented technology is identified as part of the transaction.

Total transaction costs related to the acquisition are NOK 4 million.

No contingent consideration arrangements are identified as part of the acquisition.

The fair values of the identifiable assets and liabilities of Oncos, as at the date of acquisition, as a result of the preliminary purchase price allocation were:

(Amounts in NOK/EUR thousands)	NOK	EUR
Assets		
Intangible assets	327 409	37 227
Tangible assets	1 298	148
Other current assets	6 324	719
Cash and cash equivalents	1 313	149
Total assets	**336 344**	**38 243**
Liability		
Deferred tax	51 952	5 907
Other non-current liabilities	33 584	3 819
Other current liabilities	15 073	1 714
Total liabilities	**100 609**	**11 439**
TOTAL CONSIDERATION (THE "PURCHASE PRICE")	**235 735**	**26 803**

For further information regarding the acquisition please see Note 4 in the Annual report for 2015.

5. Segments

The Company's activities during 2016 have been to continue the development and implementation of a strategy with the aim of developing highly targeted immunotherapy treatments for cancer patients

The Company's lead product has not yet obtained regulatory approval. For management purposes, the Company is organized as one business unit and the internal reporting is structured in accordance with this. The Company isthus currently organized in one operating segment.

6. Financial instruments and risk management objectives and policies

The Company's financial assets and liabilities comprise cash in banks, receivables borrowings and trade creditors that originate from its operations. All financial assets and liabilities are carried at amortized cost. All financial assets and liabilities are short-term and their carrying value approximates fair value.

The Company does currently not use financial derivatives. The Company is subject to market risk, credit risk and liquidity risk.

Market risk
Interest rate fluctuations could in the future materially and adversely affect the Company's business, financial condition, results of operations, cash flows, time to market and prospects.

Currently, the Company has no long-term debt. The Company may in the future be exposed to interest rate risk primarily in relation to any future interest bearing debt issued at floating interest rates and to variations in interest rates of bank deposits. Consequently, movements in interest rates could have a material and adverse effect on the Company's business, financial condition, results of operations, cash flows, time to market and prospects.

The following table demonstrates the Company's sensitivity to a 1 percent point change in interest rates on cash and cash equivalents and interest-bearing borrowings at 31 December 2016 and 2015.

(Amounts in NOK thousands)	2016		2015	
	1% point increase	1% point decrease	1% point increase	1% point decrease
Loss before income tax effect	1 577	-1 577	1 659	-1 659

Foreign currency risk
Fluctuations in exchange rates could affect the Company's cash flow and financial condition
The Company has currency exposure to both transaction risk and translation risk related to its operating expenses. Transaction risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency. The Company undertakes

various transactions in foreign currencies and is consequently exposed to fluctuations in exchange rates. The exposure arises largely from research expenses. The Company is mainly exposed to fluctuations in EUR, USD, GBP and CHF. The Company hedges foreign currency by aligning the cash positions with future expected currency outflows. The Group does not have derivatives for hedge accounting at year-end.

Translation risk arises due to the conversion of amounts denominated in foreign currencies to NOK, the Company's functional currency.

The following tables demonstrate the Company's currency rate sensitivity on financial assets and liabilities at 31 December 2016 and 2015.

The Company's sensitivity to a 10% increase/decrease in EUR against NOK

(Amounts in NOK thousands)	2016		2015	
	10% increase	10% decrease	10% increase	10% decrease
Loss before income tax effect	2 747	-2 747	-261	261

The Company's sensitivity to a 10% increase/decrease in USD against NOK

(Amounts in NOK thousands)	2016		2015	
	10% increase	10% decrease	10% increase	10% decrease
Loss before income tax effect	1 623	-1 623	-19	19

The Company's sensitivity to a 10% increase/decrease in GBP against NOK

(Amounts in NOK thousands)	2016		2015	
	10% increase	10% decrease	10% increase	10% decrease
Loss before income tax effect	-212	212	-219	219

The Company's sensitivity to a 10% increase/decrease in CHF against NOK

(Amounts in NOK thousands)	2016		2015	
	10% increase	10% decrease	10% increase	10% decrease
Loss before income tax effect	-170	170	-139	139

Credit risk

Credit risk is the risk of a counterparty defaulting. The Company has limited credit risk. Outstanding receivables are limited and primarily government grants receivable from various government agencies.

No impairment has been recognized. The carrying value of the assets represents the Company's maximum exposure to credit risk.

The credit quality of financial assets can be assessed by reference to credit ratings.

