ANNUAL REPORT

2017

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:

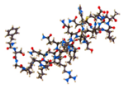
The first platform, ONCOS, uses oncolytic viruses as potential multi-target, neo-antigen, therapeutic cancer vaccines. ONCOS uses an adenovirus that has been engineered to be an immune activator that selectively targets cancer cells. In phase I trials it has demonstrated immune activation at tumor lesional level which was associated with clinical benefit. In an ongoing phase I combination trial in advanced melanoma we are seeking important proof of concept data to confirm that patients who have become refractory to treatment with a checkpoint inhibitor (CPI) can respond to the same checkpoint inhibitor after treatment with ONCOS-102.

The second platform, TG, uses neo-antigen cancer vaccines designed to specifically treat tumors that express mutated forms of RAS. Mutations to the RAS 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 the patient's immune system to develop a cellular response with the potential to identify and destroy tumors bearing any RAS mutations. In early 2017, key proof of concept data for the TG platform from a clinical trial of TG01 in resected pancreatic cancer patients showed encouraging overall survival. These results are now providing guidance for the future clinical development of this platform.

Targovax's clinical development pipeline includes three novel therapeutic candidates covering six indications.

Both platforms are protected by an extensive portfolio of Intellectual Property (IP) and know-how and have the potential to yield multiple pipeline candidates in a cost-effective manner. Additionally, Targovax has other product candidates in preclinical development.

Please visit www.targovax.com for more information.

Broad clinical program		✓ Six shots on goal ✓ Several upcoming data points
ONCOS		✓ Demonstrated ability to increase T-cell count ✓ Potential to make CPIs more effective in many indications
TG		✓ Unique approach for targeting RAS mutations ✓ Potential to benefit up to 1/3 of all cancer patients

CEO Statement

The past year represented another period of significant progress for Targovax. Building upon previous successes, we continued to make important strides with our two proprietary platforms and met important milestones. I look forward to maintaining this momentum in 2018, as we build on our position as a leading immuno-oncology company.

We remain focused on developing our proprietary technologies to harness and enhance the body's immune system to recognize and attack cancer cells. Our two approaches – the adenovirus-based platform, ONCOS, and the mutant-RAS neo-antigen vaccine platform, TG, – provide complementary approaches to fight cancer, and our long-term aim is to apply both these platforms across a broad range of oncology indications. Throughout 2017, we continued to advance our highly targeted candidates by completing key clinical trial milestones on both platforms. The Company presented clinical data at several international conferences, including the American Society of Clinical Oncology (ASCO) Annual Meeting 2017 and the European Society for Medical Oncology (ESMO) 2017 Congress.

The Company is demonstrating success on all fronts, with two unique technology platforms, three pipeline candidates in development, four orphan drug indications, and six combination trials. We are now entering an exciting year where we will present additional new data and take the next steps in developing our exciting pipeline candidates – with the aim of benefiting patients with difficult to treat cancers.

Encouraging TG01 Two-Year Survival Data

The highlight in 2017 came in February when 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 alive after two years. Although the cohort is small and there is no control arm, this rate compares favorably with the available published historical two-year survival rates of between 30 and 53 percent for resected pancreatic cancer patients treated with gemcitabine alone. This is a key milestone for Targovax which will guide the future plans for the clinical development of TG01. These data were subsequently presented at the prestigious ASCO Annual Meeting in June 2017.

In October, the one-year survival rate in the second cohort showed that 100% of patients (13/13) were alive one year after surgery, essentially equivalent to and consistent with the previously reported data from the first cohort.

US patents for TG neoantigen vaccine platform

In September, Targovax was granted a US patent for the TG mutant-RAS neoantigen vaccine platform, which protects therapeutic use of the TG vaccines in combination with anti-metabolite chemotherapy. Following this, in October, Targovax was granted a US patent for TG02, protecting the method of stimulating the immune system of cancer patients with RAS mutated tumors with TG02. In combination with the orphan drug status in pancreatic cancer, these patents provide strong market protection and IP for the TG platform, reinforcing Targovax's position as a leader in the cancer neo-antigen vaccine space.

Listing on Oslo Stock Exchange

During the first quarter of 2017 our shares were accepted onto the main list at Oslo Stock Exchange (OSE) having previously been listed on Oslo Axess. This is an exciting development for the future of Targovax giving us access to a larger investor base. In addition, Targovax was included in the OSE benchmark index (OSEBX) from December 1st, 2017 which further enhances our visibility.

During the summer, the Company successfully completed a private placement raising NOK 206 million (approx. USD 26 million) in gross proceeds attracting strong interest from both existing shareholders and new, high quality investors. This additional capital enables us to continue down the path of running several clinical trials in parallel, all of which we expect to produce more new data in the short- to mid-term future.

Strengthening the Team

In January, we were delighted to announce the appointment of Erik Digman Wiklund as Chief Financial Officer, who subsequently joined in April. Erik has an impressive track record in commercial and operational roles within the biotechnology industry as well as a strong scientific background having earned a PhD in Molecular Biology. He joined us from the marine biotech company Aker Biomarine Antarctic, where he held the position of Director of Product Innovation. Prior to Aker Biomarine, Erik worked at Algeta. He will also bring valuable experience from his time at the Pharma & HealthCare practice of the management consultancy firm, McKinsey & Company.

In January 2018 the management team was further strengthened by the appointment of Michael Bogenstätter as Chief Business Officer. Michael has 25 years' experience from various R&D, strategic and business development roles in the pharma industry, and brings important international and commercial perspectives to the team. He is a trained scientist, holding a PhD in Chemistry, and also has a background as a management consultant with The Boston Consulting Group.

During 2018, the Board was also strengthened when Patrick Vink joined as Chairperson in December. Patrick is a seasoned and experienced senior executive with a track-record of building and growing global businesses during a career that spans over 30 years with companies such as Sanofi, Biogen, Sandoz, Mylan, and Cubist. He has delivered on challenging revenue, profit, and infrastructure growth targets as well as driving product development and commercialization across a number of therapeutic areas including oncology. Patrick's commercial background will add valuable new perspectives to Targovax as we plan and implement our further progress into the later stages of clinical development.

The year ahead

Throughout the next year, we remain devoted to progressing clinical development of both of our platforms, with particular focus on generating proof-of-concept data for ONCOS-102 in melanoma and mesothelioma and completing the TG01 trial in resected pancreatic cancer. With multiple clinical data read-outs through 2018, we anticipate a steady news flow and opportunity to reach several important value inflection points.

None of this would be possible without the incredible effort of our employees and the continued support of our shareholders – I am proud of everything that we have achieved together and look forward to an exciting 2018.

Øystein Soug
CEO Targovax Group


targovax
OSLO BØRS

Directors Report

2017 was an important year for Targovax ASA ("The Company"). In March, the Company transferred the listing of its shares from Oslo Axess to the Oslo Stock Exchange main list, allowing more visibility and exposure to institutional investors. During the summer, the Company also successfully raised NOK 206 million through a private placement. These funds will secure the financing of the ongoing clinical trial programs where several important clinical data read-outs are expected in 2018.

The mutant-RAS neo-antigen vaccine ("TG") platform reached an important milestone this year, when the Company announced encouraging survival data from its ongoing phase I/II clinical trial evaluating TG01 in resected pancreatic cancer. The data were subsequently presented at prestigious medical conferences, including the American Society of Clinical Oncology (ASCO) Annual Meeting in June and the European Society for Medical Oncology (ESMO) Congress in September.

The company also continued to strengthen its intellectual property portfolio with two important US patents granted for the TG platform covering both product and therapeutic use IP.

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 immunotherapy pipeline and aims to become a world-leading biotechnology company in this area, committed to innovation and to providing new options for difficult to treat patients. It is currently developing two highly targeted immune-oncology technologies.

Targovax's vision is to "arm the patient's immune system to fight cancer" with targeted therapeutic immune activators that have the potential to extend and transform the lives of cancer patients. The Group's pipeline includes several pipeline candidates aimed at different cancer types such as melanoma, mesothelioma, pancreas, colorectal, and ovarian cancer.

The Company's strategy is to:

- apply its two proprietary immunotherapeutic technologies in multiple cancer indications where there is a significant unmet medical need
- prioritize its pipeline candidates based on the emerging preclinical and clinical data
- develop the most promising pipeline candidates, both through its own clinical trials and through collaborations
- specifically evaluate the combination of its pipeline 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 independently bring products to market, 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) that utilizes engineered oncolytic viruses armed with potent immune-stimulating transgenes as potential multi-target, neo-antigen therapeutic cancer vaccines to target solid tumors. The aim is to reinstate the immune system's capacity to recognize and attack cancer cells, and thus prime a patient's immune system to his or her tumor.
- A mutant-RAS neo-antigen vaccine platform (TG) that targets difficult to treat RAS mutated cancers. Oncogenic RAS mutations are well-characterized truncal or 'driver' neo-antigens, found in 90 percent of pancreatic cancer patients, 50 percent of colorectal cancer patients, and up to 30 percent of all cancers in total.

Both treatment approaches harness the patient's own immune system to fight 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 pipeline 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 neo-antigens) accessible 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 neo-antigens. Thirdly, in addition to stimulating new T-cell responses against the tumor, ONCOS-102 also strengthens already existing cellular responses against the tumor because the presence of adenovirus in a tumor attracts immune cells, including 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 pipeline candidates are therefore able to activate both CD4+ helper T-cells and CD8+ cytotoxic T-cells. Peptides are usually insufficiently immunogenic by themselves to generate effective immune responses and so need an 'adjuvant' or immune activator to attract dendritic cells to process them for subsequent immune activation. Targovax has selected GM-CSF as its adjuvant for peptide vaccination. Targovax aims to demonstrate that the TG approach can prolong time to cancer progression and increase survival by inducing efficacious immune responses in cancer patients whose tumors carry RAS mutations. Currently, two TG pipeline candidates are being developed: TG01 for resected pancreatic cancer and TG02 for colorectal cancer.

Clinical development programs

ONCOS-102 in checkpoint inhibitor refractory melanoma

This trial is an open-label phase I combination trial exploring safety and immune activation as well as clinical response of sequential treatment with ONCOS-102 and Keytruda® (pembrolizumab), an anti-PD1 monoclonal antibody in patients with advanced or unresectable melanoma whose tumors have continued to grow following checkpoint inhibitor (CPI) therapy. The trial is being conducted at Memorial Sloan Kettering Cancer Center in New York, one of the world's leading clinical research sites in the field of immuno-oncology. The aim of the trial is to investigate whether these refractory patients will respond to re-challenge with a CPI following priming with ONCOS-102.

The trial plan is to include 12 patients with refractory melanoma. Early safety and immune activation data for the first four patients were announced in December 2017 and the beginning of January 2018. The initial planned safety review passed with no reported issues, and both innate and adaptive immune activation was observed in all four patients. In addition, all four patients displayed an increase in PD-1 expression in their circulating T-cells, suggesting that their immune systems have been reactivated in such a fashion as to enhance their likelihood of responding to re-challenge with CPI therapy. More extensive clinical results from the sequential virus and CPI combination treatment are expected in the second half of 2018.

ONCOS-102 in mesothelioma

This trial is a randomized phase Ib open label trial with a safety lead-in of ONCOS-102 and pemetrexed/cisplatin, the current standard of care chemotherapy in patients with unresectable malignant pleural mesothelioma. The trial is planned to include six patients in a lead-in cohort (for safety evaluation of the combination) and a further approximately 24 patients in the randomized part of the trial to compare the clinical benefit of the combination treatment of ONCOS-102 with standard of care chemotherapy. The safety cohort has now been fully enrolled and the initial planned safety review passed with no reported issues.

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 trial 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 are currently being monitored for 24 months.

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

In February 2017, Targovax announced encouraging top line two-year survival data from the first cohort of this trial. Data from this patient cohort 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) or 12/19 if counted from time of first treatment. These results represent key milestones for Targovax and will trigger the next step of clinical development.

TG01 second cohort – one-year survival rate and safety data

In October 2017, Targovax reported one-year survival rate for the second cohort, which was found to be in line with the one-year data from the first cohort. 100 percent of patients (13/13) were alive one year after surgery with TG01/GM-CSF generating an immune response in 85 percent of patients (11/13). These results further strengthen the safety profile of TG01 and add valuable understanding that will enable us to optimize the dosing regimen in this indication. The two-year survival data read-out for this second cohort is expected in the first half of 2018.

TG02 in colorectal cancer

TG02 is the second-generation pipeline candidate from the TG mutRAS neo-antigen vaccine platform and is currently being tested in colorectal cancer. 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 checkpoint inhibitor, in patients with locally recurring rectal cancer scheduled to have surgery. The first patient was enrolled in April 2017 and the initial planned safety review was passed with no reported issues.

Early exploratory clinical results indicate that TG02 induces immune responses in patients including evidence of activated tumor-infiltrating T-cells when compared to historical controls. In addition, PD-1 expression was observed in both circulating and tumor-infiltrating T-cells. This further strengthens the rationale for combining TG02 with a PD-1 checkpoint inhibitor. Based on these initial safety and immune activation findings, the Company and investigators will discuss the appropriate timing for switching into the combination part of the trial in which TG02 will

be combined with the checkpoint inhibitor Keytruda®.

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 initiated as part of this collaboration is a non-randomized, open-label, phase I/II trial which will explore the combination of ONCOS-102 with MedImmune's checkpoint inhibitor durvalumab[1], an anti-PD-L1 antibody. 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 include an assessment of safety, clinical efficacy, and immunological activity of ONCOS-102 in combination with durvalumab. The trial was initiated in the third quarter of 2017 and is being conducted in the USA and sponsored by LCR on behalf of the CRI as well as being supported financially by CRI.

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. Sotio is supporting this trial financially.

Through these collaborations, Targovax is able to leverage its own clinical development expertise with access to leading external expertise and extensive clinical trial networks.

Preclinical development

A trial of the efficacy of the combination of ONCOS-102 and two different doses of KEYTRUDA® in a melanoma mouse model has been performed showing synergistic anti-tumor effects of ONCOS-102 and KEYTRUDA®:

- KEYTRUDA® alone at both doses did not reduce tumor volume
- ONCOS-102 reduced volume by 51 percent
- ONCOS-102 + KEYTRUDA® reduced volume by 61 percent (lower dose) and 69 percent (higher dose)

These study data support the scientific rationale for the ongoing melanoma clinical trial of ONCOS-102 in combination with KEYTRUDA®.

