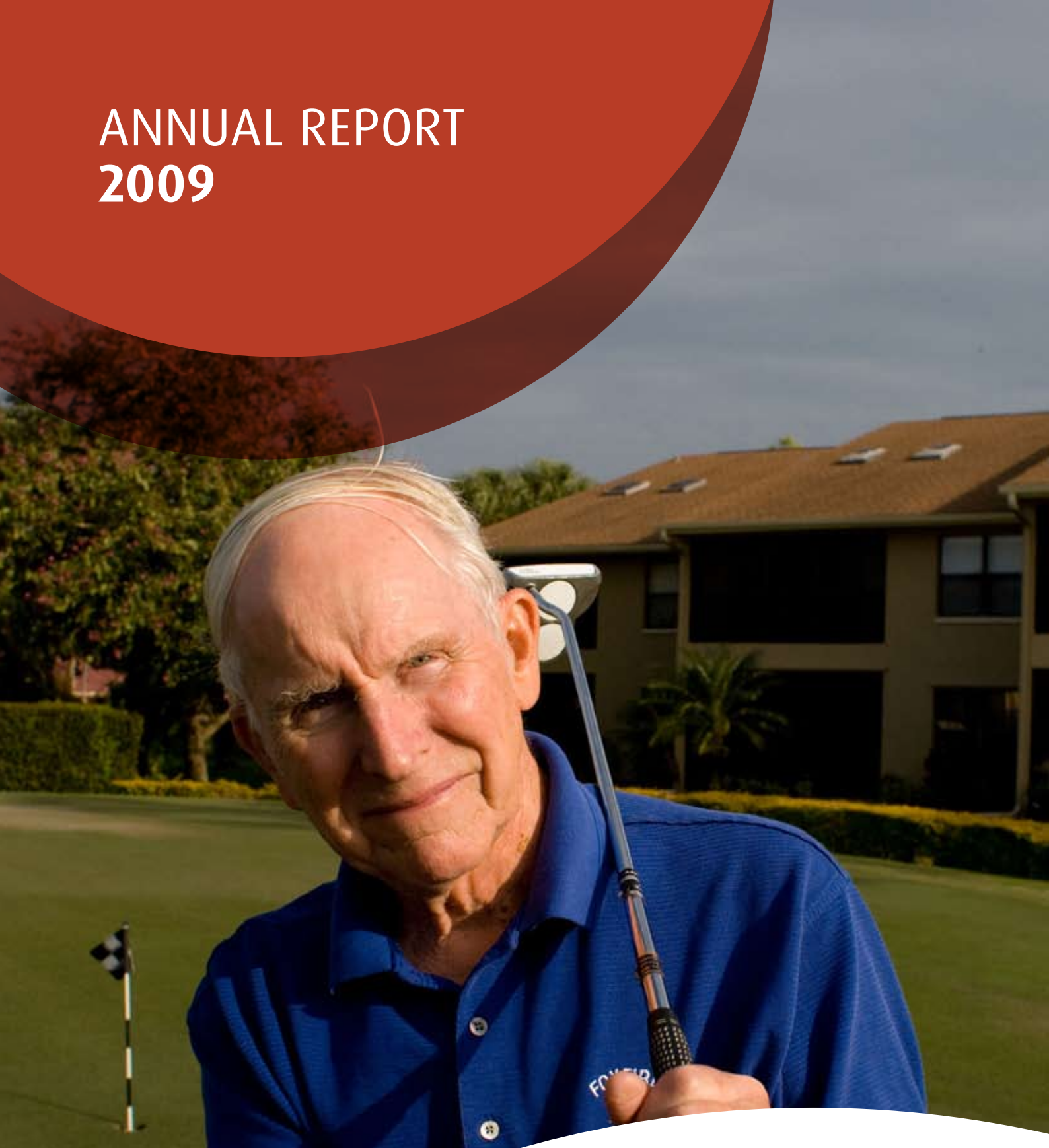
# ANNUAL REPORT
# 2009



BAVARIAN NORDIC

*Front page:*

**Frank, 78 years**

*Prostate cancer survivor after successful treatment with PROSTVAC™*

Frank was diagnosed with prostate cancer in 1992 at age 61. After surgery where his prostate was removed his PSA level normalised. PSA (prostate-specific antigen) is a biological marker which at high levels indicates progression of the prostate cancer. Due to metastasis his PSA level began to rise again. In 1999 he was treated with PROSTVAC™ followed by another treatment five years later. Today, Frank is symptom-free. His PSA level has stabilised and there is no development in the prostate cancer.

Frank enjoys a high quality of life. He is still an active sportsman playing tennis and golf with friends and family several times a week.

"I owe my good quality of life in recent years to PROSTVAC. As the song goes, '*...and I think to myself, what a wonderful world*'"

# Contents

# Introduction

## International recognition of PROSTVAC™, showing great promise

2009 was a challenging year for Bavarian Nordic, but yet successful as our new, promising therapeutic prostate cancer vaccine candidate, PROSTVAC™, was put on the map and gained international recognition both scientifically and amongst investors. Especially, PROSTVAC™ was the centre of attention during the many investor meetings we held in connection with the rights issue in the beginning of 2010

We believe that PROSTVAC™ holds an increasing promise, as we have presented further confirmatory data throughout 2009 as the data has been accepted in scientific journals and international conferences. We have also received great recognition from experts and practitioners from around the world and this supports our decision to advance the project into Phase III. We are currently working on the regulatory pathway and in parallel with the transfer of the production technology from the company which used to develop the vaccine to our own facility in Berlin.

Unlike IMVAMUNE®, where we can manage sales and already have a valuable dialogue with a number of governments around the world, the commercialisation of PROSTVAC™ will require a much larger commercial infrastructure. As a result, we are looking to partner with one or more major pharmaceutical companies for the continued commercialisation of PROSTVAC™.

Although we fulfilled many of our objectives for the year, we did not initiate the delivery of IMVAMUNE® under the RFP-3 contract to the US as planned. We faced new challenges during the year when the FDA notified us their intent to audit our production facilities. After the inspection, the organisation has worked diligently in order to implement the corrective actions and submit the necessary responses to the FDA.

We have completed our part of the task successfully. Now we are awaiting final acceptance from FDA before deliveries of the 20 million doses of IMVAMUNE® can be initiated, expectedly in the first half of 2010. The acceptance will also be an important recognition of one of our core assets; our manufacturing capabilities.

The day when the first vaccines are shipped will be a major highlight not only of 2010 but in the company's history. It will be an endorsement of our work and will hopefully trigger the interest for IMVAMUNE® in more countries. We are still in a dialogue with a number of other countries, and we expect to enter into a number of small contracts in the next few years.

We opened 2010 with the successful completion of a rights issue, which has generated net proceeds of almost DKK 300 million, enabling us to pursue our strategy and maintain focus on the first vaccine deliveries under the RFP3 contract. We are ready to begin shipping as soon as we receive the necessary approvals. Through continued focus on fulfilling the contract, we feel that we are well positioned to be granted the option for an additional 60 million doses. The proceeds from the rights issue has also allowed us to continue our preparations for the Phase III studies with PROSTVAC™, which are expected to start in late 2010.

With two vaccines moving into Phase III development, we are moving towards a very exciting but also challenging period. We are well prepared for the job. With a professional and well managed organisation, we have laid the foundation for continued growth in the years ahead.