Cash at bank:

(Amounts in NOK thousands)	2016		2015		Rating (S&P)
	Amount	In %	Amount	In %	
Nordea Bank Norge ASA	157 679	100%	165 868	100%	**AA-**
DNB Bank ASA	3	0%	-	0%	**A+**
Total	**157 683**	**100%**	**165 868**	**100%**	

Fair value of financial instruments

The carrying value of receivables, cash and cash equivalents, borrowings, deferred tax, and other short term payables and accrued liabilities are assessed to approximate fair value.

(Amounts in NOK thousands)	2016		2015	
	Carrying amounts	Fair value	Carrying amounts	Fair value
Receivables	11 599	11 599	7 846	7 846
Cash and cash equivalents	157 683	157 683	165 868	165 868
Total financial assets	**169 283**	**169 283**	**173 715**	**173 715**
Accounts payable and other current liabilities	2 581	2 581	4 915	4 915
Accrued public charges	2 800	2 800	1 588	1 588
Other short-term liabilities	15 701	15 701	10 413	10 413
Total financial liabilities	**21 081**	**21 081**	**16 915**	**16 915**

Liquidity risk

The Company manages liquidity risk by estimating and monitoring cash and liquidity needs on an on-going basis, and maintaining adequate reserves and banking facilities. The Company has sufficient cash available to meet its obligations as at 31 December 2016, and related to planned activities in the next 12 months. All liabilities at year-end are short term and fall due within one year of the reporting date, their carrying value approximates their fair value.

The Company is properly funded for its current activities, but will need new funding for the next phases of the development program. The funding strategy and development strategy are directly connected. There will be no cash flow commitments related to the development program before properly commitments to funding is in place.

The following tables analyses the Group's current and non-current financial liabilities, at 31 December 2016 and 2015 respectively, into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the tables are the financial undiscounted cash flows.

At 31 December 2016 (Amounts in NOK thousands)	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing borrowings	-	-	-	-	-	**-**
Accounts payable and other current liabilities	-	2 581	-	-	-	**2 581**
Accrued public charges	-	2 800	-	-	-	**2 800**
Other short-term liabilities	-	15 701	-	-	-	**15 701**
	-	**21 082**	**-**	**-**	**-**	**21 082**

At 31 December 2015 (Amounts in NOK thousands)	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Accounts payable and other current liabilities	-	4 915	-	-	-	**4 915**
Accrued public charges	-	1 588	-	-	-	**1 588**
Other short-term liabilities	-	10 413	-	-	-	**10 413**
	-	**16 915**	**-**	**-**	**-**	**16 915**

7. Revenue recognition

Revenue comprises the fair value of consideration received or due consideration for the sale of services in regular business activities. Revenue is presented net of value added tax. Revenue is recognized when the service is performed.

(Amounts in NOK thousands)	2016	2015
Revenue from subsidiary	9 356	1 152
Total operating revenue	**9 356**	**1 152**

The Company's products are still in the research and development phase, and it has no revenue from sales of products yet.

8. External research and development expenses

Expenditure on research activities is recognized as an expense in the period in which it is incurred. Internal development costs related to the Company's development of products are recognized in the statement of profit and loss in the year incurred unless it meets the asset recognition criteria of IAS 38 "Intangible Assets".

Uncertainties related to the regulatory approval process and other factors generally means that the criteria are not met until the time when the marketing authorization is obtained with the regulatory authorities. This assessment requires significant management discretion and estimations.

The Company is developing new products. Uncertainties related to the regulatory approval process and results from ongoing clinical trials, generally indicate that the criteria for asset recognition is not met until the time when marketing authorization is obtained from relevant regulatory authorities.

The following external research and development expenditures have been expensed:

(Amounts in NOK thousands)	2016	2015
R&D related consultancy and other expenses	25 087	21 874
Cost of manufacturing for R&D	1 645	4 191
Patent expenses	1 567	352
Government grants	-5 646	-6 610
Total operating expenses	**22 653**	**19 807**

The following table gives an overview of the Company's research and development expenditures compared to the total operating expenses:

(Amounts in NOK thousands)	2016		2015	
	Total	R&D	Total	R&D
External R&D expenses	22 653	22 653	19 807	19 807
Payroll and related expenses	41 931	21 353	21 973	8 936
Other operating expenses	18 902	795	22 437	384
Total	**83 486**	**44 801**	**64 217**	**29 127**

9. Government grants

Government grants are recognized at the value of the contributions at the transaction date. Grants are not recognized until it is probable that the conditions attached to the contribution will be achieved. The grant is recognized in the statement of profit and loss in the same period as the related costs, and are presented net.