Important events in 2017

In January, Targovax announced the appointment of Erik Digman Wiklund as Chief Financial Officer. He joined from the marine biotech company Aker Biomarine Antarctic,

[1] Durvalumab / IMFINZI™ – has been approved by FDA in urothelial cancer and stage III non-small cell lung cancer (NSCLC)

where he held the position of Director of Product Innovation. Prior to this, Erik worked for Norwegian cancer biotechnology company Algeta, and has management consulting experience from the Pharma & Health Care practice of McKinsey & Company. Erik holds a PhD in Molecular Biology from Aarhus University, Denmark, and the Garvan Institute of Medical Research in Sydney, Australia.

In February, Targovax announced encouraging overall survival data from an analysis of the first cohort of patients in the ongoing phase I/II clinical trial evaluating TG01/GM-CSF and gemcitabine in patients with resected pancreatic cancer. Of the 19 patients included in the cohort, 68 percent (13/19) were still alive after two years, which compares favourably with historical controls with reported 2-year survival between 30 to 53 percent for patients treated with gemcitabine alone. The clinical data from this trial were presented at the American Society of Clinical Oncology (ASCO) conference in June.

In March, Targovax was accepted onto the main list of Oslo Stock Exchange (OSE), having previously been listed on Oslo Axess. This is an important development for Targovax providing access to a larger investor base. In addition, Targovax was included in the OSE benchmark index (OSEBX) from 1 December 2017 further enhancing The Company's visibility.

In April, the first patient was recruited into the exploratory phase Ib clinical trial of TG02 in patients with locally recurrent RAS-mutated rectal cancer. We aim to enrol 20 patients into this trial. The trial's primary objective is to investigate the safety and immune activity of the drug.

In May, the first patient was recruited into the Company's ONCOS-102 trial in refractory melanoma patients who had progressive disease following treatment with checkpoint inhibitors.

During the summer, the Company successfully raised NOK 206 million through a private placement (and a subsequent rights issue) attracting strong interest from existing shareholders and new high-quality investors alike. The net proceeds will be used to secure the financing of the ongoing trials and exploratory research.

In September, Targovax was granted a US patent for the TG mutant-RAS neo-antigen vaccine platform, which protects therapeutic use of the TG vaccines in combination with anti-metabolite chemotherapy.

Following this, in October, Targovax was granted a US patent for TG02, protecting the composition of the product for stimulating the immune system of cancer patients with RAS mutated tumors. In combination with the orphan drug status in pancreatic cancer, these patents provide strong market exclusivity and IP for the TG platform reinforcing the position of Targovax as a global leader in the neoantigen vaccine space.

Furthermore, in October, the Company reported one-year survival rate for the second cohort in the TG01 phase I/II trial in resected pancreatic cancer patients. The data were in line with the one-year data for the first cohort, with 100 percent of patients (13/13) alive one

year after surgery and TG01/GM-CSF generating an immune response in 85 percent of patients (11/13).

In December, Targovax announced that three trials, ONCOS-102 in melanoma and mesothelioma, as well as TG02 in colorectal cancer, had all passed their initial planned safety review with no reported issues. All trials were recommended to continue as planned, with clinical data read-outs are expected in 2018.

Important events after balance sheet date

In January, Targovax announced that ONCOS-102 generates immune activation in checkpoint inhibitor refractory melanoma patients. This is the first time ONCOS-102 has been used therapeutically in melanoma patients and also the first time the virus has been administered to CPI refractory patients. Early systemic immune activation was indicated by:

- Increase of several pro-inflammatory cytokines
- Increase of the relative level of cytotoxic CD8+ T-cells
- Increase of PD-1 expression on CD8+ T-cells

These data are consistent with ONCOS-102 inducing both an innate and adaptive immune activation in CPI refractory patients. In addition, increased PD-1 expression on the surface of CD8+ T-cells after ONCOS-102 treatment suggests that the tumors may be susceptible to re-challenge with KEYTRUDA®.

In February, Targovax announced the completion of the safety lead-in cohort and preliminary immune activation data in the phase I/II trial of ONCOS-102 in mesothelioma in combination with standard of care chemotherapy. The independent Data and Safety Monitoring Board (DSMB) reviewed all six patients in the safety lead-in cohort of the trial. No concerns were raised and the DSMB recommended that the randomized part of the trial could be initiated and this has triggered recruitment of a further 24 patients.

In addition, early immune activation was assessed for a subset of the mesothelioma patients. Systemic release of several pro-inflammatory cytokines was observed (3/3 patients analyzed) demonstrating that the treatment triggers an innate immune response. Furthermore, there was an increase in the relative level of tumor infiltrating cytotoxic CD8+ T-cells (2/2 patients with pre- and post-treatment biopsies analyzed) indicating an activation of the adaptive immune system in the lesions as well as suggesting that the treatment triggers changes in the tumor microenvironment. Importantly, these data suggest that the treatment of ONCOS-102 in combination with chemotherapy induces both innate and adaptive immune activation in mesothelioma patients. This would be consistent with the tumors becoming susceptible to an attack by the immune system.

Michael Bogenstätter was appointed Chief Business Officer of Targovax in January 2018. Michael joins Targovax with 25 years' experience in biotech and big pharma. During this time, he has held senior business development and strategy positions with

Sanofi, Novartis, and MSD. Michael has also worked as a consultant with The Boston Consulting Group and, most recently, has acted as an independent corporate and business development advisor to some of the world's top pharmaceutical and biotechnology companies.

Key figures in the consolidated accounts

Income statement (2016 figures in brackets)

In 2017 Targovax had no core business revenue, only minor non-core service fees.

Total operating expenses for 2017 amounted to NOK 120 million (NOK 120 million), of which payroll and related expenses amounts to NOK 48 million (NOK 49 million). The operating expenses are reported net of governmental grants, which amounted to NOK 6 million in the period (NOK 8 million).

Operating loss amounted to NOK 120 million in 2017 (NOK 120 million). Financial income amounted to NOK 2 million for the year (NOK 1 million). The group had financial expenses of NOK 4 million (NOK 4 million).

Cash flow

Net cash amounted to NOK 262 million at the end of the year, compared to NOK 172 million at the end of 2016. The change in net cash level was driven by the NOK 194 million net capital increases undertaken in June offset primarily by operating activities.

Net cash outflow for the year was negative NOK 107 million from operating activities (NOK 109 million), and positive NOK 197 million from financing activities (NOK 108million). The difference between the operating loss and negative cash flow from operating activities is due to activities completed in 2017 not yet invoiced at 31 December 2017. The increase in cash flow from financing activities has led to the opportunity to expand the operational activities, hence the outflow from operational activities has increased.

Financial position

As at 31 December 2017, Targovax had total assets of NOK 644 million, compared to NOK 525 million by the end of 2016.

Total current assets amounted to NOK 276 million (NOK 186 million), of which cash and cash equivalents amounted to NOK 262 million (NOK 172 million).

Total non-current assets were NOK 367 million (NOK 340 million), of which intangible assets amounted to NOK 366 million (NOK 338 million).

Shareholders' equity amounted to NOK 507 million, increased from NOK 401 million in 2016. The equity ratio amounted to 78.8 percent compared to 76.4 percent in 2016.

Going concern

The financial statements for 2017 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 five clinical trials ongoing and two clinical studies planned to start in 2018. 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 factors.
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' ability and 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 clinical 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 executes 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 individuals 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 pipeline 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 granted patent rights and has filed several patent applications, however, uncertainties related to predicting the degree and range of the protection from its patent estate will always exist as will the risk and uncertainties that may be caused by third party 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 investor road shows and participation in industry- and investor seminars.

Future interest rate fluctuations may 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, USD 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

Overall pharmaceutical market

During the last decade, the global pharmaceutical industry has demonstrated an annual growth of 6.4 percent. The global pharmaceutical market was estimated to USD 800 billion at ex-factory prices in 2015[2]. 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 highly priced 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 currently forecasted.

The Cancer Epidemiology

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

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

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 recognize 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[3] 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.

[3] 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 activities are 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 (ONCOS) that utilizes engineered oncolytic viruses armed with potent immune-stimulating transgenes as potential multi-target, neo-antigen therapeutic cancer vaccines to target solid tumors and a mutant-RAS neoantigen vaccine platform (TG) that targets difficult to treat 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 considers the work environment within the group to be good. No accidents or injuries resulting in absence were registered in 2017. Absence due to illness in the group was 0.83 percent in 2017, considerably lower than the industry standard.

As at 31 December 2017, Targovax had a total of 27 employees, compared with 26 employees at the end of 2016.

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 43 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 page (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 2017 the Targovax share was traded in the NOK 11.26 – 32.54 range. During 2017 some 76.6 million shares were traded, with a total value of NOK 1,651 million. Closing price

on 31 December 2017 was NOK 16.6 per share, corresponding to a market-value of NOK 873 million.

As of 6 March 2018, there were 52,609,867 shares outstanding in Targovax, distributed to 4223 shareholders. HealthCap is the largest shareholder, holding about 23.6 percent of total shares outstanding. The 20 largest shareholders control 59 percent of total shares outstanding.

Key management and members of the Board holds a total of 232,913 shares in the Company, representing some 0.4 percent of total shares outstanding.

The estimated share ownership situation on 6 March 2018:

Shareholder		Estimated ownership	
		Shares m	*Relative*
HealthCap	Sweden	12,4	23,6 %
Nordea	Norway	4,7	8,9 %
RadForsk	Norway	4,4	8,4 %
KLP	Norway	2,2	4,2 %
Statoil	Norway	1,2	2,3 %
Thorendahl Invest	Norway	1,0	1,9 %
Danske Bank (nom.)	Norway	0,8	1,5 %
Timmuno	Norway	0,7	1,4 %
Prieta	Norway	0,7	1,4 %
Sundt	Norway	0,5	1,0 %
Yngve S. Lillesund	Norway	0,3	0,6 %
Euroclear Bank (nom.)	Belgium	0,3	0,6 %
DNB	Norway	0,3	0,6 %
NHO - P665AK	Norway	0,3	0,5 %
Tobech Invest	Norway	0,2	0,4 %
Istvan Molnar	Norway	0,2	0,4 %
Danske Bank (nom.)	Norway	0,2	0,4 %
Peter Kenneth Zwilgmeyer	Norway	0,2	0,3 %
Spar Kapital Investor	Norway	0,2	0,3 %
Rolf Arne Olsen	Norway	0,2	0,3 %
Top 20		**31,0**	**58,8 %**
Other shareholders (4203)		*21,7*	*41,2 %*
Total		**52,6**	**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 a 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 2017 and 2018 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 67 million (NOK 74 million). Total cash amounted to NOK 244 million at the end of 2017 compared to NOK 158 million at the end of 2016. Equity at the end of 2017 amounted to NOK 611 million compared to NOK 472 million at the end of 2016.

Targovax ASA´s annual result amounted to a loss of NOK 67 million. The Board of Directors proposed that the loss is transferred to accumulated loss.

Outlook

Targovax's two platforms represent distinct, novel, and potentially complementary approaches to treating a range of different cancer indications.

As previously communicated, the net proceeds from the 2017 financing round will be used to finance data readouts from clinical trials across these platforms in the remainder of 2018. These results will further profile the potential of both platforms.

2018 will be an exciting year for Targovax. The Company is well placed to build on last year's encouraging signals of efficacy with TG01 and seeks to commence a controlled trial in TG01 for pancreatic cancer. ONCOS-102 will have several data read-outs from its ongoing trials during the year. The results from these read-outs will guide future development decisions for the virus platform.

Oslo, 14 March 2018

The Board of Directors of Targovax ASA

Patrick Vink
Chairperson of the Board

Per Samuelsson
Board member

Bente-Lill Romøren
Board member

Jonas Einarsson
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 2017 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, 14 March 2018

The Board of Directors of Targovax ASA

Patrick Vink
Chairperson of the Board

Per Samuelsson
Board member

Bente-Lill Romøren
Board member

Jonas Einarsson
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 seven individuals. Set out below are brief biographies of the members of Management. Holdings of shares and share options as at 14 March 2017 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	109 598
Share options	1 010 000

Erik Digman Wiklund – Chief Financial Officer

Erik Digman Wiklund joins from the nutraceutical company Aker Biomarine Antarctic AS, where he held the position as Director of Product Innovation. Prior to joining Aker Biomarine Antarctic AS, Erik worked for the Norwegian cancer biotechnology company Algeta ASA, and also has management consulting experience from the Pharma & Health Care practice of McKinsey & Company. Erik holds a PhD in Molecular Biology from Aarhus University, Denmark, and the Garvan Institute of Medical Research in Sydney, Australia. Mr Wiklund is a Swedish citizen, residing in Norway.

Shares	0
Share options	300 000

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	760 000

Michael Bogenstätter– Chief Business Officer

Michael joins Targovax following 25 years' experience in biotech and big pharma. During this time, he held senior business development and strategy positions with Sanofi, Novartis and MDS. Michael has also worked as a consultant with The Boston Consulting Group and, most recently, has acted as an independent corporate and business development advisor to some of the world's top pharmaceutical and biotechnology companies. He trained as a chemist and was awarded a PhD in organic chemistry from the University of Munich. Michael also holds an MBA from London Business School. He is a US citizen, and resides in US.

Shares	0
Share options	230 000

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 Dr 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. Dr Aksnes is a Norwegian citizen and resides in Norway.

Shares	12 000
Share options	353 000

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	20 087
Share options	195 000

Tina Madsen – Vice President, Quality Assurance

Tina Madsen has more than 25 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	163 000

Board of Directors

Set out below are brief biographies of the Board members.

Patrick Vink, Chairperson

Patrick is a seasoned professional with over 30 years' experience from senior roles at leading pharmaceutical and biotechnology companies. With a proven track record of building and growing businesses through positions spanning operations, sales and marketing, Patrick has led worldwide teams to drive product commercialization across a number of therapeutic areas, including oncology. Currently, Patrick serves on the Board of several private and listed companies in the pharma and biotech space, including Santhera Pharmaceuticals, Concordia Healthcare and Spero Therapeutics. Mr Vink is a Dutch citizen and resides in Switzerland.

Shares	0
Share options	0
RSU	11,131

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

Jónas Einarsson, Board member

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. Dr Einarsson is a Norwegian citizen and resides in Norway.