# Key Figures 2005-2009

**Group Key Figures**

| Amounts in DKK millions | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **Income statements** | | | | | |
| Revenue | 74.8 | 208.8 | 332.1 | 175.3 | 247.6 |
| Production costs | 140.1 | 196.7 | 64.5 | 136.3 | 132.2 |
| Research and development costs | 164.0 | 129.6 | 243.6 | 118.4 | 114.4 |
| Distribution and administrative costs | 111.9 | 92.0 | 89.1 | 124.4 | 75.4 |
| Other operating expenses | - | - | - | - | 45.4 |
| Income before interest and tax (EBIT) | (341.2) | (209.5) | (65.0) | (203.8) | (119.8) |
| Fincial items, net | 10.1 | 26.2 | 14.5 | (1.0) | 3.4 |
| Income before company tax | (331.1) | (183.3) | (50.5) | (204.8) | (116.4) |
| Net profit for the year | (266.3) | (150.4) | (63.5) | (160.9) | (94.7) |
| **Balance sheet data** | | | | | |
| Total non-current assets | 715.1 | 594.2 | 538.8 | 568.2 | 472.4 |
| Total current assets | 556.0 | 1,100.0 | 1,193.2 | 386.2 | 456.2 |
| Total assets | 1,271.1 | 1,694.3 | 1,732.1 | 954.4 | 928.6 |
| Shareholders equity | 704.2 | 1,015.1 | 1,217.7 | 691.4 | 630.1 |
| Long-term current liabilities | 113.0 | 52.7 | 134.7 | 150.6 | 212.2 |
| Short-term current liabilities | 453.9 | 626.5 | 379.7 | 112.4 | 86.3 |
| **Cash Flow Statements** | | | | | |
| Net cash including securities | 185.0 | 795.9 | 913.6 | 332.7 | 269.0 |
| Cash flow from operating activities | (484,1) | (22.4) | 163.2 | (194.5) | (54.9) |
| Cash flow from investment activities | 26.1 | (81.5) | (16.1) | (192.2) | (196.9) |
| Investment in tangible assets | 50.6 | 12.0 | 5.8 | 73.9 | 151.2 |
| Cash flow from financing activities | (30.8) | (15.1) | 440.4 | 219.0 | 464.2 |
| **Financial Ratios (in DKK)** [1] | | | | | |
| Earnings per share | | | | | |
| - basic earnings, per share of DKK 10 | (34.0) | (18.7) | (8.0) | (25.8) | (17.6) |
| - diluted earnings, per share of DKK 10 | (34.0) | (18.7) | (8.0) | (25.8) | (17.6) |
| PE, price/earnings ratio | 88.6 | 129.9 | 155.8 | 108.4 | 108.7 |
| Share price at the year-end | 144 | 132 | 293 | 582 | 476 |
| Share price/Net assets value per share | 1.6 | 1.0 | 1.9 | 5.4 | 4.4 |
| Numbers of outstanding shares at the year-end | 7.,52 | 7,816 | 7,816 | 6,376 | 5,797 |
| Shareholders´ equity share | 55% | 60% | 70% | 72% | 67% |
| Number of employees (full-time) at year-end | 354 | 294 | 264 | 233 | 224 |

[1] Earnings per share (EPS) is calculated in accordance with IAS 33 "Earning per share". The financial ratios have been calculated in accordance with "Anbefalinger og Nøgletal 2005" (Recommendations and Financial ratios 2005).

# Strategy and focus areas

It is the goal of Bavarian Nordic to be a leading developer and supplier of innovative vaccines for the treatment and prevention of life-threatening diseases within cancer and biodefence. In addition, the company seeks to create shareholder value by striving for sustained profitable operations, by focusing its development activities and by optimising the resources applied.

**Cancer**

*Strategy: Innovation and partnerships*
The cancer vaccine business has become an important strategic area for Bavarian Nordic.

One important goal is to prepare the Phase III clinical trial for PROSTVAC™, which includes the upgrade of the Company's facilities in Berlin where PROSTVAC™ initially will be manufactured. The Company will seek partnerships for PROSTVAC™ with one or more pharmaceutical companies in the continued development and commercialisation of PROSTVAC™.

The company has two other cancer programmes in the clinical phase; MVA -BN®-HER2, currently in Phase I/II development as a therapeutic breast cancer vaccine candidate, and MVA-BN® PRO, currently in Phase I/II development as a therapeutic prostate cancer vaccine candidate. The strategy for these programmes is to complete the Phase I/II development, whereupon the company will seek partners for the continued development

It is the strategy to expand the cancer portfolio with more late-stage projects through the continuous development of own research projects, scientific partnerships and through acquisitions. The Company aims to develop and bring the projects forward to end of Phase II, after which it intends to seek partnerships with large international pharmaceutical companies.

**Biodefence**

*Strategy: Full value chain*
This is Bavarian Nordic's principal commercial business area. The strategy for this area focuses on controlling the entire value chain, all the way from research to production and sale of vaccines. The intension is to complete the clinical development of IMVAMUNE® until final FDA approval. Under the contract period of the existing contracts this business area is in itself profitable. The biodefence area will contribute to funding of other pipeline activities in the company.

The vaccine is currently being commercialised to government agencies around the world and Bavarian Nordic has entered into a number of delivery contracts, including the US endorsement programme through the RFP-3 contract award for IMVAMUNE®.

Management assesses that the market for its biodefence vaccines will be larger than the existing orders on-hand. The Company will be investing resources in its production facilities in Kvistgård, to further optimise production processes and thereby reduce future production costs. In order to realize these objectives, the Company is focusing its efforts on a series of change projects.

Bavarian Nordic intends to build a biodefence portfolio of projects that can complement IMVAMUNE® and ensure a sustained and growing business. Initially, the Company seeks to develop a combined smallpox and anthrax vaccine. Such a vaccine is expected to offer a number of attractive synergies. A combined smallpox and anthrax vaccine would simultaneously address two of the world's greatest bioterrorism threats.

By itself, the IMVAMUNE® business is already well-established due to the RFP contracts with the US authorities and contracts with other countries. Likewise, Bavarian Nordic expects that there will be good opportunities for achieving third-party funding for the development of an anthrax vaccine.

Investments in order to position an anthrax vaccine for third party funding will be made, but no major, cost-intensive clinical studies for the anthrax vaccine is expected to be initiated if, contrary to expectations, third-party funding is not available.

It is furthermore the strategy to initiate low cost pre-clinical development of other potential vaccine targets (e.g. Plague, Ebola and Marburg's disease) until the projects are mature for government funding.

**Infectious diseases**

*Strategy: Maximise value*
Bavarian Nordic has two projects in infectious diseases, both of which are at an early development stage: HIV multiantigen and measles/RSV. The strategy for this business area is to establish partnerships in the early development stage. Bavarian Nordic will not initiate any cost-intensive Phase II studies for its infectious disease projects without external funding.

The programme for measles/RSV will be tested up to and through clinical Phase I/II, where it is expected that proof of concept will be obtained. As for HIV multiantigen, a Phase I/II clinical study was completed in 2009 and Bavarian Nordic is awaiting interest from potential partners before a large scale Phase II potentially can be initiated.