Government grants are normally related to either reimbursements of employee costs and classified as a reduction of payroll and related expenses or related to other operating activities and thus classified as a reduction of other operating expenses.

Government grants have been recognized in statement of profit and loss as a reduction of the related expense with the following amounts:

(Amounts in NOK thousands)	2016	2015
External R&D expenses	5 646	6 610
Payroll and related expenses	1 282	2 225
Other operating expenses	67	-
Total	***6 995***	***8 834***

R&D projects have been approved for SkatteFunn for the period 2011 through 2016. For the full year 2016 the Company has recognized NOK 4 936 071 (2015: 4 361 331) as cost reduction in Payroll and related expenses and Other Operating expenses.

For the period 2013 through 2016, the Company has been awarded a grant from The Research Council (program for user-managed innovation arena (BIA)) of NOK 12 361 000 in total. For the full year ended 31 December 2016, the Company has recognized NOK 2 059 000 (4 473 000) as cost reduction in External R&D expenses and Payroll and related expenses.

Grants receivables as at 31 December 2016 are detailed as followed:

(Amounts in NOK thousands)	2016	2015
Grants from SkatteFunn	4 936	4 361
Grants from Research Counsil (BIA)	686	1 491
Total grants receivable	***5 622***	***5 852***

10.Payroll and related expenses

Payroll and related expenses are recognized in the statement of profit and loss in the period in which the related costs are incurred or services are provided.

Defined contribution plans

Targovax ASA has a defined contribution pension plan as required by the Norwegian Law. This pension plan apply to all employees of Targovax ASA. Currently, members of the Management team with

residence outside Norway are not part of the company's respective national pension plans. The company pays these executives an annual amount in addition to base salary in lieu of their participation in a company scheme. For defined contribution pension plans, contributions are paid to pension insurance plans and charged to the statement of profit and loss in the period to which the contributions relate.

Bonus scheme

Bonuses are based on the corporate objectives as well as individual objectives. The Company recognizes a liability and an expense for bonuses based on a short-term incentive plan for employees linked to achievement of specific targets determined by the Board. See note 11.

Total payroll and related expenses for the Company are:

(Amounts in NOK thousands)	2016	2015
Salaries and bonus	26 832	15 226
Employer's national insurance contributions	3 497	2 247
Share-based compensation [1] - see Note 12	9 119	4 476
Pension expenses – defined contribution plan	1 222	629
Other	2 542	1 619
Governmental grants	-1 282	-2 225
Total payroll and related expenses	**41 931**	**21 973**
1) Share-based compensation has no cash effect.		

Number of employees calculated on a full-time basis as at 31 December	18,7	15.5
Number of employees as at 31 December	19	16

Targovax ASA has a defined contribution pension scheme that complies with requirements of Norwegian occupational pension legislation (OTP). The contribution is expensed when it is accrued.

11.Related parties and Management

As the only difference between the Group and the Company concerning Executive management remunerations is that Tiina Hakonen, Site Manager Helsinki, are employed by Targovax ASA's subsidiary Targovax OY and Magnus Jäderberg, CMO was employed by Targovax OY's subsidiary, Oncos Therapeutics AG, from 1 January to 31 March 2016, and not the Company, please see Note 11 Related parties and Executive Management in the Group's consolidated financial statements. See Note 10 and 12 for accounting principle for payroll and related expenses and equity-settled share-based payments in the Company's financial statements.

Related party transactions:

(Amounts in NOK thousands)	2016		2015	
	Revenue/(expense)	Receivable/(payable at 31 December	Revenue/(expense)	Receivable/(payable at 31 December
Knudtzon	-196	-	392	92
Subsidiaries:				
– expense related to subsidiaries	-1 908	-216	-835	-
– receivables related to subsidiaries		3 250		317
– revenue related to subsidiaries	9 356		1 152	

Targovax entered into a consulting agreement with Knudtzon, a Zurich based company, 26 June 2015. Knudtzon is a related party of Nikolaj Knudtzon, who was elected as a member of Targovax Management Team, Head of HR, in June 2015. Knudtzon is entitled to a consultancy fee of NOK 73,500 per month.

Remuneration to the statutory auditor (excl. VAT):

(Amounts in NOK thousands)	2016	2015
Statutory audit	301	160
Other attestation services	213	979
Tax services	329	40
Other services	82	527
Total	**925**	**1 706**

12.Share-based compensation

Equity-settled share-based payments are measured at the fair value of the equity instruments at the grant date.