Shares	0
Share options	0
RSU	0

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, 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 as well as autoimmune disorders and inflammatory disease. He has experience over more than 30 years in building biotechnology companies focused on immunotherapy and was a member of the board of Directors of Oncos prior to the merger with Targovax. Dr Burns is currently Chairperson of Affibody Medical AB. Previously, he was Chairperson of Haemostatix Ltd until the successful divestment of the company to Ergomed plc – ERGO:LSE. He has also been CEO of 3 antibody discovery & development companies in the immuno-oncology therapy arena (Celldex Inc - CLDX:NASDAQ; Affitech A/S – AFFI:OMX; and 4-Antibody AG – Basel) leading successful private investor exits for all 3 companies. Prior to his time at Celldex, 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 vaccines and antibody based cancer immunotherapies. Previously he served in commercial and business development leadership positions at Oxford Glycosciences plc (UK), British Biotechnology plc (UK), Applied bioTechnology Inc (US), and Corning Glassworks (US & UK). He holds a PhD in Chemistry and is a UK citizen residing in Oxford, UK.

Shares	64 928
Share options[4]	21 235
RSU	10 051

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

Eva-Lotta Allan is an experienced biotechnology deal-maker with over 30 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. 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

[4] 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 11 of 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.

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	33 220

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 Chairperson 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	14 279

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	44 149

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 2017.

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 pipeline candidates, both through its own clinical trials and through collaborations
iv. more specifically evaluate the combination of its pipeline candidates and for example 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 2017 was NOK 507 million, which corresponds to an equity ratio of 78.8 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 Annual 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 800 000 and (b) 10 percent of the share capital of the Company. This applies until the Annual General Meeting in 2018.

For the period between the Annual General Meetings in 2018 and 2019, 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 RSUs (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 5 April 2017.

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 in the section "Committees composition" under "Investor Relations" and "Corporate governance".

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: Patrick Vink (Chair), Jònas Einarsson, Per Samuelsson, Bente-Lill Romøren, Johan Christenson, Robert Burns, Eva-Lotta Allan, and Diane Mellett. The current Board of Directors was elected at the General Meeting 5 April 2017, and the Chairperson was elected at the Extra Ordinary General Meeting (EGM) 30 November 2017. Lars Lund-Roland stepped down from the Board on the EGM 30 November, and former Chairperson Jònas Einarsson replaced him as ordinary Board member.

Participation on Board of Directors meetings and Board committee meetings during 2017:

Participation in meetings	Board Meetings	Audit Committee	Compensation committee	Governance Committee
Patrick Vink	1			
Jònas Einarsson	9	5		
Bente-Lill Romøren	9			1
Johan Christenson	9			1
Robert Burns	9		5	
Eva-Lotta Allan	8			1
Diane Mellett	8			1
Per Samuelsson	10	5	5	
Lars Lund-Roland	9	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 10 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/charters 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, carries 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 13 December 2017. 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 Patrick Vink. 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 2017.

Compensation committee

The members of the Compensation Committee are Per Samuelsson, Patrick Vink 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 2017.

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 2017.

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.

Our aim is to have an annual review by the Board of Directors, of the Company's most important areas of exposure to risk and its internal control arrangements.

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 5 April 2017 decided to remunerate the Board of Directors with a combination of cash and Restricted Share Units (RSUs).

If the Board members choose to receive the Board remuneration in RSU's they 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, except for meeting compensation, to each member of the Board of Directors for 2017-2018 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 11 of 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 10 of 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 outlined in 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 10 of 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 website 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 10 of 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	2017	2016
Other revenues	6	37	37
Total revenue		**37**	**37**
External R&D expenses	7,8	-45 571	-45 001
Payroll and related expenses	8,9,10,11	-48 278	-49 235
Other operating expenses	8,12	-26 114	-25 311
Total operating expenses		**-119 963**	**-119 548**
Operating profit/ loss (-)		**-119 926**	**-119 511**
Finance income	13	1 654	533
Finance expense	13	-4 001	-3 736
Net finance income (expense)		**-2 347**	**-3 203**
Loss before income tax		**-122 273**	**-122 714**
Income tax income/(expense)	14	328	260
Loss for the period		**-121 945**	**-122 454**
Earnings/ loss (-) per share			
Basic and dilutive earnings/ loss (-) per share	20	-2.58	-3.55

Consolidated Statement of other comprehensive income

(Amounts in NOK thousands except per share data)	2017	2016
Income / loss (-) for the period	-121 945	-122 454
Items that may be reclassified to profit or loss:		
Exchange differences arising from the translation of foreign operations	21 308	-16 174
Total comprehensive income/ loss (-) for the period	**-100 638**	**-138 628**

Consolidated statement of financial position

(Amounts in NOK thousands)	Note	31.12.2017	31.12.2016
ASSETS			
Intangible assets	15	366 250	338 213
Property, plant, and equipment	16	1 165	1 299
Total non-current assets		**367 414**	**339 512**
Receivables	18	14 620	14 203
Cash and cash equivalents	19	261 573	171 629
Total current assets		**276 193**	**185 833**
TOTAL ASSETS		**643 608**	**525 345**
EQUITY AND LIABILITIES			
Shareholders equity			
Share capital	20	5 261	4 219
Share premium reserve		821 161	627 796
Other reserves		29 276	17 055
Retained earnings		-375 466	-253 521
Translation differences		26 926	5 618
Total equity		**507 158**	**401 168**
Non-current liabilities			
Interest-bearing liabilities	21	48 806	39 714
Deferred tax	14	59 350	55 278
Total non-current liabilities		**108 156**	**94 992**
Current liabilities			
Accounts payable and other current liabilities	22	7 601	4 681
Accrued public charges	22	3 018	3 348
Other short-term liabilities	22	17 676	21 155
Total current liabilities		**28 294**	**29 185**
TOTAL EQUITY AND LIABILITIES		**643 608**	**525 345**

Oslo, 14 March 2018

The Board of directors of Targovax ASA

Patrick Vink Chairperson of the Board	Per Samuelsson Board member
Bente-Lill Romøren Board member	Jónas Einarsson 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 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	20	1 529	113 065				114 593
Transaction costs - Private Placement and repair offering			-7 753				-7 753
Share issuance, employee share options		2	-18	-			-16
Recognition of share-based payments	11			10 098			10 098
Balance at 31 December 2016		**4 219**	**627 796**	**17 055**	**5 618**	**-253 521**	**401 168**
Loss for the period						-121 945	-121 945
Exchange differences arising from the translation of foreign operations		-	-	-	21 308	-	21 308
Other comprehensive income/loss, net of tax		-	-	-	-	-	**-**
Total comprehensive income for the period					**21 308**	**-121 945**	**-100 638**
Issue of ordinary shares - Capital increase - Private Placement and repair offering	20	1 032	205 433				206 465
Transaction costs - Private Placement and repair offering			-12 256				-12 256
Share issuance, employee share options	20	10	189	-	-	-	198
Recognition of share-based payments & RSU's	11	-		12 220	-	-	12 220
Balance at 31 December 2017		**5 261**	**821 161**	**29 276**	**26 926**	**-375 466**	**507 158**

Consolidated statement of cash flow

(Amounts in NOK thousands)	Note	2017	2016
Cash flow from operating activities			
Loss before income tax		-122 273	-122 714
Adjustments for:			
Finance income	13	*-1 654*	-1 241
Finance expense	13	4 001	4 444
Interest received	13	1 366	533
Other finance expense	13	-93	-286
Share option expense	11	12 220	10 098
Depreciation	12	296	284
Change in receivables	18	-417	-2 646
Change in other current liabilities	22	-919	2 085
Net cash flow from /(used in) operating activities		**-107 472**	**-109 443**
Cash flow from investing activities			
Purchases of property, plant, and equipment (PPE)	16	-56	-37
Net cash received from/(paid in) investing activities		**-56**	**-37**
Cash flow from financing activities			
Loan from TEKES	13,21	2 992	1 360
Interest paid	13	-579	-548
Share issue expense - Private Placement and repair offering	20	-12 256	-7 753
Proceeds from issuance of shares -Private Placement and repair offering	20	206 465	114 593
Proceeds from exercise of options	20	198	-16
Net cash generated from financing activities		**196 820**	**107 636**
Net increase/(decrease) in cash and cash equvivalents		**89 292**	**-1 844**
Net exchange gain/loss on cash and cash equivalents		651	-424
Cash and cash equivalents at beginning of period		**171 629**	**173 898**
Cash and cash equivalents at end of period		**261 573**	**171 629**

Notes to the financial statements – Targovax Group

1. General information

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 Group is targeting complementary approaches to cancer immunotherapy: a cancer vaccine 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 cancer.

The Company is a Norwegian public limited liability company listed on the Oslo Stock Exchange in Norway. The address of the registered office is Lilleakerveien 2C, 0283 Oslo, Norway.

These financial statements have been approved for issue by the Board of Directors on 14 March 2018, and are subject to approval by the Annual General Meeting in April 2018.

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 where the rate

at the date of transaction is not available. 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 exchange rate at the date of the transaction. If the exchange rate at the date of transaction is not available, average monthly exchange rate in the month of transaction is used. 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 2017 and earlier have been adopted for all periods presented in these financial statements.

The amendments to IAS 7 Statement of Cash Flows require disclosure of changes in liabilities arising from financing activities, see note 21.

Standards and interpretations in issue but not yet adopted

IFRS 9 Financial Instruments:

IFRS 9 is effective for annual periods beginning on or after January 1st, 2018, with early application permitted. The Group plans to adopt the new standard on the required effective date and will not restate comparative information. Adoption to the new standard does not have a significant impact on the financial statement of the Group.

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.

The standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of NOK 7.8 million, see note 17.

IFRS 16 will not have a material effect on the Group's financial statements. However, the Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options.

At this stage, the Group does not intend to adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

2.4 Basis of consolidation

The consolidated financial statements as at 31 December 2017 comprise the financial statements of the Company and its subsidiary Targovax OY, located at Helsinki, Finland, a 100% owned and controlled subsidiary. Oncos Therapeutics AG, Meggen, Switzerland, was liquidated during 2017.

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.

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 comprising 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 amortization 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 amortized by the straight-line method over the estimated useful life.

2.6 Going concern

As a result of the private placement and the subsequent offering in the third quarter 2017 and the current liquidity situation, Targovax's Directors expect that the Group has available financial resources sufficient for all planned activities, in the next twelve months as of 14 March 2018. 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 366 MNOK. The value is tested for impairment 31 December 2017. 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 15.

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 11 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 14 Taxes.

4. Segments

The Group's activities during 2017 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.

5. Financial instruments and risk management objectives and policies

The Group's financial assets and liabilities comprise cash at bank and cash equivalents, receivables and trade creditors that originate from its operations. All financial assets and liabilities are carried at amortized cost. All financial assets and liabilities, other than the debt to Tekes, 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. For further information see Note 21 Interest-bearing debt.

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 Group is not sensitive to a change in interest rates on interest-bearing borrowings, the debt to Tekes, unless the European Central Bank's steering rate increases above 4 percentage points. Hence the Group's profit and loss statement, statement of financial position and the Group's cash flow is not sensitive to 1% change in interest rates on interest-bearing borrowings.
The following table demonstrates the Group's sensitivity to a 1 percent point change in interest rates on cash and cash equivalents at 31 December 2017 and 2016:

(Amounts in NOK thousands)	2017		2016	
	1% point increase	1% point decrease	1% point increase	1% point decrease
Loss before income tax effect	2 616	-2 616	1 716	-1 716

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 2017 and 2016.

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

(Amounts in NOK thousands)	2017		2016	
	10% increase	10% decrease	10% increase	10% decrease
Loss before income tax effect	961	-961	2 747	-2 747
Other comprehensive income	-3 971	3 971	-2 677	2 677

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

(Amounts in NOK thousands)	2017		2016	
	10% increase	10% decrease	10% increase	10% decrease
Loss before income tax effect	1 217	-1 217	1 611	-1 611
Other comprehensive income	-	-	-	-

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

(Amounts in NOK thousands)	2017		2016	
	10% increase	10% decrease	10% increase	10% decrease
Loss before income tax effect	-179	179	-212	212
Other comprehensive income	-	-	-4	4

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

(Amounts in NOK thousands)	2017		2016	
	10% increase	10% decrease	10% increase	10% decrease
Loss before income tax effect	-80	80	-170	170
Other comprehensive income	-	-	9	-9

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 and cash equivalents:

(Amounts in NOK thousands)	2017		2016		Rating (S&P)
	Amount	In %	Amount	In %	
Cash at bank:	**107 422**	**41 %**	**171 629**	**100 %**	
Nordea Bank AB	90 321	35 %	157 679	92 %	**AA-**
Danske Bank Abp	524	0 %	7 888	5 %	**A**
DNB Bank ASA	16 577	6 %	5 436	3 %	**A+**
Credit Suisse AG	-	0 %	626	0 %	**A**
Money market funds:	**154 151**	**59 %**	**-**	**0 %**	
Nordea Likviditet III	154 151	59 %	-	0 %	
Total	**261 573**	**100 %**	**171 629**	**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)	2017		2016	
	Carrying amounts	Fair value	Carrying amounts	Fair value
Receivables	14 620	14 620	14 203	14 203
Cash and cash equivalents	261 573	261 573	171 629	171 629
Total financial assets	**276 193**	**276 193**	**185 833**	**185 833**
Interest-bearing borrowings	48 806	48 806	39 714	39 714
Accounts payable and other current liabilities	7 601	7 601	4 681	4 681
Accrued public charges	3 018	3 018	3 348	3 348
Other short-term liabilities	17 676	17 676	21 155	21 155
Total financial liabilities	**77 100**	**77 100**	**68 899**	**68 899**

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	-	-	48 806	48 806
Total financial instruments at fair value	**-**	**-**	**48 806**	**48 806**

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 2017, and related to planned activities in the next 12 months. Hence, the Group is funded into 2019, and will need new funding for the next phases of the development program and subsequent clinical trials. All liabilities at year-end, other than the debt to Tekes, are short-term and fall due within one year of the reporting date, their carrying value approximates their fair value.

The following tables analyses the Group's current and non-current financial liabilities, at 31 December 2017 and 2016 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 2017 (Amounts in NOK thousands)	On demand	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest-bearing borrowings[1]	-	225	397	46 992	17 406	**65 020**
Accounts payable and other current liabilities	-	7 601	-	-	-	**7 601**
Accrued public charges	-	3 018	-	-	-	**3 018**
Other short-term liabilities	-	17 676	-	-	-	**17 676**
Total	**-**	**28 519**	**397**	**46 992**	**17 406**	**93 314**

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[1]	-	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**
Total	**-**	**29 392**	**337**	**38 525**	**17 865**	**86 119**

[1] Interest-bearing borrowings comprise loans from Tekes, and includes future interest payments

6. 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)	2017	2016
Other revenue	37	37
Total operating revenue	**37**	**37**

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 2017 and 2016 arises from sale of assets and assets letting out on hire.