**IP strategy**
Bavarian Nordic has built a strong IP position on its proprietary technology, MVA-BN®, which holds an additional business opportunity for the company. Bavarian Nordic seeks to strengthen and build on its existing patent portfolio to support and expand the IP position on MVA-BN®. The Company furthermore seeks appropriate opportunities to strengthen the IP position on MVA-BN® through partnership/licensing agreements. If partnerships/licensing agreements cannot be obtained, Bavarian Nordic will vigorously defend its IP position on MVA-BN® to prevent infringement from occurring. Bavarian Nordic has currently established two licensing agreements with Oxford BioMedica and Acambis (now sanofi-aventis)

## MVA-BN® licensing agreement with Oxford BioMedica brings litigation to an end

In January 2010, Bavarian Nordic and Oxford BioMedica reached a global settlement ending the legal disputes between the parties on matters relating to MVA-BN®.

Under the agreement, Bavarian Nordic will grant a license to its MVA-BN® patents in return for Oxford BioMedica making milestone payments and royalties.

Under the settlement, the terms of which are confidential, all pending litigation will cease and all oppositions filed at the European Patent Office by Oxford BioMedica will be withdrawn. In addition both companies have agreed to initiate business discussions concerning a possible future collaboration based on each company's expertise in poxvirus vaccines and Bavarian Nordic's commercial manufacturing capability.

# Short-term goals

In order to succeed with the overall strategy, Bavarian Nordic has a number of short-term goals to be met, namely:

- Initiation of the delivery of IMVAMUNE® to the US authorities
- Secure further IMVAMUNE® contracts
- Preparations for the Phase III studies with PROSTVAC™
- Continue discussions with potential PROSTVAC™ licensing partners

**Initiation of the delivery of IMVAMUNE® to the US authorities**
With efficient project management, a number of important milestones are expected to be achieved in the development of IMVAMUNE® in 2010:

- Obtain final approval from the FDA of the Kvistgård manufacturing facility
- Start-up of actual delivery of vaccines for the US strategic national stockpile
- Finalize preparations for Phase III studies

**Secure further IMVAMUNE® contracts**
Bavarian Nordic's IMVAMUNE® commercial team, consisting of medical doctors and bio-terror preparedness professionals possess the skills and competences required to engage all stakeholders in a procurement dialogue. Bavarian Nordic is internationally represented, either through local agent agreements or its own representatives. The Company will prioritise and target markets in which the need for a new and better smallpox vaccine and/or an improved smallpox preparedness plan is recognised.

Until IMVAMUNE® has been licensed; the Company will work with its stakeholders to position it as a safer and more efficacious non-replicating smallpox vaccine using a three-step strategy:

- Protection of first-line responders
- Protection of the immune-compromised population
- Protection of the general population

Although IMVAMUNE® cannot be fully commercialised until the vaccine has been licensed, the Company remains encouraged by the prospects of entering more contracts due to the clear need for a new and better smallpox vaccine, the US endorsement of the IMVAMUNE® programme, the smaller orders from other countries, and the continuing stream of positive clinical evidence for IMVAMUNE®. Bavarian Nordic is thus confident that a number of governments will include IMVAMUNE® as a new and innovative resource in their smallpox preparedness plans in the future.

The US has the most ambitious biodefence programme in the world and continuously seeks novel vaccines for unmet medical needs and safer and more efficacious upgrades of existing counter measures. The overall US commitment to biodefence and the continued success of the IMVAMUNE® development programme confirms that the US authorities most likely will expand their development and procurement contracts for a new and safer smallpox vaccine.

The funding model applied for development projects is tightly defined as deliverables valued at cost plus reasonable profit

margin. Management is confident that additional development contracts will be secured in 2010-11. As with IMVAMUNE® the Company expects that successful development projects will lead to future procurement contracts with the US authorities – either as an exercise of the already granted option in the RFP-3 and/or new procurements contracts, and this model also applies to the recently awarded contract for the development of freeze-dried IMVAMUNE®.

**Preparations for the Phase III studies with PROSTVAC™**
In line with its strategy, Bavarian Nordic upgraded the cancer business area in 2008. The Company entered into a scientific partnership with the National Cancer Institute (NCI) in the US. Under the Cooperative Research and Development Agreement (CRADA), the NCI and Bavarian Nordic will jointly develop new immunotherapies for the treatment of prostate cancer. Through the collaboration, Bavarian Nordic acquired the rights to a new and promising prostate cancer vaccine candidate, PROSTVAC™, which has completed clinical Phase II studies.

The Company is currently in preparations for initiating Phase III studies with PROSTVAC™. As part of these preparations Bavarian Nordic will outline the regulatory pathway with US and European regulatory authorities, with the purpose of agreeing on the clinical design of the Phase III studies, which are expected to be initiated by the end of 2010. Meanwhile, the Company will continue the transfer of the production technology for PROSTVAC™. This includes upgrading of the production facility in Berlin in order to ensure production of PROSTVAC™ for Phase III studies and early stage commercialisation.

**Continue discussions with potential PROSTVAC™ licensing partners**
Bavarian Nordic is in ongoing discussions with a number of potential licensing partners for PROSTVAC™. The Company will continue these talks with the goal of signing an attractive licensing agreement with one or more international pharmaceutical companies, for the continued development and commercialisation of PROSTVAC™.

In a future licensing agreement, Bavarian Nordic will seek to reserve the commercial rights to PROSTVAC™ in selected markets. As part of such an agreement, Bavarian Nordic also seeks to retain the rights to the commercial manufacturing of the final product, in order to leverage the Company's own manufacturing facilities.