The fair value of the employee services received in exchange for the grant of the options is recognized as an expense, based on the Company's estimate of equity instruments that will eventually vest. The total amount to be expensed is determined by reference to the fair value of the options granted excluding the impact of any non-market service and performance vesting conditions. The grant date fair value of the options granted is recognized as an employee expense with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the options (vesting period).

The fair value of the options granted is measured using the Black-Scholes model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility, weighted average expected life of the instruments, expected dividends, and the risk-free interest rate. Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are recognized as share capital (nominal value) and share premium reserve.

At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest. It recognizes the impact of the revision to original estimates, if any, in statement of profit and loss, with a corresponding adjustment to equity. Changes to the estimates may significantly influence the expense recognized during a period.

Share options

At the Annual general meeting in April 2016 the Board was authorized to increase the Group's share capital in connection with share incentive arrangements to employees and consultants by up to NOK 268,838.08.

The Company has granted share options under its long-term incentive program (the "LTI Option Program"). The Option Program applies to the Management as well to employees in general. Certain former employees and former board members have also been granted options under the LTI Option Program.

Additionally, the Company has in the past granted options as payment for inventions (the "IPR Option Program").

The Company operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) in Targovax ASA.

Each share option converts into one ordinary share of the Company on exercise. Options may be exercised at any time from the date of vesting until expiry. The options generally vest over a period of four years: 25 percent of the options vest on the first anniversary of the grant date; and the remaining 75 percent of the options vest in equal monthly tranches over the next 36 months. Options expire seven years after the grant date.

In general, the exercise price of the options is set at the fair value of the shares at grant date.

There were granted 655 000 share options during 2016 and 2 090 062 share options during 2015. As a result of the Oncos transaction 2 July 2015 380 827 share options in Oncos were converted into Targovax share options in 2015. At the convertions the exercise price, lifetime and quantity have been adjusted. The adjustments have been made so that fair value of the outstanding award is equal to the fair value of the outstanding awards after conversion. Hence, there is no incremental value to be expensed after the conversion. The conversion of the share options entailed no added value.

As of 31 December 2016, there are in total 2,513,170 outstanding options for all option programs, 2 409 256 options under the LTI Option Program and 103 914 options under the IPR Option Program.

Fair value of the options has been calculated at grant date. The fair value of the options was calculated using the Black-Scholes model. The expected volatility for options issued in 2016 is estimated at average of 89,56%, based on the volatility of comparable listed companies. The volume weighted average interest rate applied to the share options grants in 2016 is 0.8941%.

The following table shows the changes in outstanding options in 2016 and 2015:

	FY 2016		FY 2015	
	No. of options	Weighted avg. excercise price (in NOK)	No. of options	Weighted avg. excercise price (in NOK)
Outstanding at 1 January	2 545 889	23.25	100 000	7.50
Granted during the period	655 000	11.82	2 090 062	24.09
Exercised during the period	-78 358	4.97	-25 000	7.50
Convertion of Oncos option program 2/7-2015	-	-	380 827	21.77
Forfeited	-601 927	22.90	-	-
Expired	-7 434	25.00	-	-
Outstanding no. of options at end of period	**2 513 170**	**20.93**	**2 545 889**	**23.25**

1) See Note 11 Related parties and Executive Management for further information on granted share options to Executive Management.

The average fair value of options granted in 2016 was 7.03 per share and NOK 12.86 per share in 2015. The weighted- average assumptions used to determine the Black Scholes fair value of options granted in 2016 and 2015 were:

	2015	2016
Volatility (%)	89.56	84.59
Expected life (in years)	3.66	3.78
Risk-free interest rate (%)	0.89	0.84
Share price (NOK)	11.65	24.58
Exercise price (NOK)	11.82	24.01

The expensed share options, NOK 8.7 million in 2016 and 5.8 million in 2015, includes management estimate for employee turnover. The estimated turnover rate used for the year 2016 and 2015 was 0%.