7. Research and development expenses

Expenditure on research and development activities is recognized as an expense in the period in which it is incurred. Internal and external research and development costs related to the Group's development of new 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 results from ongoing clinical trials generally indicate that the criteria for asset recognition is not met until the time when the marketing authorization is obtained from regulatory authorities. This assessment requires significant management discretion and estimations.

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

(Amounts in NOK thousands)	2017		2016	
	Total	of which R&D	Total	of which R&D
External R&D expenses	45 571	45 571	45 001	45 001
Payroll and related expenses	48 278	30 045	49 235	24 449
Other operating expenses	26 114	1 217	25 311	970
Total	**119 963**	**76 833**	**119 548**	**70 420**

The following external research and development expenditures have been expensed:

(Amounts in NOK thousands)	2017	2016
R&D related consultancy and other expenses	31 098	38 406
Cost of manufacturing for R&D	16 054	9 749
Patent expenses	2 806	2 913
Government grants	-4 387	-6 068
Total external research and development expenses	**45 571**	**45 001**

8. 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)	2017	2016
External R&D expenses	4 387	6 068
Payroll and related expenses	1 261	1 640
Other operating expenses	124	67
Total	**5 772**	**7 774**

For the full year 2017 the Group has, for SkatteFUNN projects, recognized NOK 4 955 248 (NOK 4 936 071 in 2016) as cost reduction in External R&D expenses, Payroll and related expenses and Other Operating expenses.

The Group has not been awarded grants from The Research Council (program for user-managed innovation arena, BIA) for 2017, hence no recognized cost reduction in 2017 (NOK 2 059 000 in 2016). For the period 2013 through 2016, the Group was awarded a BIA grant of NOK 12 361 000 in total.

NOK 870 906 (NOK 421 195 in 2016) has been recognized as a government grant in relation to an additional loan approval of EUR 327 307 (EUR 146 981 in 2016) to one of the existing TEKES loans during 2017. See note 21 for information about Tekes loans.

NOK 54 649 was expensed related to the final disbursement for the EU project "ADVance" during 2017. NOK 358 155 was recognized as cost reduction in Payroll and related expenses during 2016.

Specification of grants receivables:

(Amounts in NOK thousands)	2017	2016
Grants from SkatteFUNN	4 995	4 936
Grants from Research Counsil (BIA)	-	686
Grants from ADVance	-	358
Total grants receivable	**4 995**	**5 981**

9. 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 10.

Total payroll and related expenses for the Group are:

(Amounts in NOK thousands)	2017	2016
Salaries and bonus	30 043	33 659
Employer's national insurance contributions	4 277	3 640
Share-based compensation [1)]	12 220	10 098
Pension expenses – defined contribution plan	1 982	2 394
Other	1 016	1 084
Governmental grants	-1 261	-1 640
Total payroll and related expenses	**48 278**	**49 235**
1) Share-based compensation has no cash effect.		
Number of employees calculated on a full-time basis as at end of period	26,7	26,2
Number of employees as at end of period	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.

10.Related parties and Management

Targovax Compensation Report

This report describes the compensation programs for Targovax. It is intended to describe programs for senior executives and to explain how they were compensated in 2017 and will be in 2018. See Note 10 and 11 for accounting principles 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 2017. We encourage all shareholders to read the entire Compensation Report before attending the Annual General meeting in April 2018.

2017 was a successful year for Targovax in many ways. Targovax listed its shares on the main board of the Oslo Stock Exchange and the shares were included in the most important index, the OSEBX. Targovax also conducted a successful fund raising, raising NOK 206 million and thereby financing

important readouts in its clinical trials – of which three new ones were started during 2017. Even more importantly, one of Targovax's ongoing clinical trials, the phase II trial of TG01 in resected pancreatic cancer, has started to generate important clinical data. These data resulted in much enthusiasm among opinion leaders and stakeholders and led to posters at the two prestigious cancer conferences ASCO and ESMO. In addition, Targovax was granted a US patent for the therapeutic use of the TG products in combination with chemotherapy as well as a US patent for the second generation product from the TG platform, TG02.

In the near future we are looking forward to report several data points from our broad range of ongoing clinical trials. The outcomes of these trials all represent important steps in our goal of delivering value to Targovax's shareholders.

Targovax is a clinical stage company with a broad pipeline of opportunities in immuno-oncology. In order to implement our strategy and build shareholder value Targovax needs to be able to attract and retain experienced and qualified key individuals. The total compensation philosophy reflects this in that equity incentives play an important role in compensating, motivating, and retaining the work force. Moreover, the Compensation Committee believes that it is essential that a substantial part of management's compensation is aligned with the interests of Targovax's shareholders. The equity incentive is an important motivator of Targovax's organization, in particular key employees, to deliver the milestones that will advance Targovax and underpin long-term value creation. Needless to say, in order to make this journey successful, Targovax needs to be able 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. This has involved discussing and giving feedback to the essential tactics necessary to fulfil the needs of the company. Long-term incentives have been the most critical approach to ensure a successful compensation policy. The Compensation Committee believes that the suggested compensation policy will support and fulfil the essential needs of sustainable engagement and long-term value creation.

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

Per Samuelson, Robert Burns and Patrick Vink

Targovax Compensation Committee, 14 March 2018

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 Compensation 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 other key employees. Targovax's 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.

Compensation Committee activity

The CEO attended selected meetings of the Compensation Committee, 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
- Obtained a benchmark analysis, from Radford, of the compensation levels and structure for each member of the management team
- 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 fulfilment of objectives for 2017 and on cash bonuses for the management team
- Recommendation on the grant of employee share options
- Recommendation on corporate objectives for 2018

Section 3 – Overview of the compensation policy

The compensation policy

The compensation policy applied in 2017 and 2018 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 performance and 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. Compensation practices will remain flexible enough to evolve as the business priorities of Targovax change.
Shareholder alignment	Compensation programs will align the interests of all employees in driving long-term value creation for our shareholders. Targovax will share the success of the company wherever possible with its employees.

Element	Applied in 2017	Proposed for 2018
Base salary	✔	✔
Short term incentive for top executives: Annual cash bonus	✔	✔
Short term incentive for all employees: 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 the compensation offered to our employees is described below, this shows the policy applied for 2017 and 2018.

Compensation benchmark

During 2017 the committee has been advised by Radford, part of the Aon plc group, regarding compensation levels and structure for the members of the management team. Radford has provided the committee with a review of compensation practises for a selection of companies comparable to Targovax's.

The committee requested Radford to develop a comparative group of peer companies and to perform analyses of competitive performance and compensation levels for that group. In order to reflect Targovax's international business the committee has selected to use a peer group consisting of European-based companies as well as a peer group consisting of Norwegian-based companies. The constituents of the comparator groups are predominantly companies in mid-stage drug development phase. The size and scope of these comparators are, on average, comparable with Targovax when it comes to e.g. organisation and market capitalisation.

The constituents of the European peer group are:

4SC AG
Adocia SA
Affimed N.V.
BioInvent International AB
Erytech Pharma SA
Faron Pharmaceuticals Oy
Kiadis Pharma N.V.
MediGene AG
Mologen AG
Nanobiotix SA
Oncopeptides AB
Poxel SA
Probiodrug AG
ReNeuron Group plc
Saniona AB
Scancell Holdings plc
Silence Therapeutics plc
Transgene SA

Some of the characteristics of the group of peer companies can be summarised in the following table:

Comparative factor	Minimum	Maximum	Median
Number of employees	9	160	52
Market capitalization, EURm	47	299	138

Source: Radford

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/employee bonuses are based on the achievement of the corporate objectives as well as individual objectives.

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

The Corporate Objectives for 2017 and 2018 are focusing on the following key priorities: a) development and execution of clinical plans, b) fund raising, c) CMC development and d) business development.

Target bonus percentages	2017 (% of base salary)	2018 (% of base salary)
Øystein Soug (Chief Executive Officer)	25%	35%
Magnus Jäderberg (Chief Medical Officer)	30%	30%
Michael Bogenstätter (Chief Business Officer)		30%
All other Executives		**20%**

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 performance measurement.

Starting in 2018, Targovax is implementing a bonus system covering all employees who are not part of the management team. The criteria are the same as for the management team.

With respect to performance in 2017, the following bonuses will be paid in 2018:

Bonus pay-outs	2017 (% of target bonus)
Øystein Soug (CEO)	76%
Magnus Jäderberg (CMO)	84%

Long-term incentives

The Committee's proposal for 2018 long-term incentives and the policy applied in 2017 are described below.

Long term incentives proposal for 2018

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 Compensation Committee.

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

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 2017

In 2017, 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 2017, 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 800 000. 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 2017, 3 466 634 share options were outstanding, of which 1 330 541 were vested and exercisable at year-end 2017. Current Management Team members held 2 196 000 share options. 911 000 Options were held by other employees and the remaining 359 634 by board members, previous employees, previous Oncos board members, consultants, and inventors.

By the end of 2017, 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) and Magnus Jäderberg (CMO) are entitled to severance pay equal to 12 months' salary in the event of termination of 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 2017

The Board of Directors complies with the decision made at Targovax ASA's Ordinary General Meeting on 5 April 2017 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 2017 were identical to the principles listed above.

Section 5 – Compensation tables for 2017 and 2016

Remunerations and other benefits in 2017:

(Amounts in NOK thousands)	Fixed annual salary as at 31 Dec. 2017	Earned salaries in 2017	Bonus earned in 2016, paid in 2017	Pension expenses in 2017	Benefits in kind in 2017	Exercise of share options/ RSUs	Total remuneration in 2017
Board of Directors of Targovax ASA:							
Jónas Einarsson, Board member [1]		350					350
Bente-Lill Bjerkelund Romøren, Board member		133					133
Johan Christenson, Board member		200					200
Lars Lund Roland, Board member						439	439
Per Samuelsson, Board member		200					200
Robert Burns, Board member						774	774
Eva-Lotta Coulter, Board member		133					133
Diane Mellett, Board member							-
Total Board of Directors [2]	**-**	**1 017**	**-**	**-**	**-**	**1 213**	**2 230**
Management Team:							
Magnus Jäderberg, Chief Medical Officer [3]	2 929	2 357	562	-	556	-	3 475
Øystein Soug, Chief Executive Officer	2 500	2 420	309	68	8	-	2 805
Berit Iversen, VP CMC	1 192	1 158		62	7	331	1 558
Anne Kirsti Aksnes, VP Clinical Development	1 304	1 295		69	7	-	1 370
Tina Madsen, VP Quality Assurance	1 064	1 071		63	8	-	1 141
Peter Skorpil, VP Business Development	994	1 000		57	9	-	1 066
Erik Digman Wiklund, Chief Financial Officer	1 350	883		52	7		941
Total Management Team [4] [5]	**11 334**	**10 183**	**871**	**372**	**602**	**331**	**12 358**
Total	**11 334**	**11 199**	**871**	**372**	**602**	**1 544**	**14 588**

1) Jonas Einarsson resigned as Chairperson 30 November 2017.
2) The Board members may choose to receive their Board fee either in RSUs or in cash. Please see the table for holding of RSUs for further details on the Board related remuneration.
3) Fixed annual salary is the annual salary in GBP multiplied by the average exchange rate throughout the year.
4) Tiina Hakonen resigned from her position as Site Manager Helsinki on 31 July 2017. During 2017 her remuneration consists of TNOK 615 in salary, TNOK 117 in pension and TNOK 1 in benefits in kind.
5) Jon Amund Eriksen resigned from his position as Chief Technology Innovation Officer and member of the Management Team at 31.12.2017. His role is now Special Advisor of the Group. During 2017 his remuneration consists of TNOK 1 586 in salary, TNOK 69 in pension and TNOK 203 in benefits in kind.

All amounts in the tables exclude National Insurance Contribution.

In 2017, the annual general meeting of the Company resolved that all current board members shall receive NOK 240 000 and the Chairperson of the Board NOK 450 000 for the period from the annual general meeting in 2017 and until the annual general meeting in 2018. If the current board members have served for a shorter period than since the annual general meeting in 2018, 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 remuneration in cash shall be payable immediately after the annual general meeting in 2018.

As at 31 December 2017 NOK 1.0 million, excluding National Insurance Contribution, was recognized as expense in provision for Board remunerations to be paid in cash. NOK 0.7 million for the period April 2017 to December 2017 and NOK 0.3 million was recognized as expense for Board remuneration for the period between AGM 2016 to AGM 2017 and paid in May 2017. NOK 0.2 million was recognized as expense for Board remunerations in RSUs for the period April 2016-April 2017 and NOK 0.7 million for the period April 2017 to December 2017.

The Group has recognized as expense NOK 1.3 million, excluding National Insurance Contribution, in provision for bonuses to Management Team for 2017.

The Group has recognized as expense NOK 7.8 million in share-based compensation to the Management Team at 31 December 2017. There are no outstanding loans or guarantees made to the Board of Directors or the Management Team at 31 December 2017.

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 in 2016	Benefits in kind in 2016	Exercise of share options and RSUs	Total remuneration in 2016
Board of Directors of Targovax ASA:							
Bente-Lill Bjerkelund Romøren, Board member [1]		133					133
Lars Lund Roland, Board member [1]		108					108
Total Board of Directors [1]	**-**	**241**	**-**	**-**	**-**	**-**	**241**
Management Team:							
Magnus Jäderberg, Chief Medical Officer [2]	2 296	2 218	705		578	-	3 501
Øystein Soug, Chief Executive Officer [3]	2 400	1 597	181	64	9	-	1 851
Jon Amund Eriksen, Chief Technology Innovation Officer	1 489	1 509		64	206	-	1 779
Anne Kirsti Aksnes, VP Clinical Development	1 270	1 114	77	61	7	-	1 260
Tina Madsen, VP Quality Assurance	1 036	1 032	75	58	8	-	1 173
Berit Iversen, VP CMC	1 036	1 032	72	58	7		1 170
Peter Skorpil, VP Business Development	968	935	70	52	9	-	1 067
Tiina Hakonen, Site Manager Helsinki	822	759	48	170	2		980
Total Management Team [4, 5]	**11 317**	**10 196**	**1 229**	**528**	**827**	**-**	**12 781**
Total	**11 317**	**10 437**	**1 229**	**528**	**827**	**-**	**13 022**

1) The Board members may choose to receive their Board fee either in RSUs or in cash. Please see the table for holding of RSUs for further details on the Board related remuneration.
2) Fixed annual salary is the annual salary in GBP multiplied by the average exchange rate throughout the year.
3) Øystein Soug was appointed CEO of the Group on 1 November 2016 and was before that CFO of the Group.
4) 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.
5) 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.