# Company Announcements in 2009

| Date | No. | Title |
|---|---|---|
| 12.01 | 1 | Bavarian Nordic's case against Oxford BioMedica |
| 30.01 | 2 | Major Shareholder Announcement |
| 23.02 | 3 | Bavarian Nordic updates on Phase I/II studies with breast cancer vaccine |
| 25.02 | 4 | Bavarian Nordic reports further data on PROSTVAC™ |
| 03.03 | 5 | Bavarian Nordic has essentially agreed a pathway for the licensure of IMVAMUNE® with the FDA after successful end of Phase II meeting |
| 27.03 | 6 | Bavarian Nordic publishes its annual report 2008 |
| 30.03 | 7 | Report of transactions of shares and related securities of Bavarian Nordic by persons holding managerial responsibilities and/or persons/companies closely associated with such |
| 31.03 | 8 | Report of transactions of shares and related securities of Bavarian Nordic by persons holding managerial responsibilities and/or persons/companies closely associated with such |
| 02.04 | 9 | Report of transactions of shares and related securities of Bavarian Nordic by persons holding managerial responsibilities and/or persons/companies closely associated with such |
| 02.04 | 10 | Notice convening ordinary general meeting |
| 16.04 | 11 | PROSTVAC™ data accepted for an oral presentation at the ASCO Annual Meeting |
| 27.04 | 12 | Interim Report for the period 1 January to 31 March 2009 |
| 27.04 | 13 | Report on the Results of the Annual General Meeting, held 27 April 2009 |
| 30.04 | 14 | Notice convening Extraordinary General Meeting |
| 09.05 | 15 | The court supports Bavarian Nordic's decision to start patent infringement case against Oxford BioMedica |
| 18.05 | 16 | Report on the Results of the Extraordinary General Meeting, held 18 May 2009 |
| 30.05 | 17 | PROSTVAC™ data presented at the ASCO Meeting demonstrates the potential for significant increases in life expectancy in late-stage prostate cancer |
| 01.07 | 18 | New Review on PROSTVAC™ published by key Investigators from NCI |
| 24.08 | 19 | Bavarian Nordic in negotiations with the US authorities for the further development of IMVAMUNE® |
| 28.08 | 20 | Interim Report for the period 1 January to 30 June 2009 |
| 31.08 | 21 | Bavarian Nordic rejects claim from Helmholtz Zentrum München |
| 15.09 | 22 | Bavarian Nordic has signed contract with an EU country for the delivery of IMVAMUNE® |
| 18.09 | 23 | Report of transactions of shares and related securities of Bavarian Nordic by persons holding managerial responsibilities and/or persons/companies closely associated with such |
| 21.09 | 24 | New and interesting PROSTVAC™ data indicate broad therapeutic use in metastatic prostate cancer |
| 11.11 | 25 | Interim Report for the period 1 January to 30 September 2009 |
| 11.11 | 26 | Bavarian Nordic Enters Conditional Agreement for the Acquisition of Shares and Buy Back of Stock Options in its Subsidiary BN ImmunoTherapeutics Inc. in Order to Obtain 100% Ownership of the Subsidiary |
| 17.11 | 27 | US Government Awards Contract to Bavarian Nordic for the Development of Freeze-Dried IMVAMUNE® Smallpox Vaccine |
| 26.11 | 28 | Bavarian Nordic A/S issues Financial Calendar for 2010 |
| 30.11 | 29 | Bavarian Nordic will file for market approval for IMVAMUNE® in Canad |
| 01.12 | 30 | Notice convening Extraordinary General Meeting |
| 01.12 | 31 | Bavarian Nordic is Planning a Rights Issue of DKK 250-300 Million. The Company Has Convened an Extraordinary General Meeting |
| 18.12 | 32 | Bavarian Nordic Updates on Business Activities and Financial Outlook |
| 18.12 | 33 | Report of transactions of shares and related securities of Bavarian Nordic by persons holding managerial responsibilities and/or persons/companies closely associated with such |
| 18.12 | 34 | Report on the Results of the Extraordinary General Meeting, held 18 December 2009 |
| 21.12 | 35 | Notice convening Extraordinary General Meeting |
| 31.12 | 36 | Total number of voting rights and share capital in Bavarian Nordic A/S as of 31 December 2009 |

# Company Announcements in 2010

| Date | No. | Title |
|---|---|---|
| 06.01 | 1 | Bavarian Nordic A/S – Report on the Results of the Extraordinary General Meeting, held 6 January 2010 |
| 08.01 | 2 | Bavarian Nordic today publishes a prospectus in connection with a rights issue of up to 3,975,872 new shares with a nominal value of DKK 10 each at DKK 80 per share (the "Offering") |
| 14.01 | 3 | Report of transactions of shares and related securities of Bavarian Nordic by persons holding managerial responsibilities and/or persons/companies closely associated with such |
| 14.01 | 4 | Report of transactions of shares and related securities of Bavarian Nordic by persons holding managerial responsibilities and/or persons/companies closely associated with such |
| 19.01 | 5 | Report of transactions of shares and related securities of Bavarian Nordic by persons holding managerial responsibilities and/or persons/companies closely associated with such |
| 21.01 | 6 | Report of transactions of shares and related securities of Bavarian Nordic by persons holding managerial responsibilities and/or persons/companies closely associated with such |
| 26.01 | 7 | PROSTVAC™ paper published in Journal of Clinical Oncology |
| 27.01 | 8 | Bavarian Nordic and Oxford BioMedica settle all legal disputes on MVA-BN® |
| 27.01 | 9 | Prospectus supplement no. 1 to prospectus of 8 January 2010 issued by Bavarian Nordic A/S |
| 02.02 | 10 | Bavarian Nordic completes offering |
| 02.02 | 11 | Bavarian Nordic A/S – Major Shareholder Announcement |
| 02.02 | 12 | Report of transactions of shares and related securities of Bavarian Nordic by persons holding managerial responsibilities and/or persons/companies closely associated with such |
| 02.02 | 13 | Bavarian Nordic A/S – Major Shareholder Announcement |
| 26.02 | 14 | Total number of voting rights and share capital in Bavarian Nordic A/S |

# Outlook for 2010

The net proceeds of almost DKK 300 million from the successful completion of a rights issue in the beginning of 2010 enables Bavarian Nordic to maintain momentum in the production of IMAVAMUNE® and continue preparations for Phase III for PROSTVAC™.

In line with previous guidance, for 2010, Management expects revenue at the level of DKK 475 million, and a pre-tax loss at the level of DKK 250 million. The cash preparedness at year-end is expected to be in the range of DKK 225 million to DKK 275 million.

Management expects to deliver and invoice 4-5 million doses of IMVAMUNE® to the US authorities in 2010, including approximately 2 million doses which have already been produced and are awaiting delivery allowance from the US authorities. The remaining doses of the 20 million are expected to be evenly delivered in 2011 and 2012. It is assumed that already produced doses of IMVAMUNE® will be accepted for delivery.

The RFP-3 deliveries and revenue from already entered contracts, including the ongoing RFP-2 contract and the RFP contract for freeze-dried IMVAMUNE®, are expected to generate total revenues in 2010 at the level of DKK 475 million. Potential IMVAMUNE® contracts with other countries are not included in the forecast.

Increased costs, including costs for the continued Phase III preparations for PROSTVACTM and the continued increase in the production activities for IMVAMUNE®, will affect the 2010 result, which is expected to be a loss before tax in the level of DKK 250 million.

A number of investments are required in 2010. These are primarily related to scale-up of the production of IMVAMUNE® at the Kvistgård facility, preparations for the production of PROSTVAC™ at the Berlin facility, continued development of IMVAMUNE® and general maintenance. These investments are expected to amount to approximately DKK 90 million, of which one third relates to clinical development of IMVAMUNE®.

Based upon the assumptions for the expectations for 2010, including among others that the delivery allowance for IMVAMUNE® to US authorities is obtained no later than first half of 2010 and that a credit facility in the amount of DKK 150 million to DKK 200 million to finance working capital is obtained, the Company expects cash preparedness in the range of DKK 225 million to DKK 275 million by the end of 2010.

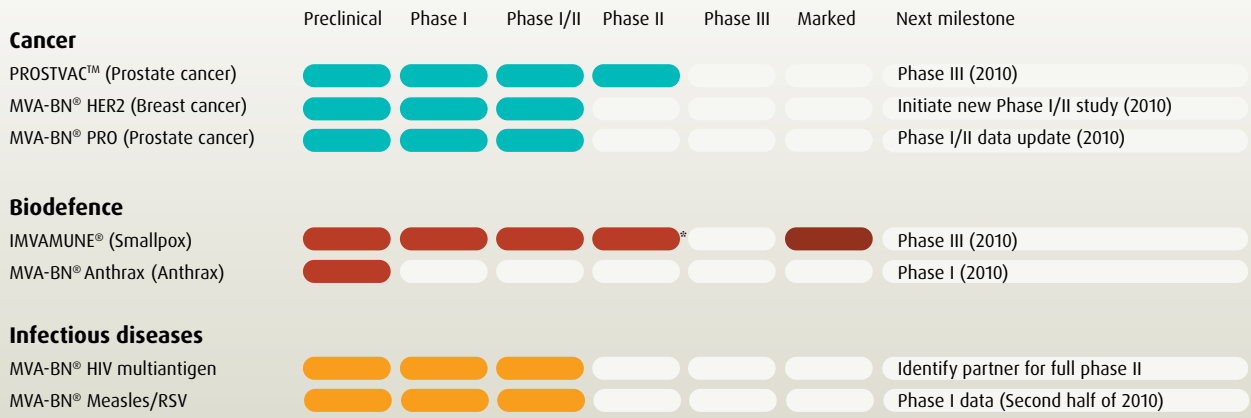
Provided that the RFP-3 contract and marketing of IMVAMUNE® will be fulfilled according to plan, Bavarian Nordic expects to have sufficient funds for its operations until the end of 2012, where upon the Company expects its cash preparedness to cover the operational needs for an order-producing company. See also the section "Risk Management and Internal Control" – Risk factors, page 26.