At 31 December 2016, the range of exercise prices and weighted average remaining contractual life of the options were as follows:

	Outstanding Options			Vested options	
Exercise price	**Outstanding Options Per 31.12.2016**	**Weighted average remaining Contractual Life**	**Weighted Average Exercise Price**	**Vested options 31.12.2016**	**Weighted Average Exercise Price**
0,00 - 0,51	73 876	5,5	0,51	23 837	0,51
0,51 - 7,50	25 000	0,85	7,5	25 000	7,5
7,50 - 15,04	595 000	6,87	11,62	5 000	15,04
15,04 - 21,50	337 250	3,26	21,13	219 261	21,5
21,50 - 25,00	1 381 030	3,92	25	733 116	25
25,00 - 37,60	101 014	5,25	37,6	97 689	37,6
Total	2 513 170	4,6	20,93	1 103 903	24,45

At 31 December 2015, the range of exercise prices and weighted average remaining contractual life of the options were as follows:

	Outstanding options			Vested options	
Exercise price	Outstanding options per 31.12.2015	Weighted average remaining contractual life	Weighted average exercise price	Vested options 31.12.2015	Weighted average exercise price
0.51	102 234	6.51	0.51	52 195	0.51
7.50	75 000	1.85	7.50	75 000	7.50
15.04	20 000	6.92	15.04	0	0
21.50	486 000	5.11	21.50	7 810	21.50
25.00	1 761 641	5.64	25.00	216 967	25.00
37.60	101 014	6.25	37.60	91 992	37.60
Total	2 545 889	5.50	23.25	443 964	21.71

During the first two months of 2017, additional 22 000 share options were granted to other employees.

Restricted Stock Units

The ordinary general meeting 13 April 2016 decided to remunerate the Board of Directors with a combination of cash and Restricted Stock Units (RSUs).

The number of RSUs to be granted to the members of the Board of Directors is calculated as the NOK amount of the RSU opted portion of total compensation to the Board member, divided by the market

price for the Targovax ASA share. The market price is calculated as volume weighted average share price the 10 trading days prior to the grant date, NOK 12.20 for the grant at 13 April 2016.

The Board members must elect to either (i) receive 100% of the compensation in RSUs, (ii) receive 1/3 of the compensation in cash and 2/3 in RSUs, or (iii) receive 2/3 of the compensation in cash and 1/3 in RSUs. The total compensation to each member of the Board of Directors for both the period 2015-2016 and 2016-2017 have been set out in the minutes from the ordinary general meeting.

A total of 129 991 RSUs have thus been granted. The RSUs granted for the period 2015 – 2016 vested on 13 April 2016, while the RSUs granted for the period 2016- 2017 will vest on 13 April 2017.

The expensed RSU's in 2016 was NOK 1.4 million.

The following table shows the outstanding and granted RSU's to Board of Directors of the Company at 31 December 2016:

Name	Position	RSUs	
		Granted 2016	Outstanding 31.12.2016
Key management:			
Bente-Lill Romøren	Board member	10 929	10 929
Diane Mellett	Board member	34 098	34 098
Eva-Lotta Allan	Board member	23 169	23 169
Lars Lund-Roland	Board member	20 811	20 811
Robert Burns	Board member	40 984	40 984
Total Restricted Stock Units to Board of Directors of the Company		**129 991**	**129 991**

13.Other operating expenses

Expenditure on other operating expenses is recognized in the statement of profit and loss as an expense in the period in which it is incurred

(Amounts in NOK thousands)	2016	2015
Consultancy, advisors' expenses and IR	10 737	17 338
Travel expenses	2 654	1 311
Facilities expenses	2 091	867
IT services and IT-related accessories	1 161	990
Conferences and training	774	198
Other	1 483	1 695
Depreciation	68	39
Government Grants	-67	-
Total operating expenses	**18 902**	**22 437**

14.Financial items

Financial income consists of interest income and foreign exchange gain. Financial expense mainly consists of interest expense and exchange loss.

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

The Company's financial assets consist of receivables and cash. Management determines the classification of its financial assets at initial recognition, and the classification of financial assets depends on the nature and purpose of the financial assets.

Financial liabilities; The Company's financial liabilities consist of accounts payable and other current liabilities. Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable and other financial liabilities are recognized initially at fair value and in the case of loans and borrowings and payables, net of directly attributable transaction costs.

Equity instruments; An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a company are recognized at the proceeds received, net of any issue costs. Transaction costs directly attributable to the issue of equity are recognized directly in equity, net of tax

Financial assets; The Company's financial assets are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets are added to the fair value of the asset. The assets are subsequently measured at amortized cost using the effective interest method, less any impairment losses. Financial assets are derecognized when the rights to receive cash flows from the

investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership to another party. Financial assets are assessed for indicators of impairment at the end of the reporting period and are considered impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Financial income and expense

All financial income and financial expense, except for foreign exchange income/expense, are related to financial assets and financial liabilities carried at amortized cost.