There are no outstanding loans or guarantees made to the Board of Directors or the Management Team at 31 December 2016.

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 (Chairperson), 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 Chairperson 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 (Chairperson), 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.

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 RSUs 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 Team have exercised options for shares in 2016.

The Group has recognized as expense NOK 7.3 million in share-based compensation to the Management Team at 31 December 2016. There are no outstanding loans or guarantees made to the Board of Directors or the Management Team at 31 December 2016.

The Nominations Committee is reviewing the compensation for 2018-2019. The fees are decided by the Annual General Meeting.

Holding of shares, options for shares and RSUs, including those of close associates, as at 31 December 2017:

(Amounts in NOK thousands)	Holding of shares as at 31 Dec. 2017	% ownership 31 Dec. 2017	Exercised options 2017	Granted options 2017	Holding of options as at 31 Dec. 2017	Exercised RSU's 2017	Granted RSU's 2017 [4]	Holding of RSU's as at 31 Dec. 2017
Board of Directors of Targovax ASA:								-
Diane Mellett, Board member					-		10 051	44 149
Eva-Lotta Coulter, Board member					-		10 051	33 220
Bente-Lill Bjerkelund Romøren, Board member					-		3 350	14 279
Patrick Vink, Chairperson							11 131	11 131
Robert Burns, Board member	64 928	0.12 %			21 235	-40 984	10 051	10 051
Jónas Einarsson, Board member [1]					-			-
Johan Christenson, Board member [2]					-			-
Per Samuelsson, Board member [2]					-			-
Total Board of Directors	**64 928**	**0.12 %**	**-**	**-**	**21 235**	**-40 984**	**44 634**	**112 830**
Management:								
Øystein Soug, Chief Executive Officer [3]	109 598	0.21 %		250 000	790 000			
Magnus Jäderberg, Chief Medical Officer	20 000	0.04 %		150 000	660 000			
Anne Kirsti Aksnes, VP Clinical Development	12 000	0.02 %		130 000	283 000			
Erik Digman Wiklund, CFO	-	0.00 %		150 000	150 000			
Berit Iversen, VP CMC	20 087	0.04 %	-25 000	70 000	135 000			
Tina Madsen, VP Quality Assurance	6 300	0.01 %		50 000	103 000			
Peter Skorpil, VP Business Development	10 000	0.02 %		30 000	75 000			
Total Management	**177 985**	**0.34 %**	**-25 000**	**830 000**	**2 196 000**	**-**	**-**	**-**
Total	**242 913**	**0.46 %**	**-25 000**	**830 000**	**2 217 235**	**-**	**44 634**	**112 830**

1) Jónas Einarsson, Member of the Board of Directors, is CEO of the Radium Hospital Research Foundation which owns 4 427 255 shares at 31.12.2017

2) Johan Christenson and Per Samuelsson, both Member of the Board, are partners at HealthCap, HealthCap owns 12 405 584 shares at 31.12.2017

3) The shares are held through Abakus Invest AS

4) Granted RSUs 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 RSUs.

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

(Amounts in NOK thousands)	Holding of shares as at 31 Dec. 2016	% ownership 31 Dec. 2016	Granted options 2016	Holding of options as at 31 Dec. 2016	Granted RSUs 2016 [5]	Holding of RSUs as at 31 Dec. 2016
Board of Directors of Targovax ASA:						
Robert Burns, Board member	34 063	0.08 %		21 235	40 984	40 984
Diane Mellett, Board member				-	34 098	34 098
Eva-Lotta Coulter, Board member				-	23 169	23 169
Lars Lund Roland, Board member				-	20 811	20 811
Bente-Lill Bjerkelund Romøren, Board member				-	10 929	10 929
Jónas Einarsson, Chairperson [1]				-		-
Johan Christenson, Board member [2]				-		-
Per Samuelsson, Board member [2]				-		-
Total Board of Directors	**34 063**	**0.08 %**	**-**	**21 235**	**129 991**	**129 991**
Management:						
Øystein Soug, Chief Executive Officer [3]	100 000	0.24 %	150 000	540 000		
Magnus Jäderberg, Chief Medical Officer	20 000	0.05 %	120 000	510 000		
Jon Amund Eriksen, Chief Technology Innovation Officer [4]	728 601	1.73 %	-	160 000		
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		
Tina Madsen, VP Quality Assurance	6 300	0.01 %	-	53 000		
Peter Skorpil, VP Business Development	10 000	0.02 %	-	45 000		
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 %**	**410 000**	**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 RSUs 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 RSUs. Jónas Einarsson, Per Samuelsson, and Johan Christenson decided to waive the remuneration fee for the period between AGM 2015 to 2016.

Total outstanding options for shares by range of exercise price at 31 December 2017:

Exercise price in NOK	9.30	12.39	21.16	21.50	21.96	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				250 000	390 000		790 000
Magnus Jäderberg, Chief Medical Officer		120 000			150 000	390 000		660 000
Anne Kirsti Aksnes, VP Clinical Development		100 000		53 000	130 000			283 000
Erik Digman Wiklund			150 000					150 000
Berit Iversen, VP CMC		20 000			70 000	45 000		135 000
Tina Madsen, VP Quality Assurance				53 000	50 000			103 000
Peter Skorpil, VP Business Development					30 000	45 000		75 000
Total Management	**150 000**	**240 000**		**106 000**	**680 000**	**870 000**	-	**2 196 000**
Total	**150 000**	**240 000**		**106 000**	**680 000**	**870 000**	**21 235**	**2 217 235**

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
Magnus Jäderberg, Chief Medical Officer			120 000		390 000		510 000
Jon Amund Eriksen, Chief Technology Innovation Officer					160 000		160 000
Anne Kirsti Aksnes, VP Clinical Development			100 000	53 000			153 000
Berit Iversen, VP CMC	25 000		20 000		45 000		90 000
Tina Madsen, VP Quality Assurance				53 000			53 000
Peter Skorpil, VP Business Development					45 000		45 000
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**

Related party transactions:

(Amounts in NOK thousands)	2017		2016	
	Expensed	Payable at 31 December	Expensed	Payable at 31 December
Knudtzon	-	-	196	-

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)	2017	2016
Statutory audit	349	494
Other attestation services	50	232
Tax services	226	401
Other services	124	82
Total	**749**	**1 208**

11.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

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.

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 by up to 10% of the Share capital. A renewed authorization was given at the Ordinary general meeting in April 2017.

The Company has granted share options under its long-term incentive program (the "LTI Option Program"). The Option Program applies to the Management Team 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").

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.

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

There were granted 1 277 000 share options during 2017 and 655 000 share options during 2016.

As of 31 December 2017, there are in total 3 466 634 outstanding options for all option programs, 3 376 226 options under the LTI Option Program and 90 408 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 2017 is estimated at average of 78,39 %%, based on the volatility of comparable listed companies. The volume weighted average interest rate applied to the share options grants in 2017 is 0,8400 %

The following table shows the changes in outstanding options in 2017 and 2016:

	2017		2016	
	No. of options	Weighted avg. excercise price (in NOK)	No. of options	Weighted avg. excercise price (in NOK)
Outstanding at 1 January	2 513 170	20.93	2 545 889	23.25
Granted during the period	1 277 000	21.53	655 000	11.82
Exercised during the period	-34 004	5.65	-78 358	4.97
Forfeited	-75 000	20.42	-601 927	22.90
Expired	-214 532	25.00	-7 434	25.00
Outstanding no. of options at end of period	**3 466 634**	**21.06**	**2 513 170**	**20.93**

1) See Note 10 Related parties and Management for further information on granted share options to Management Team.

The average fair value of options granted in 2017 was 11.58 per share and 7.03 per share in 2016. The weighted- average assumptions used to determine the Black Scholes fair value of options granted in 2017 and 2016 were:

	2017	2016
Volatility (%)	78.39	89.56
Expected life (in years)	3.65	3.66
Risk-free interest rate (%)	0.84	0.89
Share price (NOK)	21.32	11.65
Exercise price (NOK)	21.53	24.09

The expensed share options, NOK 11.3 million in 2017 and 8.7 million in 2016, includes management estimate for employee turnover. The estimated turnover rate used for the year 2017 and 2016 was 0%.

At 31 December 2017, the range of exercise prices and weighted average remaining contractual life of the options were as follows:

	Outstanding Options				Vested outstanding		
Exercise price	Outstanding Options Per 12/31/2017	Weighted Average Remaining Contractual Life	Weighted Average Remaining Years Until Vesting	Weighted Average Exercise Price	Vested outstanding per 12/31/2017	Weighted Average Exercise Price	Weighted Average Remaining Life Vested
0.00-0.51	64 872	4.50	3.47	0.51	14 833	0.51	4.50
0.51-7.50	-	0.00	0.00	0.00	-	0.00	0.00
7.50-15.04	612 000	5.86	1.06	11.47	161 071	11.48	5.82
15.04-21.50	502 250	3.88	0.54	21.14	275 334	21.28	2.33
21.50-25.00	2 176 498	4.91	0.80	23.55	778 289	25.00	3.52
25.00-37.60	111 014	4.44	0.14	36.58	101 014	37.60	4.25
37.60-	-	0.00	0.00	0.00	-	0.00	0.00
Total	**3 466 634**	**4.91**	**0.83**	**21.06**	**1 330 541**	**23.28**	**3.62**

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

	Outstanding Options				Vested outstanding		
Exercise price	Outstanding Options Per 12/31/2016	Weighted Average Remaining Contractual Life	Weighted Average Remaining Years Until Vesting	Weighted Average Exercise Price	Vested outstanding per 12/31/2016	Weighted Average Exercise Price	Weighted Average Remaining Life Vested
0.00-0.51	73 876	5.50	3.73	0.51	23 837	0.51	5.50
0.51-7.50	25 000	0.85	0.00	7.50	25 000	7.50	0.85
7.50-15.04	595 000	6.87	2.02	11.62	5 000	15.04	5.92
15.04-21.50	337 250	3.68	0.37	21.13	219 261	21.50	2.85
21.50-25.00	1 381 030	3.97	0.56	25.00	733 116	25.00	3.11
25.00-37.60	101 014	5.25	0.01	37.60	97 689	37.60	5.29
Total	**2 513 170**	**4.68**	**0.95**	**20.93**	**1 103 903**	**24.45**	**3.26**

During the first two months of 2017, additional 1,200,500 share options were granted to Management Team and other employees, see Note 23 Subsequent events.

Restricted Stock Units

The Annual General Meeting 5 April 2017 decided to remunerate the Board of Directors for the period between the AGM 2017 to the AGM 2018 with a combination of cash and Restricted Stock Units (RSUs), hence at the 5 April 2017, an additional 43 554 RSUs were granted to the Board of Directors. When the RSUs have vested, the participant must during the following three-year period select when to take delivery of the shares. At 30 November 2017 additional 11 131 RSUs were granted to the elected Chairperson of the Board at 30 November 2017. The expensed RSUs in full year 2017 was NOK 0.9 million. A total of 119 411 RSUs was outstanding at 31 December 2017, of which 112 830 RSUs were outstanding to the Board of Directors of the Group at 31 December 2017.

The Board of directors may choose to receive their remuneration, or parts thereof, in the form of 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 the volume weighted average share price the 10 trading days prior to the grant date, NOK 23.88 for the grant at 5 April 2017 and NOK 14.62 for the grant at 30 November to the new Chairperson of the Board. The RSUs will be non-transferrable and each RSU will give the right and obligation to acquire shares in Targovax ASA (at nominal value) subject to satisfaction of the applicable vesting conditions.

If the Board members choose to receive the Board remuneration in RSUs they 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 the period 2017-2018 have been set out in the minutes from the Annual General Meeting 5 April 2017.

The following table shows the changes in outstanding RSUs in 2017 and 2016:

	2017		2016	
	No. of RSU's	Weighted avg. excercise price (in NOK)	No. of RSU's	Weighted avg. excercise price (in NOK)
Outstanding at 1 January	129 991	0.10	-	-
Granted during the period	54 685	0.10	129 991	0.10
Exercised during the period	-61 795	0.10	-	-
Forfeited	-3 470	0.10	-	-
Expired	-	-	-	-
Outstanding no. of Restricted Stock Units at end of period	**119 411**	**0.10**	**129 991**	**0.10**

From 1 January 2018 to 14 March 2018 no RSUs have been granted to Board of Directors.

12.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)	2017	2016
Consultancy, advisors' expenses and IR	12 652	12 425
Travel expenses	4 154	3 996
Facilities expenses	4 433	4 342
IT services and IT-related accessories	1 537	1 630
Conferences and training	805	936
Other	2 361	1 765
Depreciation	296	284
Government Grants	-124	-67
Total operating expenses	**26 114**	**25 311**

13.Financial items

Finance income consists of interest income and foreign exchange gain. Finance 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.

Finance income and expense

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

Finance income is:

(Amounts in NOK thousands)	2017	2016
Interest income on bank deposit	202	519
Interest income on Money Market fund, Nordea Likviditet III	1 151	-
Interest income on tax repaid	14	15
Net currency gain - bank and other operating items	93	-
Other finance income	194	-
Total finance income	**1 654**	**533**

Finance expense is:

(Amounts in NOK thousands)	2017	2016
Interest expense - Tekes Loan	588	604
Amortized interest costs - Tekes loan	3 320	2 845
Other interest expense	83	21
Net currency loss - bank and other operating items	-	263
Other finance expense	11	2
Total finance expense	**4 001**	**3 736**

Financial assets

Currently, all the Group's financial assets are categorized as receivables. The Group have TNOK 14 in trade receivables as at 31 December 2017 and 7 in 2016. At 31 December 2017 and 2016 the receivables mainly consist of grants receivables, prepayments and receivables related to VAT. The Group has currently not recognized any non-current financial assets.

14.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 270 million at 31 December 2017 (31 December 2016: NOK 197 million).

Accumulated tax losses from Targovax OY's operations amounts to EUR 23.8 million as of 31 December 2017 and EUR 18.4 million as of 31 December 2016. With a current tax rate in Finland of 20%, the corresponding deferred tax asset is EUR 4.8 million as at 31 December 2017 and EUR 3.7 million as at 31 December 2016. 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. Targovax OY 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, per 31 December 2017 of NOK 59 million and per 31 December 2016 of NOK 55 million.