Furthermore, the outlook for 2010 assumes that Bavarian Nordic obtains the necessary approvals to continue its preclinical and clinical trials and that patient enrolment progresses according to plan.

The expectations regarding the Group's cash preparedness are based on a USD/DKK rate of 5.20 and a EUR/DKK rate of 7.45.

# Pipeline & Technology

## Pipeline




*) Is sold to goverments as a vaccine in development

**Technology**
Bavarian Nordic's technology platform is based on the patented MVA-BN® (Modified Vaccinia Ankara – Bavarian Nordic) virus. MVA-BN® is a further development of the MVA vaccine used to pre-vaccinate more than 120,000 individuals against smallpox in Germany in the 1970s. MVA-BN® is used in most of the Company's development programmes against smallpox, cancer and infectious diseases.

Since 1999, MVA-BN® has been shown as one of the safest multivalent vaccine vectors for the development of vaccines against infectious diseases and cancer.

MVA-BN® is under clinical evaluation in a total of 14 completed, or ongoing trials as a smallpox vaccine. More than 2,800 individuals have been vaccinated with MVA-BN®-based vaccines, demonstrating high immunogenicity and at the same time, no serious adverse reactions.

The MVA-BN® has an attractive safety profile due to the virus' inability to replicate in a vaccinated individual. The replication cycle is blocked at a very late stage which ensures that new viruses are not generated and released. This means that the virus cannot spread in the vaccinated person and side-effects, normally associated with replicating vaccinia viruses, do not appear with MVA-BN®. Studies with MVA-BN® in immune-compromised individuals have also confirmed its safety and immunogenicity profile, making MVA-BN®-based vaccines suitable for the development of vaccines for immune-compromised populations.

**PROSTVAC™ – also a pox virus technology**
The therapeutic prostate cancer vaccine, PROSTVAC™ was acquired in 2008 as part of a collaboration with the National Cancer Institute and thus not originally developed by Bavarian Nordic on the MVA-BN® platform. However, PROSTVAC™ is also a pox-virus based vaccine and Bavarian Nordic builds on its extensive expertise in this area in the continued development of PROSTVAC™.

Research and development

# Cancer Immunotherapy

With the acquisition of PROSTVAC™, a late-stage prostate cancer vaccine candidate, in 2008, Bavarian Nordic indeed strengthened its cancer business area. The positive results from a Phase II study that until then had been blinded were met with great enthusiasm when Bavarian Nordic in October 2008 announced the preliminary headline data that showed an 8.5 months survival benefit compared to placebo. Current approved therapy for patients suffering from advanced prostate cancer benefits only an average of 2-3 months and is associated with a number of severe side effects.

During 2009 Bavarian Nordic and its collaborators presented more detailed data on PROSTVAC™ at several international cancer conferences, including the 2009 Genitourinary Cancers Symposium (GU-ASCO), the 2009 ASCO Annual Meeting (American Society of Clinical Oncology) and the ECCO 15 – 34th ESMO Congress (European CanCer Organisation). These results were even more statistically significant than first reported, and PROSTVAC™ has ever since received great recognition amongst key organisations and people in the cancer society. In early 2010, a paper on the above-mentioned Phase II study was published in Journal of Clinical Oncology, the official journal of ASCO.

Furthermore, a more detailed analysis of the data indicates a broader usage of the vaccine, including the potential for use of the vaccine in earlier disease settings.

Bavarian Nordic expects to clarify the regulatory strategy and outline the Phase III programme during first half of 2010. In the meantime, preparations are ongoing for the Phase III studies, expected to commence in late 2010.

**About PROSTVAC™**

PROSTVAC is a therapeutic vaccine moving into late stage clinical development that has the potential to extend the lives of people with advanced prostate cancer. The vaccine induces a specific, targeted immune response that attacks metastatic cells in the prostate. Conventional chemotherapy currently used to treat prostate cancer has limited survival rates and is often associated with numerous side effects. In contrast, PROSTVAC™ has the potential to extend survival with improved quality of life.

PROSTVAC™ has undergone large-scale Phase II development in metastatic prostate cancer, where results on overall survival are encouraging. The most definitive assessment of PROSTVAC™ has been a Phase II study, conducted by the former owner, Therion, as it was randomised, double-blinded, and placebo controlled. The results from this study of 125 patients with metastatic prostate cancer after four years of follow-up showed that patients receiving PROSTVAC™ had a statistically significantly longer median overall survival by 8.5 months compared to the control group. Additional statistical analysis of the Phase II data indicates that PROSTVAC™ is universally applicable to a wide range of prostate cancer patients. Furthermore, PROSTVAC™ has in the clinical trials demonstrated a very good safety and tolerability profile, especially for an oncology product.

Compared to many other projects in the pipeline of biotech companies, the clinical data behind PROSTVAC™ are extensive. PROSTVAC™ has undergone clinical testing in multiple prostate cancer disease settings and has been tested in 13 completed and 5 ongoing clinical studies, and in more than 500 patients.

PROSTVAC™ is being developed in collaboration with the National Cancer Institute under a Cooperative Research and Development Agreement with Bavarian Nordic's U.S.-based subsidiary, BN ImmunoTherapeutics.

Prostate cancer is the most common form of cancer with more than 780,000 new diagnosed patients and an estimated more than 250,000 related deaths annually in Western countries, making prostate cancer the third leading cause of cancer-related deaths in men. Limited treatment options in metastatic prostate cancer clearly establish a need for new, improved therapies. The recently announced Phase II results showed that PROSTVAC™ has the potential to fulfil an unmet medical need and offers a potential breakthrough and real hope for patients suffering from advanced prostate cancer.

**Partner for Phase III development and commercialisation**
Bavarian Nordic is in ongoing discussions with a number of potential licensing partners for PROSTVAC™. The Company will continue these talks with the goal of signing an attractive licensing agreement with one or more international pharmaceutical companies, for the continued development and commercialisation of PROSTVAC™. In a future licensing agreement, Bavarian Nordic will seek to reserve the commercial rights to PROSTVAC™ in selected markets. As part of such an agreement, Bavarian Nordic also seeks to retain the rights to the commercial manufacturing of the final product, in order to leverage the company's own manufacturing facilities.

**Ongoing PROSTVAC™ studies**
Currently, there are five ongoing clinical studies with PROSTVAC™, all of which are conducted by NCI:

- A Phase II study comparing the radioactive drug samarium with or without PROSTVAC™ therapy in 70 patients with metastatic prostate cancer.
  Clinical endpoint: 4 month progression free survival
  Enrolment is ongoing, with expected results in 2012.