Financial income is:

(Amounts in NOK thousands)	2016	2015
Interest income on bank deposit	518	993
Interest income on tax repaid	14	16
Currency gain - other operating items	662	1 329
Total finance income	**1 194**	**2 339**

Financial expenses are:

(Amounts in NOK thousands)	2016	2015
Other interest expense	13	7
Currency loss - other operating items	804	668
Other finance expense	2	
Total finance expenses	**819**	**676**

Financial assets

Currently, all the Company's financial assets are categorized as receivables. The Company does not have any trade receivables and at 31 December 2016 and 2015 the receivables mainly consist of grants receivables and receivables related to VAT. The Company has currently not recognized any non-current financial assets.

15.Tax

Income tax expense comprise current income tax (tax payable) and deferred tax.

Deferred taxes are recognized based on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax assets arising from deductible temporary differences are

recognized to the extent that it is probable that taxable profits will be available so temporary differences can be utilized.
Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

The tax losses can be carried forward indefinitely. The Company considers that a deferred tax asset related to accumulated tax losses cannot be recognized in the statement of financial position until the product under development has been approved for marketing by the relevant authorities. However, this assumption is continually assessed and changes could lead to significant deferred tax asset being recognized in the future. This assumption requires significant management judgment.

The Company is in the research phase of its product development and has incurred significant tax losses related to its operations. Targovax ASA has a total tax loss carried forward of TNOK 197,312 at 31 December 2016 (31 December 2015: NOK 119,627).

No current or deferred tax charge or liability has been recognized for 2016.

(Amounts in NOK thousands)	2016	2015
Tax loss carried forward	-197 312	-119 627
Fixed assets	51	68
Share options	-207	-79
Temporary differences 31.12	-197 468	-119 638
Deferred tax asset (24% (2015;25%))	-47 392	-29 910

(Amounts in NOK thousands)		
Statutory income tax rate	25 %	27 %
Tax effect of income / loss (-)	-18 439	-16 664
Tax effect permanent differences	-1 019	-1 871
Change in deferred tax not recognized	19 458	18 535
Tax expense	-	-

16.Investments in subsidiaries

Shares and investments intended for long-term ownership are reported in the Company's statement of financial position as non-current assets and valued at cost. The Company determines at each reporting date whether there is any objective indication that the investment in the subsidiary is impaired. If this is the case, the amount of impairment is calculated as the difference between the recoverable amount of the subsidiary and its carrying value and recognizes the amount in the statement of profit and loss. Any realized and unrealized losses and any write downs relating to these investments will be included in the Company's statement of comprehensive income as financial items.

(Amounts in thousands)	Location	Year incorp.	Share capital	Ownership
Subsidiary:				
Targovax OY (prev. Oncos Therapeutics OY)	Helsinki, Finland	2015	EUR 8 211	100 %
– Oncos Therapeutics AG	Meggen, Switzerland	2015	CHF 100	100 %

Please see Note 16 in the 2016 Annual report for the Targovax Group for further details on the excess value of the intangible assets related to the investment in Targovax OY.

17.Property, plant and equipment

Property, Plant and equipment (non-current assets) are carried at cost less accumulated depreciation and accumulated impairment losses. Acquisition cost includes expenditures that are directly attributable to the acquisition of the individual item. Other non-current assets are depreciated on a straight-line basis over the expected useful life of the asset. If significant individual parts of the assets have different useful lives, they are recognized and depreciated separately. Depreciation commences when the assets are ready for their intended use.

At the end of each reporting period, the Company reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss.

Property, plant and equipment of NOK 238 thousand consist mainly of Office equipment. No impairment losses have been recognized. No development costs have been recognized as assets as per 31 December 2016.

(Amounts in NOK thousands)	Furniture, fittings, and equipment	Total
Cost:		
2015		
Opening balance	160	160
Additions	158	158
At 31 December 2015	319	319
2016		
Opening balance	319	319
Additions	37	37
At 31 December 2016.	356	356
Accumulated depreciation and impairment:		
2015		
Opening balance	11	11
Depreciation and impairment charge	39	39
At 31 December 2015	50	50
2016		
Opening balance	50	50
Depreciation and impairment charge	68	68
At 31 December 2016	118	118
Carrying amount:		
At 31 December 2015	**269**	**269**
At 31 December 2016.	**238**	**238**

18.Lease

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease. The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. To understand if the lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract.