(Amounts in NOK thousands)	2017	2016
Deferred tax liability 31.12	**59 350**	**55 278**

The tax effects of temporary differences and tax losses carried forward at 31 December are as follows:

(Amounts in NOK thousands)	2017	2016
Intangible and fixed assets	290 541	268 303
Borrowings	13 351	14 706
Other current liabilities	-	-
Share options and RSUs	-468	-207
Financial instruments	49	-
Tax loss carried forward	-504 470	-364 864
Temporary differences and tax losses carried forward at 31.12	-200 998	-82 062
Deferred tax asset (23%/20%) not recognized	**107 713**	**79 318**
Deferred tax asset 31.12.	**-**	**-**

(Amounts in NOK thousands)	2017	2016
Statutory income tax rate	**20% / 24%**	**20% / 25%**
Tax effect of income / loss (-)	-26 947	-28 219
Tax effect permanent differences	-519	-773
Other	-3 319	2 537
Tax effect of change in tax rates	2 718	1 820
Change in deferred tax asset not recognized	28 396	24 894
Tax income / expense (-)	**328**	**260**

15.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. Amortization on items of Intangible assets will be amortized 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.

Intangible assets consist of:

- Patents and license fees with estimated useful live of 10 years
- Capitalized value related to the acquisition of Oncos Therapeutics OY, not subject to amortization before market authorization is obtained

(Amounts in NOK thousands)	Patents and license fees	Oncos Therapeutics OY acquisition	Total
Cost:			
2016			
Opening balance	284	357 966	358 250
Additions	-	-	-
Exchange differences	-5	-19 824	-19 830
At 31 December 2016	279	338 141	338 420
2017			
Opening balance	279	338 141	338 420
Additions	-	-	-
Exchange differences	4	28 060	28 064
At 31 December 2017	283	366 201	366 484
Accumulated depreciation and impairment:			
2016			
Opening balance	180	-	180
Depreciation charge	27	-	27
At 31 December 2016	207	-	207
2017			
Opening balance	207	-	207
Depreciation charge	27	-	27
At 31 December 2017	235	-	235
Carrying amount:			
At 31 December 2016	**72**	**338 141**	**338 213**
At 31 December 2017	**48**	**366 201**	**366 250**

As of 31 December 2017, the recognized intangible assets in the Group amounts to NOK 366m. This is an increase from NOK 338 as of 31 December 2016, mainly due to NOK/EUR foreign exchange fluctuations. The main part of the intangible assets is 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	-58 MNOK / +66 MNOK
Royalty	+/- 1% point	+30 MNOK / -30 MNOK
Likelihood of approval	+/- 1% point	+57 MNOK / -57 MNOK

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

16.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.

As part of Targovax OY's lease of offices in Finland, the landlord agreed to finance the construction works and machinery and equipment purchases made by Targovax OY 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:		
2016		
Opening balance	1 735	1 735
Additions	37	37
Exchange differences	-96	-96
At 31 December 2016	1 676	1 676
2017		
Opening balance	1 676	1 676
Additions	56	56
Exchange differences	79	79
At 31 December 2017	1 810	1 810
Accumulated depreciation and impairment:		
2016		
Opening balance	119	119
Depreciation charge	257	257
At 31 December 2016	376	376
2017		
Opening balance	376	376
Depreciation and impairment charge	269	269
At 31 December 2017	646	646
Carrying amount:		
At 31 December 2016	**1 299**	**1 299**
At 31 December 2017	**1 165**	**1 165**

17.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 2017, expires on 31 December 2020. The agreement is non-cancellable until 31 December 2018 and expected minimum payment in 2018 is NOK 1.7 million (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 2017 is NOK 1.7 million and for 2016 it was NOK 1.6 million.

The Group also rents premises in Helsinki, Finland for office and laboratory purposes. The rent is approximately NOK 2.2 million (EUR 232 000) per annum (excl VAT). As part of the lease, the landlord agreed to finance the construction works and machinery and equipment purchases made by Targovax OY 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). Recognized lease expenses for 2017 is NOK 2.1 million and for 2016 it was NOK 2.1 million.

The future minimum rents related to non-cancellable leases for premises fall due as follows:

At 31 December 2017 (Amounts in NOK thousands)	Within 1 year	1 to 5 years	After 5 years	Total
Rental agreement for premises in Helsinki	2 280	3 800	-	**6 080**
Rental agreement for premises in Oslo	1 704		-	**1 704**
Total	**3 984**	**3 800**	**-**	**7 784**

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.

18.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)	2017	2016
Trade receivables	14	7
Receivable government grants	4 955	5 981
VAT receivable	204	1 753
Other prepayments	9 447	6 463
Total receivables	**14 620**	**14 203**

19.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 2017 the Group held both cash deposits and Money Market fund, at 31 December 2016 the Group only held cash deposits.

(Amounts in NOK thousands)	2017	2016
Bank deposits	107 422	171 629
Money Market fund, Nordea Likviditet III	154 151	-
Total cash and cash equivalents	**261 573**	**171 629**

Restricted cash specification:

(Amounts in NOK thousands)	2017	2016
Income tax withholding from employee compensation	2 356	2 055
Rent deposits [1]	3 467	3 311
Other [1]	247	228
Total restricted cash	**6 070**	**5 594**

1 Classified as Receivables.

20.Share capital and shareholder information

Targovax raised NOK 200 million in a private placement in second quarter 2017. The transaction was approved by the General Assembly on 30 June. Following the private placement, the company completed a subsequent offering, raising proceeds of NOK 6 million, through a share issue of 323 268 shares at NOK 20.00 per share.

Share capital as at 31 December 2017 is 5 260 986.7 (31 December 2016: 4 219 080) comprising 52 609 867 ordinary shares at nominal value NOK 0.10 (31 December 2016: 42 190 800 at NOK 0.10). All shares carry equal voting rights.

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

	2017	2016
Ordinary shares at beginning of period	42 190 800	26 883 808
Share issuance - private placement and repair offering	10 323 268	15 228 634
Share issuance, employee share options and RSUs	95 799	78 358
Ordinary shares at end of period	**52 609 867**	**42 190 800**

The 20 largest shareholders are as follows at 31 December 2017:

Shareholder	# shares	%
HealthCap	12 405 584	23.6 %
Radiumhospitalets Forskningsstiftelse	4 427 255	8.4 %
VPF Nordea Kapital	1 750 754	3.3 %
VPF Nordea Avkastning	1 556 582	3.0 %
Nordnet Livsforsikring AS	1 500 108	2.9 %
Verdipapirfondet KLP AksjeNorge	1 130 855	2.1 %
Thorendahl Invest AS	1 000 000	1.9 %
Nordnet Bank AB	871 209	1.7 %
Statoil Pensjon	855 171	1.6 %
Danske Bank AS	820 104	1.6 %
Kommunal Landspensjonskasse	802 252	1.5 %
Euroclear Bank S.A./N.V.	730 266	1.4 %
Timmuno AS	724 650	1.4 %
Prieta AS	720 000	1.4 %
Verdipapirfondet Nordea Norge Plus	712 903	1.4 %
Nordea 1 SICAV	656 600	1.2 %
Sundt AS	550 000	1.0 %
Lillesund	350 000	0.7 %
KLP AksjeNorge Indeks	347 833	0.7 %
Avanza Bank AB	305 717	0.6 %
20 largest shareholders	**32 217 843**	**61.2 %**
Other shareholders (4 061)	20 392 024	38.8 %
Total shareholders	**52 609 867**	**100.0 %**

The 20 largest shareholders are as follows 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 %**

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	2017	2016
Loss for the period	-121 945	-122 454
Average number of outstanding shares during the period	47 254	34 528
Earnings/ loss per share - basic and diluted	**-2.58**	**-3.55**

Share options and RSUs issued have a potential dilutive effect on earnings per share.

Share options and RSUs shall be treated as dilutive only 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. Hence, no dilutive effect has yet been recognized.

21.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 initially be 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, Targovax could only raise funds from the owners or/and from venture capitalists at 8% rate or from the Government at 1% rate. Targovax 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 a reduction of operating expenses in the statement of profit and loss in the period when it has been received.

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

The Group has received three R&D loans from Tekes, for the commercialization of ONCOS-102, under loan agreements dated September 2010, January 2012 and December 2013, respectively, in the total outstanding amount of EUR 6 316 600 as of 31 December 2017 (EUR 5 989 293 as of 31 December 2016). This includes an additional loan approval of EUR 327 307 (EUR 146 981 as of 31 December 2016) to one of the existing TEKES loans during 2017, hence a grant element of EUR 94 991 (NOK 870 906) was recognized in 2017, and EUR 46 355 (NOK 421 195) 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. Consequently, 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 3 320.0 has been recorded in the statement of profit and loss and other comprehensive income as at 31 December 2017, and TNOK 2 845.4 as at 31 December 2016.

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.

The table below shows a reconciliation of the opening balances for the liabilities arising from financing activities:

Changes in liabilities arising from financing activities (Amounts in NOK thousands)	Interest-bearing liabilities - TEKES loans
Interest-bearing liabilities 1 January 2017	39 714
Cash flow from financing activities	-
Exchange differences	4 181
Additions financial liabilities	2 992
Other transactions without cash settlement	1 919
Interest-bearing liabilities 31 December 2017	48 806

22.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)	2017	2016
Trade and other payables	7 601	4 681
Withholding taxes and social security payables	3 018	3 348
Accruals for expenses	17 676	21 155
Total current liabilities	**28 294**	**29 185**

23. Events after the reporting date

Establishment of new subsidiary in USA

At 1st January 2018 Targovax ASA established a 100% owned subsidiary in USA, Targovax Solutions LLC. The company has one employee, Michael Bogenstätter, appointed as CBO of Targovax.

Share based payments

On the basis of the approval by the Annual General Meeting on 5 April 2017 the Board has resolved to issue further new options to employees of the Company. From 1 January 2018 to 14 February 2018 a total of 1200 500 new share options were issued (see note 12). 890,000 options for shares of the Company were distributed amongst the members of the Management Team and a total of 310,500 options for shares of the Company were distributed amongst other employees.

The following table shows the changes in outstanding options at 14 February 2018 and 31 December 2017:

	1 Jan - 14 Feb 2018		2017	
	No. of options	Weighted avg. excercise price (in NOK)	No. of options	Weighted avg. excercise price (in NOK)
Outstanding at 1 January	3 466 634	21.06	2 513 170	20.93
Granted during the period	1 200 500	17.08	1 277 000	21.53
Exercised during the period	-	-	-34 004	5.65
Forfeited	-	-	-75 000	20.42
Expired	-	-	-214 532	25.00
Outstanding no. of options at end of period	**4 667 134**	**20.03**	**3 466 634**	**21.06**

The following table shows the changes in outstanding options for shares to Management Team of the Group at 14 February 2018:

Name	Position	Options		
		Outstanding 31.12.2017	Granted 01.01.2018-14.02.2018	Outstanding 14.02.2018
Key management:				
Øystein Soug	Chief Executive Officer	790 000	220 000	1 010 000
Magnus Jäderberg	Chief Medical Officer	660 000	100 000	760 000
Anne Kirsti Aksnes	VP, Clinical Development	283 000	70 000	353 000
Erik Digman Wiklund	Chief Financial Officer	150 000	150 000	300 000
Michael Bogenstätter [1)]	Chief Business Officer	-	230 000	230 000
Berit Iversen	VP, CMC	135 000	60 000	195 000
Tina Madsen	VP, Quality Assurance	103 000	60 000	163 000
Total option for shares to key management of Targovax ASA		**2 121 000**	**890 000**	**3 011 000**
Board of directors:			-	
Robert Burns	Board member	21 235	-	21 235
Total option for shares to the Board of Directors of Targovax ASA		**21 235**	**-**	**21 235**

Accounts and notes Targovax ASA

Statement of profit and loss - Targovax ASA

(Amounts in NOK thousands except per share data)	Note	2017	2016
Other revenues	6	10 416	9 356
Total revenue		**10 416**	**9 356**
External R&D expenses	7,8	-14 889	-22 653
Payroll and related expenses	8,9,10,11	-43 451	-41 931
Other operating expenses	8,12	-21 019	-18 902
Total operating expenses		**-79 359**	**-83 486**
Operating profit/ loss (-)		**-68 943**	**-74 130**
Finance income	13	1 653	532
Finance expense	13	-81	-157
Net finance income (expense)		**1 571**	**375**
Loss before income tax		**-67 372**	**-73 755**
Income tax expense	14		
Loss for the period		**-67 372**	**-73 755**
Earnings/ loss (-) per share			
Basic and dilutive earnings/ loss (-) per share	20	-1.43	-2.14

Statement of comprehensive income – Targovax ASA

(Amounts in NOK thousands except per share data)	2017	2016
Income / loss (-) for the period	-67 372	-73 755
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	**-67 372**	**-73 755**

Statement of financial position – Targovax ASA

(Amounts in NOK thousands)	Note	31.12.2017	31.12.2016
ASSETS			
Investments in subsidiaries	15	373 618	323 954
Property, plant, and equipment	16	167	238
Total non-current assets		**373 784**	**324 191**
Receivables	18	11 629	11 599
Cash and cash equivalents	19	244 477	157 683
Total current assets		**256 106**	**169 282**
TOTAL ASSETS		**629 890**	**493 473**
EQUITY AND LIABILITIES			
Shareholders equity			
Share capital	20	5 261	4 219
Share premium reserve		821 161	627 796
Other reserves		25 681	14 375
Retained earnings		-241 371	-173 999
Total equity		**610 732**	**472 391**
Current liabilities			
Accounts payable and other current liabilities	21	5 281	2 581
Accrued public charges	21	2 933	2 800
Other short-term liabilities	21	10 944	15 701
Total current liabilities		**19 158**	**21 082**
TOTAL EQUITY AND LIABILITIES		**629 890**	**493 473**

Oslo, 14 March 2018

The Board of directors of Targovax ASA

Patrick Vink Chairperson of the Board	Per Samuelsson Board member
Bente-Lill Romøren Board member	Jónas Einarsson 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 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	20	1 529	113 065			114 593
Transaction costs - Private Placement and repair offering			-7 753			-7 753
Share issuance, employee share options	20	2	-18	-		-16
Recognition of share-based payments	11			9 119		9 119
Balance at 31 December 2016		**4 219**	**627 796**	**14 375**	**-173 999**	**472 391**
Loss for the period					-67 372	-67 372
Other comprehensive income/loss, net of tax		-	-	-	-	-
Total comprehensive income for the period					**-67 372**	**-67 372**
Issue of ordinary shares - Capital increase - Private Placement and repair offering	20	1 032	205 433			206 465
Transaction costs - Private Placement and repair offering			-12 256			-12 256
Share issuance, employee share options	20	10	189	-	-	198
Recognition of share-based payments & RSU's	11	-		11 306	-	11 306
Balance at 31 December 2017		**5 261**	**821 161**	**25 681**	**-241 371**	**610 732**

Statement of cash flow – Targovax ASA

(Amounts in NOK thousands)	Note	2017	2016
Cash flow from operating activities			
Loss before income tax		-67 372	-73 755
Adjustments for:			
Finance income	13	*-1 653*	-532
Finance expense	13	81	157
Interest received	13	1 364	532
Other finance expense	13	-81	-157
Share option expense	11	11 306	9 119
Depreciation	12	71	68
Change in receivables	18	-30	-3 752
Change in other current liabilities	21	-1 635	4 167
Net cash flow from /(used in) operating activities		**-57 949**	**-64 154**
Cash flow from investing activities			
Purchases of property, plant, and equipment (PPE)	16	-	-37
Investment in subsidiary	15	-49 664	-50 819
Net cash received from/(paid in) investing activities		**-49 664**	**-50 857**
Cash flow from financing activities			
Share issue expense - Private Placement and repair offering	20	-12 256	-7 753
Proceeds from issuance of shares -Private Placement and repair offering	20	206 465	114 593
Proceeds from exercise of options	20	198	-16
Net cash generated from financing activities		**194 407**	**106 825**
Net increase/(decrease) in cash and cash equvivalents		**86 794**	**-8 186**
Cash and cash equivalents at beginning of period		**157 683**	**165 868**
Cash and cash equivalents at end of period		**244 477**	**157 683**

Notes to the financial statements – Targovax ASA

1. General information

The Company is a Norwegian public limited liability company and 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 14 March 2018, and are subject to approval by the Annual General Meeting in April 2018.