- A Phase II study comparing antihormone therapy (flutamide) with or without PROSTVAC™ therapy in 70 patients with non-metastatic prostate cancer.
  Clinical endpoint: Time to progression
  Enrolment is ongoing, with expected results in 2012.

- A Phase II study investigating PROSTVAC™ in 50 patients with PSA progress after local therapy (surgery and/or radiation)
  Clinical endpoint: PSA progression at 6 months / PSA velocity
  Second stage of trial that combines PROSTVAC with androgen ablation therapy is ongoing with results expected in 2010

- A Phase I dose-escalation, combination study with PROSTVAC™ and MDX-010 (CTL4 antibody) in 30 patients with metastatic prostate cancer
  Clinical endpoint: Safety, PSA response, CT response
  Enrolment has been completed with results expected in 2010.

- Phase I study investigating PROSTVAC™ by intraprostatic injection in 20 patients with progressive or locally recurrent prostate cancer
- Clinical endpoint: Safety, PSA response, immune response
  Enrolment has been completed with results expected in 2010.

In addition to having clinical activity in metastatic disease settings, PROSTVAC™ has indicated even more immunogenic in earlier disease settings, in combination studies with other agents (chemotherapy, radiotherapy, and androgen antagonist therapy), and with intra-tumoral route of delivery. In these earlier disease settings, there is great demand for alternative therapies to delay metastasis, or also importantly, delay androgen deprivation therapy (medical or surgical castration) for patients where the cancer is not yet metastatic. Future studies will more definitively evaluate the ability of PROSTVAC™ to improve patient outcomes in earlier disease stages.

## PROSTVAC™ – recent publications

Overall Survival Analysis of a Phase II Randomized Controlled Trial of a Poxviral-Based PSA-Targeted Immunotherapy in Metastatic Castration-Resistant Prostate Cancer
*Journal of Clinical Oncology, 2010, Jan 25*
PMID: 20100959

Prostvac-VF: a vector-based vaccine targeting PSA in prostate cancer
*Expert Opinion on Investigational Drugs, Volume 18, Issue 7 2009*
PMID: 19548854

Immunologic and prognostic factors associated with overall survival employing a poxviral-based PSA vaccine in metastatic castrate-resistant prostate cancer
*Cancer Immunology, Immunotherapy*
PMID: 19890632

A complete list of PROSTVAC™ publications with abstracts are found at **www.bavarian-nordic.com/prostvac**

## MVA-BN®-HER2 (breast cancer)

Bavarian Nordic's MVA-BN® vaccine candidate for the treatment of breast cancer is designed to express sequences that control immunity to HER2-Neu antigen (HER2). HER2 is a growth factor receptor that is over-expressed by approximately 20 – 30% of patients with localised breast cancer, and is important for the growth of the tumour. HER2 has been validated as a tumour antigen target through numerous preclinical and clinical studies. This is notably exemplified by the efficacy of Herceptin, a humanised anti-HER2 monoclonal antibody, approved by the US and European authorities for treatment in both metastatic and adjuvant disease settings. Active immunotherapy against HER2 is being studied by numerous investigators at an early stage of development using a variety of forms of HER2 including wild-type, truncated, peptide fragments, and modified forms. Bavarian Nordic's approach is to utilise the MVA-BN® vector, engineered to encode a modified form of HER2, to generate endogenous immune response to the critical tumour antigen.

In early 2009, Bavarian Nordic reported data from its clinical Phase I/II studies with its breast cancer vaccine, MVA-BN®-HER2, in development as therapy of metastatic breast cancer patients. The study met its primary endpoint with regards to safety and by showing an immune response.

Additionally, Bavarian Nordic has completed preclinical studies with an improved version of the MVA-BN®-HER2 vaccine. In those studies, the new vaccine induced up to 20-fold higher T-cell immune response as compared to the original version. Furthermore, it proved to be efficacious in additional tumour immunotherapy models in HER2 transgenic mice. The immunological situation regarding HER2 in those mice strongly resembles the situation in humans.

Based on those data from both clinical and preclinical studies Bavarian Nordic decided to advance the clinical development of MVA-BN®-HER2 in further clinical studies with the new and improved vaccine. Specifically, a new Phase I/II study in the US is expected to be initiated in the first half of 2010 and evaluate 20 high risk patients with HER-2-positive breast cancer who have completed adjuvant chemotherapy and Herceptin therapy, and where the cancer has not progressed.

## MVA-BN® PRO (prostate cancer)

Bavarian Nordic's MVA-BN® vaccine candidate for the treatment of prostate cancer is designed to express sequences that control immunity to PSA and Prostatic Acid Phosphatase (PAP). These highly prostate-specific antigens have shown promise as tumour targets when evaluated separately in clinical studies. PSA is also the target of the PROSTVAC™ immunotherapy programme. The concomitant targeting of two prevalent antigens to treat prostate cancer is a distinctive feature of MVA-BN® PRO. The Company anticipates that this feature will confer superior cancer vaccine efficacy and alleviate tumour immune evasion.

The dual vaccine properties of MVA-BN® PRO were verified in preclinical studies that showed induction of broad and comprehensive immune responses to both PSA and PAP following administration of MVA-BN® PRO.

Based on the positive preclinical evaluation of MVA-BN® PRO, a Phase I/II safety and tolerability study in 18 male patients with non-metastatic hormone-insensitive prostate cancer has begun in the US. Preliminary immune evaluation of T-cell responses has showed vaccine-induced responses to both PSA and PAP. Most importantly, treatment in this patient population also resulted in the induction of T-cell responses to tumour antigens other than PSA and PAP. These preliminary data are encouraging as they suggest that MVA-BN® PRO-induced anti-PSA and PAP responses may have led to tumoricidal activity. Further data from the study will be evaluated in 2010.

MVA-BN® PRO clinical study data will form the basis of further refinement of the development plan for this vaccine. Bavarian Nordic will harmonise development of its two prostate cancer therapeutics (PROSTVAC™ and MVA-BN® PRO). A vaccine product incorporating the features of PROSTVAC™, plus the safety of MVA priming and the dual antigens of the MVA-BN® PRO approach may generate an improved product.

The intention is to roll the two projects into a unified development plan that includes the NCI-CRADA. With this approach, Bavarian Nordic will benefit from NCI's expertise and commitment to clinical development of drug candidates.

Research and development

# Biodefence

## Next step: Consolidate

Bavarian Nordic is in the planning of new initiatives to consolidate the company's position within biodefence. The recent award of a new contract from BARDA to develop a freeze-dried formulation of the IMVAMUNE® boosts the biodefence portfolio and is a favourable selling point for prospective customers. Furthermore Bavarian Nordic intends to initiate low cost pre-clinical development of other potential vaccine targets (e.g. Plague, Ebola and Marburg's disease) until the projects are mature for government funding.

### IMVAMUNE® – smallpox vaccine programme

Significant progress has been made in the IMVAMUNE® development programme. In 14 completed or on-going clinical studies more than 2,800 persons have been vaccinated with IMVAMUNE®, including a large proportion of subjects (more than 950) that are immune-compromised due to underlying conditions like HIV and Atopic Dermatitis (AD). Bavarian Nordic is the only company having clinically tested an MVA-based smallpox vaccine in people that are contraindicated to receive first and second-generation vaccines, which include those diagnosed with AD or HIV.