Lease payments under operating leases are recognized as an expense on a straight-line basis over the lease term. Incentives received on negotiating or renewing operating leases are also amortized on a straight-line basis over the lease terms. Any prepaid lease payments are recognized in the balance sheet and amortized over the lease term on a straight-line basis. Any contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

The Company has not entered into any finance lease arrangements.The only significant agreement classified as operating lease is the rental agreement for premises:

The Company rents premises in Oslo, Norway for office purposes. The rental agreement, initiated at 18 December 2015 and which Targovax ASA was located as at 31 December 2016, expires on 31 December 2020. The agreement is non-cancellable and expected minimum payment in 2017 is NOK 1 685 000 (excl VAT). The Company is in addition to this amount charged for a proportionate share of common variable costs related to building management. Recognized lease expenses for 2016 is NOK 1902 447 and for 2015 it was 622 301.

There are currently no environmental issues that may affect the Company's utilization of the tangible fixed assets.
The Company does not own any assets which are necessary for production.

19.Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's receivables mainly comprise deposit for office leases, prepaid expenses and government grants in the Statement of financial position, see Note 9 for further information of the recognition of grants in the statement of profit and loss.

(Amounts in NOK thousands)	2016	2015
Receivable government grants	5 622	5 871
Receivable from subsidiaries	3 250	317
VAT receivable	346	814
Other prepayments	2 381	845
Total receivables	**11 599**	**7 846**

20.Cash and cash equivalents

Cash and short-term deposits in the Statement of financial position comprise cash at bank and other short-term highly liquid investments with original maturities of three months or less.

At 31 December 2016 and 2015 the Company only held cash deposits.

(Amounts in NOK thousands)	2016	2015
Bank deposits	157 683	173 898
Total cash and cash equivalents	**157 683**	**173 898**

Restricted cash specification:

(Amounts in NOK thousands)	2016	2015
Income tax withholding from employee compensation	2 055	1 842
Rent deposits [1]	1 021	40
Total restricted cash	**3 076**	**1 882**

1 Classified as Receivables.

21.Share capital and shareholder information

Share capital as at 31 December 2016 is 4 219 080 (31 December 2015: 2 688 381) being 42 109 800 ordinary shares at nominal value NOK 0.10 (31 December 2015: 26 883 808 at NOK 0.10). All shares carry equal voting rights.

The movement in the number of shares during the period was as follows:

	2016	2015
Ordinary shares at beginning of period	26 883 808	9 429 404
Share issuance - private placement and repair offering	15 228 634	8 000 000
Aquisition of Oncos Therapeutics OY	0	9 429 404
Share issuance, employee share options	78 358	25 000
Ordinary shares at end of period	**42 190 800**	**26 883 808**

The Company had 1 784 shareholders as at 31 December 2016:

Shareholder	# shares	%
HealthCap	11 155 584	26.4 %
Radiumhospitalets Forskningsstiftelse	4 077 255	9.7 %
VPF Nordea Avkastning	1 295 421	3.1 %
Verdipapirfondet KLP AksjeNorge	1 200 000	2.8 %
VPF Nordea Kapital	1 137 289	2.7 %
Portia AS	950 000	2.3 %
Nordnet Livsforsikring AS	838 281	2.0 %
Kommunal Landspensjonskasse	803 333	1.9 %
Timmuno AS	724 650	1.7 %
Prieta AS	720 000	1.7 %
Nordnet Bank AB	695 687	1.6 %
Statoil Pensjon	668 916	1.6 %
Datum Invest AS	653 838	1.5 %
Cressida AS	650 000	1.5 %
Danske Bank AS	603 211	1.4 %
Cipi Lamp UCITS Swedbank SMB	543 747	1.3 %
Op-Europe Equity Fund	530 000	1.3 %
Sundt AS	523 170	1.2 %
Viola AS	500 000	1.2 %
Eltek Holding AS	442 000	1.0 %
20 largest shareholders	**28 712 382**	**68.1 %**
Other shareholders (1764)	13 478 418	31.9 %
Total shareholders	**42 190 800**	**100.0 %**

The Company had 193 shareholders as at 31 December 2015:

Shareholder	# shares	%
HealthCap	8 488 918	31,6 %
Radiumhospitalets Forskningsstiftelse	3 410 589	12,7 %
Trojan AS	2 462 000	9,2 %
Arctic Funds PLC	907 000	3,4 %
Timmuno AS	724 650	2,7 %
Prieta AS	720 000	2,7 %
Portia AS	631 945	2,4 %
Danske Bank A/S	587 971	2,2 %
Nordnet Bank AB	570 022	2,1 %
KLP Aksje Norge VPF	460 000	1,7 %
Eltek Holding AS	442 000	1,6 %
Statoil Pensjon	433 716	1,6 %
Storebrand Vekst	425 000	1,6 %
Pactum AS	400 000	1,5 %
Birk Venture AS	378 980	1,4 %
Op-Europe Equity Fund	357 869	1,3 %
Trygve Schiørbecks Eftf. AS	286 449	1,1 %
Viola AS	280 000	1,0 %
Kommunal Landspensjonskasse	270 000	1,0 %
Verdipapirfondet DNB Grønt NORDEN	250 919	0,9 %
20 largest shareholders	**22 488 028**	**83,6 %**
Other shareholders (173)	4 395 780	16,4 %
Total shareholders	**26 883 808**	**100,0 %**

HealthCap, Radiumhospitalets Forskningsstiftelse, Timmuno AS and Prieta AS have entered into lock-up agreements for their shares for the period until the earliest of:
(1) completion of an initial public offering
(2) the day falling 12 Months after the completion of the private placement 9 July 2015

Earnings per share

Earnings per share are calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated as profit or loss attributable to ordinary shareholders of the Company, adjusted for the effects of all dilutive potential options.

Amounts in NOK thousand	2016	2015
Loss for the period	-73 755	-61 402
Average number of outstanding shares during the period	34 528	18 150
Earnings/ loss per share - basic and diluted	**-2.14**	**-3.38**

Share options issued have a potential dilutive effect on earnings per share. No dilutive effect has been recognized, as potential ordinary shares only shall be treated as dilutive if their conversion to ordinary shares would decrease earnings per share or increase loss per share from continuing operations. As the Company is currently loss-making, an increase in the average number of shares would have anti-dilutive effects.

22.Current liabilities

The Company's financial liabilities consist of trade and accounts payable and other current liabilities as withholding taxes and accrued expenses, and are classified as "current liabilities". Trade and accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Accounts payable and other financial liabilities are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Current liabilities consist of:

(Amounts in NOK thousands)	2016	2015
Trade and other payables	2 581	4 915
Withholding taxes and social security payables	2 800	1 588
Accruals for expenses	15 701	10 413
Total current liabilities	**21 082**	**16 915**

23.Events after the reporting date

During the first two months of 2016 the Company granted 22 000 new share options to other employees in the Company and its subsidiaries (see note 12).

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Targovax ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Targovax ASA, which comprise the financial statements for the parent company and the Group. The financial statements for the parent company and the Group comprise the statement of financial position as at 31 December 2016, the statements of profit or loss, other comprehensive income, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements of Targovax ASA have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company and the Group as at 31 December 2016 and their financial performance for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's *responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Impairment of intangible assets

The Group have significant capitalized intangible assets related to intellectual property rights representing 64 % of total assets as of December 31, 2016. The intangible assets are still under development and do not yet generate revenues; hence, the impairment test is based on an alternative approach that represents a combination of a hypothetical sales transaction through royalty-revenues and a discounted cash flow method. The methods are based on the assumption that the development of the intellectual property will succeed. Given the uncertainty related to judgments and assumptions used in the

management models and the significant amount of the intangible assets impairment testing is considered as a key audit matter.

Our audit have included assessment of the impairment models, cash-generating unit, calculation of royalty-revenues and the management assumptions used in the calculations. We have assessed the calculated future cash flows based on available public information and data from comparable companies such as price, patient base, royalty rate and probability of success. We have assessed the remaining development costs used in the calculations by comparing against internal budgets and forecasts. We have assessed the company's calculation of the weighted average cost of capital by comparing the assumptions with external data such as expected risk-free interest rate, market risk premium and beta values for comparable companies. In addition, we have performed sensitivity analyzes to evaluate how sensitive the model is to changes in the key assumptions which have been applied.

We refer to Note 16 Intangible assets and impairment test.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board and CEO (management) is responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the 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 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 financial statements.

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As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the 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 Company'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 and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 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 Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 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.

Report on other legal and regulatory requirements

Opinion on the Board of Directors' report and in the statements on corporate governance and corporate social responsibility

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report concerning the financial statements and in the statements on corporate governance and corporate social responsibility, the going concern assumption and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

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Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than* Audits *or Reviews of Historical Financial Information*, it is our opinion that management have fulfilled their duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 15 March 2017
ERNST & YOUNG AS

Tommy Romskaug
State Authorized Public Accountant (Norway)

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