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 exchange rate at the date of the transaction. The date of a transaction is the date on which the transaction first qualifies for recognition in accordance with International Financial Reporting Standards.
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 2017 and earlier have been adopted for all periods presented in these financial statements. The amendments to IAS 7 Statement of Cash Flows require disclosure of changes in liabilities arising from financing activities.

2.3.2 Standards and interpretations in issue but not yet adopted

IFRS 9 Financial Instruments:
IFRS 9 is effective for annual periods beginning on or after January 1st, 2018, with early application permitted. The Company plans to adopt the new standard on the required effective date and will not restate comparative information. Adoption to the new standard does not have a significant impact on the financial statement of the Company.

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.

The standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the Company has non-cancellable operating lease commitments of NOK 1.7 million, see note 17.

IFRS 16 will not have a material effect on the Company's financial statements. However, the Company has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options.

At this stage, the Company does not intend to adopt the standard before its effective date. The Company intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

2.4 Going concern

As a result of the private placement and the subsequent offering in the third quarter 2017 and the current liquidity situation, Targovax's Directors expect that the Company has available financial resources sufficient for all planned activities, in the next twelve months as of 14 March 2018. 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 11 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 14 Taxes.

4. Segments

The Company's activities during 2017 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 is thus currently organized in one operating segment.

5. Financial instruments and risk management objectives and policies

The Company's financial assets and liabilities comprise cash at bank and cash equivalents, 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 at 31 December 2017 and 2016:

(Amounts in NOK thousands)	2017		2016	
	1% point increase	1% point decrease	1% point increase	1% point decrease
Loss before income tax effect	2 445	-2 445	1 577	-1 577

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 Company 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 2017 and 2016.

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

(Amounts in NOK thousands)	2017		2016	
	10% increase	10% decrease	10% increase	10% decrease
Loss before income tax effect	961	-961	2 747	-2 747

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

(Amounts in NOK thousands)	2017		2016	
	10% increase	10% decrease	10% increase	10% decrease
Loss before income tax effect	1 030	-1 030	1 623	-1 623

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

(Amounts in NOK thousands)	2017		2016	
	10% increase	10% decrease	10% increase	10% decrease
Loss before income tax effect	-168	168	-212	212

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

(Amounts in NOK thousands)	2017		2016	
	10% increase	10% decrease	10% increase	10% decrease
Loss before income tax effect	-79	79	-170	170

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)	2017		2016		Rating (S&P)
	Amount	In %	Amount	In %	
Cash at bank:	**90 326**	**37 %**	**157 683**	**100 %**	
Nordea Bank AB	90 321	37 %	157 679	100 %	**AA-**
DNB Bank ASA	5	0 %	3	0 %	**A+**
Money market funds:	**154 151**	**63 %**	**-**	**0 %**	
Nordea Likviditet III	154 151	63 %	-	0 %	
Total	**244 477**	**100 %**	**157 683**	**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)	2017		2016	
	Carrying amounts	Fair value	Carrying amounts	Fair value
Receivables	11 629	11 629	11 599	11 599
Cash and cash equivalents	244 477	244 477	157 683	157 683
Total financial assets	**256 106**	**256 106**	**169 282**	**169 282**
Accounts payable and other current liabilities	5 281	5 281	2 581	2 581
Accrued public charges	2 933	2 933	2 800	2 800
Other short-term liabilities	10 944	10 944	15 701	15 701
Total financial liabilities	**19 158**	**19 158**	**21 082**	**21 082**

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 2017, 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 into 2019, but will need new funding for the next phases of the development program and subsequent clinical trials.

The following tables analyses the Company's current and non-current financial liabilities, at 31 December 2017 and 2016 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 2017 (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	-	5 281	-	-	-	**5 281**
Accrued public charges	-	2 933	-	-	-	**2 933**
Other short-term liabilities	-	10 944	-	-	-	**10 944**
Total	**-**	**19 158**	**-**	**-**	**-**	**19 158**

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
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**
Total	**-**	**21 082**	**-**	**-**	**-**	**21 082**

6. 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)	2017	2016
Revenue from subsidiary	10 401	9 356
Other revenue	15	-
Total operating revenue	**10 416**	**9 356**

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

7. External research and development expenses

Expenditure on research and development activities is recognized as an expense in the period in which it is incurred. Internal and external research and development costs related to the Company's development of new 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 results from ongoing clinical trials generally indicate that the criteria for asset recognition is not met until the time when the marketing authorization is obtained from regulatory authorities. This assessment requires significant management discretion and estimations.

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

(Amounts in NOK thousands)	2017		2016	
	Total	of which R&D	Total	of which R&D
External R&D expenses	14 889	14 889	22 653	22 653
Payroll and related expenses	43 451	25 766	41 931	21 353
Other operating expenses	21 019	942	18 902	795
Total	**79 359**	**41 597**	**83 486**	**44 801**

The following external research and development expenditures have been expensed:

(Amounts in NOK thousands)	2017	2016
R&D related consultancy and other expenses	12 126	25 087
Cost of manufacturing for R&D	4 779	1 645
Patent expenses	1 500	1 567
Government grants	-3 516	-5 646
Total external research and development expenses	**14 889**	**22 653**

8. 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)	2017	2016
External R&D expenses	3 516	5 646
Payroll and related expenses	1 315	1 282
Other operating expenses	124	67
Total	**4 955**	**6 995**

For the full year 2017 the Company has, for Skattefunn projects, recognized NOK 4 955 248 (NOK 4 936 071) as cost reduction in External R&D expenses, Payroll and related expenses and Other Operating expenses.

The Company has not been awarded grants from The Research Council (program for user-managed innovation arena, BIA) for 2017, hence no recognized cost reduction in 2017 (NOK 2 059 000 in 2016). For the period 2013 through 2016, the Company was awarded a BIA grant of NOK 12 361 000 in total.

Specification of grants receivables:

(Amounts in NOK thousands)	2017	2016
Grants from SkatteFUNN	4 995	4 936
Grants from Research Counsil (BIA)	-	686
Total grants receivable	**4 995**	**5 622**

9. 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 applies 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 10.

Total payroll and related expenses for the Company are:

(Amounts in NOK thousands)	2017	2016
Salaries and bonus	26 334	26 832
Employer's national insurance contributions	4 286	3 497
Share-based compensation [1)]	11 306	9 119
Pension expenses – defined contribution plan	1 270	1 222
Other	1 515	2 542
Governmental grants	-1 261	-1 282
Total payroll and related expenses	**43 451**	**41 931**
1) Share-based compensation has no cash effect.		
Number of employees calculated on a full-time basis as at end of period	21,7	18,7
Number of employees as at end of period	22	19

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.

10. Related parties and Management

As the only difference between the Group and the Company concerning Management Team remunerations is that Tiina Hakonen, Site Manager Helsinki, was employed by Targovax ASA's subsidiary Targovax OY before she resigned at 31.07.2017 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 10 Related parties and Management in the Group's consolidated financial statements. See Note 10 and 11 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)	2017		2016	
	Revenue/(Expense)	Receivable / (Payable) at 31 December	Revenue/(Expense)	Receivable / (Payable) at 31 December
Knudtzon	-	-	-196	-
Subsidiaries:	-	-	-	-
– expense related to subsidiaries	-690	-	-1 908	-216
– receivables related to subsidiaries	-	3 309	-	3 250
– revenue related to subsidiaries	10 401	-	9 356	-

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 was entitled to a consultancy fee of NOK 73,500 per month.

Remuneration to the statutory auditor (excl. VAT):

(Amounts in NOK thousands)	2017	2016
Statutory audit	270	301
Other attestation services	50	213
Tax services	197	329
Other services	106	82
Total	**623**	**925**

11. 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

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.

At the Annual General Meeting in April 2016 the Board was authorized to increase the Company's share capital in connection with share incentive arrangements by up to 10% of the Share capital. A renewed authorization was given at the Ordinary general meeting in April 2017.

The Company has granted share options under its long-term incentive program (the "LTI Option Program"). The Option Program applies to the Management Team 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").

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.

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

There were granted 1,277,000 share options during 2017 and 655 000 share options during 2016.

As of 31 December 2017, there are in total 3 466 634 outstanding options for all option programs, 3 376 226 options under the LTI Option Program and 90 408 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 2017 is estimated at average of 78,39 %, based on the volatility of comparable listed companies. The volume weighted average interest rate applied to the share options grants in 2017 is 0,8400 %.

The following table shows the changes in outstanding options in 2017 and 2016:

	2017		2016	
	No. of options	Weighted avg. excercise price (in NOK)	No. of options	Weighted avg. excercise price (in NOK)
Outstanding at 1 January	2 513 170	20.93	2 545 889	23.25
Granted during the period	1 277 000	21.53	655 000	11.82
Exercised during the period	-34 004	5.65	-78 358	4.97
Forfeited	-75 000	20.42	-601 927	22.90
Expired	-214 532	25.00	-7 434	25.00
Outstanding no. of options at end of period	**3 466 634**	**21.06**	**2 513 170**	**20.93**

1) See Note 10 Related parties and Management for further information on granted share options to Management.

The average fair value of options granted in 2017 was 11.58 per share and 7.03 per share in 2016. The weighted- average assumptions used to determine the Black Scholes fair value of options granted in 2017 and 2016 were:

	2017	2016
Volatility (%)	78.39	89.56
Expected life (in years)	3.65	3.66
Risk-free interest rate (%)	0.84	0.89
Share price (NOK)	21.32	11.65
Exercise price (NOK)	21.53	24.09

The expensed share options, NOK 11.3 million in 2017 (Targovax ASA: NOK 10.4 million and Targovax OY: NOK 0.9 million) and NOK 8.7 million in 2016 (Targovax ASA: NOK 7.7 million and Targovax OY: NOK 1 million), includes management estimate for employee turnover. The estimated turnover rate used for the year 2017 and 2016 was 0%.

At 31 December 2017, the range of exercise prices and weighted average remaining contractual life of the options were as follows:

	Outstanding Options				Vested outstanding		
Exercise price	Outstanding Options per 12/31/2017	Weighted Average Remaining Contractual Life	Weighted Average Remaining Years Until Vesting	Weighted Average Exercise Price	Vested outstanding per 12/31/2017	Weighted Average Exercise Price	Weighted Average Remaining Life Vested
0.00-0.51	64 872	4.50	3.47	0.51	14 833	0.51	4.50
0.51-7.50	-	0.00	0.00	0.00	-	0.00	0.00
7.50-15.04	612 000	5.86	1.06	11.47	161 071	11.48	5.82
15.04-21.50	502 250	3.88	0.54	21.14	275 334	21.28	2.33
21.50-25.00	2 176 498	4.91	0.80	23.55	778 289	25.00	3.52
25.00-37.60	111 014	4.44	0.14	36.58	101 014	37.60	4.25
37.60-	-	0.00	0.00	0.00	-	0.00	0.00
Total	**3 466 634**	**4.91**	**0.83**	**21.06**	**1 330 541**	**23.28**	**3.62**

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

	Outstanding Options				Vested outstanding		
Exercise price	Outstanding Options Per 12/31/2016	Weighted Average Remaining Contractual Life	Weighted Average Remaining Years Until Vesting	Weighted Average Exercise Price	Vested outstanding per 12/31/2016	Weighted Average Exercise Price	Weighted Average Remaining Life Vested
0.00-0.51	73 876	5.50	3.73	0.51	23 837	0.51	5.50
0.51-7.50	25 000	0.85	0.00	7.50	25 000	7.50	0.85
7.50-15.04	595 000	6.87	2.02	11.62	5 000	15.04	5.92
15.04-21.50	337 250	3.68	0.37	21.13	219 261	21.50	2.85
21.50-25.00	1 381 030	3.97	0.56	25.00	733 116	25.00	3.11
25.00-37.60	101 014	5.25	0.01	37.60	97 689	37.60	5.29
Total	**2 513 170**	**4.68**	**0.95**	**20.93**	**1 103 903**	**24.45**	**3.26**

During the first two months of 2018, additional 1,200,500 share options were granted to Management Team and other employees, see Note 22 Subsequent events.

Restricted Stock Units

The Annual General Meeting 5 April 2017 decided to remunerate the Board of Directors for the period between the AGM 2017 to the AGM 2018 with a combination of cash and Restricted Stock Units (RSUs), hence at the 5 April 2017, an additional 43 554 RSUs were granted to the Board of Directors. When the RSUs have vested, the participant must during the following three-year period select when to take delivery of the shares. At 30 November 2017 additional 11 131 RSUs were granted to the elected Chairperson of the Board at 30 November 2017. The expensed RSUs in full year 2017 was NOK 0.9 million. A total of 119 411 RSUs was outstanding at 31 December 2017, of which 112 830 RSUs were outstanding to the Board of Directors of the Company at 31 December 2017.