The comprehensive clinical program for IMVAMUNE® has shown promising results:

**IMVAMUNE®**

- is well tolerated and highly immunogenic
- is easily administered through standard procedures such as subcutaneous or intramuscular injection
- provides faster protection than conventional first and second-generation vaccines
- has shown full protection in lethal challenge studies in mice and monkeys
- has in animal studies shown protection even when administered after infection

A Phase II study designed to demonstrate the effect of IMVAMUNE® when administered as a booster dose was completed in the second half of 2009. Subjects were enrolled two years after being previously vaccinated with IMVAMUNE® either once or twice in a previous Phase II clinical study. Following a booster vaccination with IMVAMUNE® the immune responses were rapidly boosted to higher levels than previously observed in the earlier Phase II trial. Moreover, the same response was observed even in the subjects that had previously only received a single IMVAMUNE® vaccination 2 years before the booster. This study has demonstrated that both a single or double vaccination of IMVAMUNE® induces a long-term immune memory, capable of rapidly responding to re-exposure to a poxvirus. The study further supports the efficacy of a single vaccination of IMVAMUNE® in an emergency situation, as has also been shown in relevant animal efficacy models (Samuelsson et al., 2008).

**Moving towards Phase III**

Upon the completion of the Phase II, and the submission of the data package, required to support the use of IMVAMUNE® in a declared emergency to the US health authorities in late 2008, Bavarian Nordic held an end of Phase II meeting with the FDA in 2009 to discuss the pivotal animal and clinical studies to achieve a full FDA drug approval and licensure of IMVAMUNE® under the Animal Rule. This new rule allows the US authorities to approve drugs that are shown to be effective in animal models, without clinical trials for effectiveness. Such a methodology is needed for bioterror agents, e.g. drugs against smallpox and anthrax, where studies of clinical effectiveness in humans are impossible.

The end of Phase II meeting was successful. The animal efficacy models and Phase III protocol have essentially been agreed with the US authorities – outlining a clear path for licensure of IMVAMUNE®. This meeting represented the first ever formal discussions with the US authorities to license a vaccine under the new legislation of the Animal Rule and hence marks a major regulatory milestone in the successful development of IMVAMUNE®. Once all protocol details have been agreed with the US authorities, a Vaccines Related Biological Product Advisory Committee (VRBPAC) will be scheduled to ratify the license strategy.

**New development contract from the US Government to improve IMVAMUNE®**

In 2009, BARDA (Biomedical Advanced Research and Development Authority) published a Broad Agency Announcement (BAA) soliciting proposals for the advanced development of medical countermeasures against chemical, biological, radiological and nuclear (CBERN) threats.

In response to this announcement, Bavarian Nordic submitted a proposal in June for the development of a freeze-dried formulation of the MVA-based smallpox vaccine, IMVAMUNE®.

A freeze-dried formulation of IMVAMUNE® offers various new advantages in terms of a potential increased shelf-life compared to the current liquid-frozen formulation. Additionally, this would help overcome the challenges with the cold-chain logistics and storage.

In November 2009, Bavarian Nordic was awarded a new contract for the development of a freeze-dried version of its IMVAMUNE® smallpox vaccine with a total prospective value of USD 40 million.

The contract provides funds to validate the new freeze-dried

## IMVAMUNE® – recent publications

A randomized, double-blind, dose-finding Phase II study to evaluate immunogenicity and safety of the third generation smallpox vaccine candidate IMVAMUNE®.
Vaccine. 2009 Nov 24
PMID: 19944151

IMVAMUNE: modified vaccinia Ankara strain as an attenuated smallpox vaccine
Expert Rev Vaccines. 2009 Jan;8
*An independent review in Expert Review of Vaccine, Vol. 8, No. 1, summarizing the latest clinical findings with IMVAMUNE®.*
PMID: 19093767

Evaluation of smallpox vaccines using variola neutralization
J Gen Virol. 2009 Aug;90(Pt 8):
*A study performed by the CDC demonstrating that the sera from subjects vaccinated with IMVAMUNE® induced a comparable, if not superior, ability to neutralize variola, the causative agent of smallpox in man, compared to the sera from people vaccinated with Dryvax®.*
PMID: 19339477

Evaluation of the efficacy of modified vaccinia Ankara (MVA)/ IMVAMUNE against aerosolized rabbitpox virus in a rabbit model
Vaccine. 2009 Sep 4;27
*Additional animal studies have shown that IMVAMUNE® induces a comparable efficacy as the currently licensed smallpox vaccine (ACAM2000™) in two monkey challenge models, while an independent study demonstrated that IMVAMUNE® was comparable, if not superior, as a traditional smallpox vaccine at protecting rabbits from a lethal challenge with rabbitpox.*
PMID: 19632316'

A complete list of IMVAMUNE® publications with abstracts are found at **www.bavarian-nordic.com**

manufacturing process and the associated pre-clinical and clinical studies to support the advanced development of a freeze-dried version of IMVAMUNE®. The base year funding represents 33% of the total contract value, followed by four additional years of optional funding, which are likely to be triggered by the completion of pre-determined technical milestones. These freeze-dried development activities will be performed in parallel to the licensure activities of the current liquid-frozen IMVAMUNE® formulation under the RFP-3 contract.

The new contract will have no influence on the ongoing contracts for IMVAMUNE® in the current liquid-frozen formulation, but represents an additional business opportunity and will expectedly constitute the gateway towards securing additional contracts for this new freeze-dried version with the US Government and outside the US as well.

**Ongoing studies**
Bavarian Nordic has two ongoing clinical studies, both of which are funded under the ongoing RFP-2 contract with the US government. These include:

- A Phase II study of patients diagnosed with Atopic Dermatitis
- A Phase I study in subjects between 56 and 80 years to generate data on safety and immunogenicity of IMVAMUNE® in an elderly population

The Phase II study to evaluate IMVAMUNE® in subjects with mild to moderate Atopic Dermatitis is still ongoing. Recruitment was completed in March 2009 and reached enrolment of the targeted 560 subjects, of which more than 300 are individuals diagnosed with AD. Use of IMVAMUNE® in this population has so far been shown to be safe and well tolerated, confirming the results of a previously performed Phase I study. The final report from this trial, including a 6 month follow-up for safety and the complete immunogenicity data set is expected in second half of 2010.

The randomized, double-blind, placebo-controlled Phase II study to generate data on safety and immunogenicity of IMVAMUNE® in an elderly population (121 subjects between the ages of 56 and 80 years) completed enrolment in the beginning of 2010. The clinical study report is planned to be available in second half of 2010.

**Anthrax**
In 2008, Bavarian Nordic initiated an anthrax vaccine program based on MVA-BN®. This would be a combined anthrax and smallpox vaccine and would build upon Bavarian Nordic's existing ability to manufacture MVA-BN® at an industrial GMP (Good Manufacturing Practice) scale.

Bavarian Nordic has since developed a number of MVA-BN® anthrax constructs and is presently running animal efficacy studies. It is the goal of Bavarian Nordic to secure funding from the US authorities for the continued development of the MVA-BN® anthrax vaccine and initiate the Phase I study in 2010.