The Board of Directors may choose to receive their remuneration, or parts thereof, in the form of 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 the volume weighted average share price the 10 trading days prior to the grant date, NOK 23.88 for the grant at 5 April 2017 and NOK 14.62 for the grant at 30 November to the new Chairperson of the Board. The RSUs will be non-transferrable and each RSU will give the right and obligation to acquire shares in Targovax ASA (at nominal value) subject to satisfaction of the applicable vesting conditions.

If the Board members choose to receive the Board remuneration in RSUs they 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 the period 2017-2018 have been set out in the minutes from the Annual General Meeting 5 April 2017.

The following table shows the changes in outstanding RSUs in 2017 and 2016:

	2017		2016	
	No. of RSU's	Weighted avg. excercise price (in NOK)	No. of RSU's	Weighted avg. excercise price (in NOK)
Outstanding at 1 January	129 991	0.10	-	-
Granted during the period	54 685	0.10	129 991	0.10
Exercised during the period	-61 795	0.10	-	-
Forfeited	-3 470	0.10	-	-
Expired	-	-	-	-
Outstanding no. of Restricted Stock Units at end of period	**119 411**	**0.10**	**129 991**	**0.10**

From 1 January 2018 to 14 March 2018 no RSUs have been granted to Board of Directors.

12. 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)	2017	2016
Consultancy, advisors' expenses and IR	11 460	10 737
Travel expenses	3 569	2 654
Facilities expenses	2 230	2 091
IT services and IT-related accessories	1 010	1 161
Conferences and training	668	774
Other	2 135	1 483
Depreciation	71	68
Government Grants	-124	-67
Total operating expenses	**21 019**	**18 902**

13. 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.

Finance income and expense

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

Finance income is:

(Amounts in NOK thousands)	2017	2016
Interest income on bank deposit	202	518
Interest income on Money Market fund, Nordea Likviditet III	1 151	-
Interest income on tax repaid	12	14
Net currency gain - bank and other operating items	289	-
Total finance income	**1 653**	**532**

Finance expenses is:

(Amounts in NOK thousands)	2017	2016
Other interest expense	71	13
Net currency loss - bank and other operating items	-	142
Other finance expense	11	2
Total finance expense	**81**	**157**

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 2017 and 2016 the receivables mainly consist of grants receivables, prepayments and receivables related to VAT. The Company has currently not recognized any non-current financial assets.

14. 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 NOK 270 million at 31 December 2017 (31 December 2016: NOK 197 million).

No current or deferred tax charge or liability has been recognized for 2017.

The tax effects of temporary differences and tax losses carried forward at 31 December are as follows:

(Amounts in NOK thousands)	2017	2016
Fixed assets	29	51
Share options and RSUs	-468	-207
Financial instruments	49	-
Tax loss carried forward	-270 227	-197 276
Temporary differences and tax losses carried forward at 31.12	-270 617	-197 432
Deferred tax asset (23% (2016;24%)) not recognized	62 242	47 384

(Amounts in NOK thousands)	2017	2016
Statutory income tax rate	**24 %**	**25 %**
Tax effect of income / loss (-)	-16 169	-18 439
Tax effect permanent differences	-1 407	-856
Tax effect of change in tax rates	2 718	1 974
Change in deferred tax not recognized	14 858	17 320
Tax expense	**-**	**-**

15. 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 %

Please see Note 15 in the 2017 Annual report for the Targovax Group for further details on the excess value of the intangible assets related to the investment in Targovax OY.

16. 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 166 586 at 31 December 2017 and NOK 237 771 at 31 December 2016 consist mainly of office equipment. No impairment losses have been recognized. No development costs have been recognized as assets as per 31 December 2017.

(Amounts in NOK thousands)	Furniture, fittings, and equipment	Total
Cost:		
2016		
Opening balance	319	319
Additions	37	37
At 31 December 2016	356	356
2017		
Opening balance	356	356
Additions	-	-
At 31 December 2017	356	356
Accumulated depreciation and impairment:		
2016		
Opening balance	50	50
Depreciation charge	68	68
At 31 December 2016	118	118
2017		
Opening balance	118	118
Depreciation and impairment charge	71	71
At 31 December 2017	189	189
Carrying amount:		
At 31 December 2016	**238**	**238**
At 31 December 2017	**167**	**167**

17. 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 2017, expires on 31 December 2020. The agreement is non-cancellable until 31 December 2018 and expected minimum payment in 2018 is NOK 1.7 million (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 2017 is NOK 1.7 million and for 2016 it was NOK 1.6 million.

The future minimum rents related to non-cancellable leases for premises fall due as follows:

At 31 December 2017 (Amounts in NOK thousands)	Within 1 year	1 to 5 years	After 5 years	Total
Rental agreement for premises in Oslo	1 704	-	-	1 704

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.

18. 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 Company'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)	2017	2016
Trade receivables	7	-
Receivable from subsidiaries	3 309	3 250
Receivable government grants	4 955	5 622
VAT receivable	204	346
Other prepayments	3 154	2 381
Total receivables	**11 629**	**11 599**

19. 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 2017 the Company held both cash deposits and Money Market funds, at 31 December 2016 the Company only held cash deposits.

(Amounts in NOK thousands)	2017	2016
Bank deposits	90 326	157 683
Money Market fund, Nordea Likviditet III	154 151	-
Total cash and cash equivalents	**244 477**	**157 683**

Restricted cash specification:

(Amounts in NOK thousands)	2017	2016
Income tax withholding from employee compensation	2 356	2 055
Rent deposits [1]	1 021	1 021
Other [1]		
Total restricted cash	**3 377**	**3 076**

1 Classified as Receivables.

20. Share capital and shareholder information

Targovax raised NOK 200 million in a private placement in second quarter 2017. The transaction was approved by the General Assembly on 30 June. Following the private placement, the company completed a subsequent offering, raising proceeds of NOK 6 million, through a share issue of 323 268 shares at NOK 20.00 per share.

Share capital as at 31 December 2017 is 5 260 986.7 (31 December 2016: 4 219 080) comprising 52 609 867 ordinary shares at nominal value NOK 0.10 (31 December 2016: 42 190 800 at NOK 0.10). All shares carry equal voting rights.

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

	2017	2016
Ordinary shares at beginning of period	42 190 800	26 883 808
Share issuance - private placement and repair offering	10 323 268	15 228 634
Share issuance, employee share options and RSUs	95 799	78 358
Ordinary shares at end of period	**52 609 867**	**42 190 800**

The 20 largest shareholders are as follows at 31 December 2017:

Shareholder	# shares	%
HealthCap	12 405 584	23.6 %
Radiumhospitalets Forskningsstiftelse	4 427 255	8.4 %
VPF Nordea Kapital	1 750 754	3.3 %
VPF Nordea Avkastning	1 556 582	3.0 %
Nordnet Livsforsikring AS	1 500 108	2.9 %
Verdipapirfondet KLP AksjeNorge	1 130 855	2.1 %
Thorendahl Invest AS	1 000 000	1.9 %
Nordnet Bank AB	871 209	1.7 %
Statoil Pensjon	855 171	1.6 %
Danske Bank AS	820 104	1.6 %
Kommunal Landspensjonskasse	802 252	1.5 %
Euroclear Bank S.A./N.V.	730 266	1.4 %
Timmuno AS	724 650	1.4 %
Prieta AS	720 000	1.4 %
Verdipapirfondet Nordea Norge Plus	712 903	1.4 %
Nordea 1 SICAV	656 600	1.2 %
Sundt AS	550 000	1.0 %
Lillesund	350 000	0.7 %
KLP AksjeNorge Indeks	347 833	0.7 %
Avanza Bank AB	305 717	0.6 %
20 largest shareholders	**32 217 843**	**61.2 %**
Other shareholders (4 061)	20 392 024	38.8 %
Total shareholders	**52 609 867**	**100.0 %**

The 20 largest shareholders are as follows 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 %**

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	2017	2016
Loss for the period	-67 372	-73 755
Average number of outstanding shares during the period	47 254	34 528
Earnings/ loss per share - basic and diluted	**-1.43**	**-2.14**

Share options and RSUs issued have a potential dilutive effect on earnings per share.

Share options and RSUs shall be treated as dilutive only 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. Hence, no dilutive effect has yet been recognized.

21. 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)	2017	2016
Trade and other payables	5 281	2 581
Withholding taxes and social security payables	2 933	2 800
Accruals for expenses	10 944	15 701
Total current liabilities	**19 158**	**21 082**

22. Events after the reporting date

Establishment of new subsidiary in USA

At 1st January 2018 Targovax ASA established a 100% owned subsidiary in USA, Targovax Solutions LLC. The company has one employee, Michael Bogenstätter, appointed as CBO of Targovax.

Share based payments

On the basis of the approval by the Annual General Meeting on 5 April 2017 the Board has resolved to issue further new options to employees of the Company. From 1 January 2018 to 14 February 2018 a total of 890 000 options for shares of the Company were distributed amongst the members of the Management Team and a total of 310 500 options for shares of the Company were distributed amongst other employees in Targovax ASA and Targovax OY.

The following table shows the changes in outstanding options at 14 February 2018 and 31 December 2017:

	1 Jan - 14 Feb 2018		2017	
	No. of options	Weighted avg. excercise price (in NOK)	No. of options	Weighted avg. excercise price (in NOK)
Outstanding at 1 January	3 466 634	21.06	2 513 170	20.93
Granted during the period	1 200 500	17.08	1 277 000	21.53
Exercised during the period	-	-	-34 004	5.65
Forfeited	-	-	-75 000	20.42
Expired	-	-	-214 532	25.00
Outstanding no. of options at end of period	**4 667 134**	**20.03**	**3 466 634**	**21.06**

Name	Position	Options		
		Outstanding 31.12.2017	Granted 01.01.2018-14.02.2018	Outstanding 14.02.2018
Key management:				
Øystein Soug	Chief Executive Officer	790 000	220 000	1 010 000
Magnus Jäderberg	Chief Medical Officer	660 000	100 000	760 000
Anne Kirsti Aksnes	VP, Clinical Development	283 000	70 000	353 000
Erik Digman Wiklund	Chief Financial Officer	150 000	150 000	300 000
Michael Bogenstätter [1)]	Chief Business Officer	-	230 000	230 000
Berit Iversen	VP, CMC	135 000	60 000	195 000
Tina Madsen	VP, Quality Assurance	103 000	60 000	163 000
Total option for shares to key management of Targovax ASA		**2 121 000**	**890 000**	**3 011 000**
Board of directors:			-	
Robert Burns	Board member	21 235	-	21 235
Total option for shares to the Board of Directors of Targovax ASA		**21 235**	**-**	**21 235**

The following table shows the changes in outstanding options for shares to Management Team of the Company at 14 February 2018:

1) Michael Bogenstätter is an employee of Targovax Solutions LLC.

To the General Meeting of Targovax ASA

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Targovax ASA. The financial statements comprise:

- The financial statements of the parent company, which comprise the statement of financial position as at 31 December 2017, and the statement of profit and loss, statement of other comprehensive income, statement of changes in equity, statement of cash flow, and notes to the financial statements, including a summary of significant accounting policies, and

- The financial statements of the group, which comprise the statement of financial position as at 31 December 2017, and statement of profit and loss, statement of other comprehensive income, statement of changes in equity, statement of cash flow, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.

- The accompanying financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

- The accompanying financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2017, and its financial performance and its cash flows 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 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 and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional 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.

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of intangible assets We refer to Note 15 Intangible assets and impairment test. Following the acquisition of Oncos Therapeutics in 2015, most of the purchase price was allocated to intangible assets related to the ONCOS-102 virus-based immunotherapy platform, which has a book value of NOK 366 201 thousands as of 31 December 2017. The intangible assets are still under development. The value of the intangible assets in the Group is highly dependent on successful development of commercial biotech products. The carrying amount of intangible assets represent a significant portion of total assets for the Group. No impairment loss on intangible assets were recognized in the statement of profit and loss for 2017. The intangible assets are still under development and do not yet generate revenue. Consequently the impairment test was based on an alternative approach that represent a combination of a discounted cash-flow method and a hypothetical out-licensing transaction through royalty-revenues. Several of the assumptions, including discount rate, level of royalty and probability of a successful launch of commercial products was judgemental. We considered impairment of intangible assets for the Group to be a Key Audit Matter due to the significant amount they represent and the level of management judgments related to assumptions in the impairment review.	We obtained management's impairment review. The review includes documentation about how management assessed cash-generating units (CGU's) and key assumptions applied by management. We satisfied ourselves that the impairment review contained the elements required by IFRS. We tested the mathematical accuracy of the impairment model. We challenged the assumptions applied by management related to calculation of royalty-revenues and compared the assumptions such as patient base, prices, royalty rates and probability of success with public available information and data from comparable companies. We found management's assumptions to be reasonable. We assessed the assumptions tied to remaining development costs used in the calculations by comparing them to internal budgets and forecasts. We found that the applied costs in the model are in line with budgets and forecasts. We evaluated the discount rate used by management by comparing its composition to empirical data for risk-free interest rate, relevant risk premium and debt ratio. Key assumptions used were benchmarked against external data and our own internal data. The discount rate applied is considered to be appropriate. In addition, we have performed analysis to evaluate how sensitive the model is to changes in the key assumptions which have been applied. We assessed that information about managements impairment review, including information about assumptions used and sensitivity analysis performed, was disclosed in appropriate notes to the financial statements.

Other information

Management is responsible for the other information. The other information comprises the Board of Directors' report, the statements on Corporate Governance and Corporate Social Responsibility and all other information in the annual report, but does not include the financial statements and our auditor's report thereon.

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 the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation in accordance with law and regulations, including 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 determines 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 and the Group'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 Group 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 laws, regulations, and auditing standards and practices generally accepted in Norway, including 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted 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. We 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 and the Group'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 and the Group'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 and the Group 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 the Board of Directors 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 the Board of Directors with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, 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

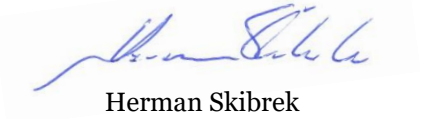
Opinion on the Board of Directors' report

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 and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss is consistent with the financial statements and complies with the law and regulations.

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 has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company and the Group's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 14 March 2018
PricewaterhouseCoopers AS



Herman Skibrek
State Authorised Public Accountant

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