An MVA-BN® anthrax vaccine could potentially have the following advantages:

- Combined smallpox and anthrax vaccine – one vaccine to offer protection against two of the largest biological threats
- Improved safety compared to first-generation anthrax vaccines – also suitable for high risk groups
- Efficacy after three/four vaccinations (for anthrax)
- Validated manufacturing process for MVA-BN® lot consistency (no complicated formulation with alum)
- Improved stability as a freeze-dried formulation

Research and development

# IMVAMUNE® – commercial contracts

IMVAMUNE® is positioned as a new and superior third-generation smallpox vaccine for protection of:

- Military and first-line responders (health care workers, military, police, etc.)
- Individuals contraindicated for conventional smallpox vaccines: e.g. individuals with HIV, people with atopic dermatitis (AD) and members of their households. This typically represents approximately 25% of the general population
- The general population

IMVAMUNE® is currently an unlicensed vaccine and has gained fast track status at the US authorities. Because of the high need for a safer smallpox vaccine, IMVAMUNE® is already in production and available for governments globally under their national emergency rules.

**Contract (RFP-3) with the United States**
During 2009, Bavarian Nordic continued the upscaling of production of IMVAMUNE® in order to ensure a sufficient delivery of vaccines under the RFP-3 contract, once accepted by the US authorities under emergency rules.

To begin delivering IMVAMUNE® to the US authorities, Bavarian Nordic must first fulfil the requirements connected with the potential use of the vaccine following a declared emergency (EUA). Data from the pivotal Phase II study was reported in late 2008 and subsequently submitted to the US authorities for evaluation of whether it supports the use of IMVAMUNE® following a declared emergency. During the spring 2009, the US Food and Drug Administration (FDA) responded to this submission with the notice that they would perform a GMP inspection of the IMVAMUNE® manufacturing facilities. These GMP inspections were carried out at both Bavarian Nordic's Kvistgård facility and IDT Biologika, Bavarian Nordic's contract filling partner in Germany. Both companies hold manufacturing authorisations from the local Danish and German authorities and receive regular inspections from these authorities.

While the FDA did not raise any concerns regarding the facilities or the IMVAMUNE® validated manufacturing process, the inspections resulted in a number of observations that require corrective actions. The Company has submitted its responses to these observations, covering both the Kvistgård facility and IDT Biologika, and submitted the required documentation of the changes to the

## RFP Contracts

Overview of contracts with the US government:

| Contract | Awarded in | Contents | Value |
|---|---|---|---|
| RFP-1 | 2003 | Early clinical and technical development of IMVAMUNE® | **USD 29 m** |
| RFP-2 | 2004 | Industrialisation of production process<br>– production and delivery of 500,000 doses.<br>Clinical studies to support an EUA for the use of the vaccine in healthy persons. | **> USD 115 m** |
| RFP-3 base | 2007 | Clinical studies designed to support registration of the vaccine for use in healthy persons and for an EUA for use of the vaccine in persons infected by HIV.<br>Delivery of 20 million doses of vaccine | **USD 500 m** |
| RFP<br>Freeze-dried | 2009 | Validation of production process<br>Preclinical and clinical development to support emergency use | **USD 40 m** |
| RFP-3 option | Not yet awarded | Procurement of an additional 60 million doses.<br>Clinical studies designed to support registration of the vaccine for use in persons infected by HIV, children and elderly people. | **Minimum USD 1.100 m** |

FDA for review and acceptance. On this background the Company expects delivery of IMVAMUNE® to the US authorities to be initiated before the end of first half of 2010.

Once the Company has been granted allowance to start deliveries of vaccines to the US authorities under the RFP-3 contract, Bavarian Nordic will start invoicing the remainder of the contract, including payments of USD 375 million. Most of the amount will be payable in connection with the delivery of the vaccines to the US authorities. However, USD 50 million of the total contract payments will not be due until upon the licensure of the vaccine.

Under the contract, Bavarian Nordic has already received payments totalling USD 125 million, including an advance payment of USD 50 million and three milestone payments of USD 25 million each. In addition, a milestone payment of USD 25 million is due upon enrolment of the first 500 patients in a phase III clinical study in IMVAMUNE®, and is subject to repayment if Bavarian Nordic does not fulfil the contractual obligations. In such case, the advance payment of USD 50 million will also be subject to repayment.

**Contracts outside the United States**

Bavarian Nordic's commercial department, which was fully built up in 2008, has successfully established a good dialogue with a number of countries, primarily in the Middle East and Asia; a dialogue aimed not just at generating sales of IMVAMUNE®, but which also includes the expertise of Bavarian Nordic in the planning of biological preparedness for those countries. The Company regularly participates in activities such as seminars and drills where government representatives and experts meet to discuss potential threats and assess current preparedness. On such occasions, Bavarian Nordic presents IMVAMUNE® which, through its attractive safety profile, rapid onset and ease of administration, is the ideal smallpox vaccine both for first-line responders in emergency situations and for the population in general, a large number of whom should not be vaccinated by traditional smallpox vaccines.

In line with its strategy, Bavarian Nordic has entered several minor contracts for delivery of IMVAMUNE® with a number of countries during the last couple of years, including two contracts with an Asian country in 2008. Still, no major contracts are expected before IMVAMUNE® is a registered vaccine. However the forthcoming expected emergency approval of IMVAMUNE® in the US is expected to be an important trigger for other countries to consider the procurement of a safer and easier administrable vaccine as IMVAMUNE® for their bioterror preparedness.

**Canada**

In 2008, Bavarian Nordic was awarded a contract by the Canadian Government for the acquisition of 20,000 doses of IMVAMUNE® which were delivered in 2009 and accepted under a Canadian Special Access Programme. Under the contract, the Canadian Authorities will provide Bavarian Nordic with milestone-based funding for the filing of a New Drug Submission (NDS) for IMVAMUNE® in Canada.

Following the completion of the Phase II development for IMVAMUNE®, Bavarian Nordic held a meeting with Health Canada in October, 2009. Upon review of the current data package, which included the manufacturing, clinical and animal data, Health Canada recommended that Bavarian Nordic submit an NDS application for consideration to license IMVAMUNE® as a smallpox vaccine for the general population.

The NDS is expected to be filed in the second half of 2010, possibly leading to the first license of IMVAMUNE® during 2011.

**First EU contract for IMVAMUNE®**

In September 2009, Bavarian Nordic signed a contract with the military of an undisclosed EU country for the delivery of a small order for IMVAMUNE®.

This marks the first time, Bavarian Nordic enters a contract with an EU country for the delivery of IMVAMUNE®, and it demonstrates that there exists a real demand inside of EU for new and safer smallpox vaccines for preparedness stockpiles.

The vaccines were delivered in 2009. The size and value of the contract is undisclosed.

Research and development

# Infectious diseases

Bavarian Nordic has two projects in infectious diseases, both of which are at an early development stage: HIV *multiantigen* and measles/RSV. The company seeks to establish partnerships in the early development stage for these projects, and will not initiate any cost-intensive Phase II studies for its infectious disease projects without external funding.

**MVA-BN® HIV *multiantigen***

MVA-BN® HIV *multiantigen* is both a prophylactic and a therapeutic vaccine candidate expressing eight whole or truncated antigens from HIV with the aim of eliciting a very broad immune response against HIV.

The MVA-BN® HIV *multiantigen* vaccine encodes eight genes from HIV, including Nef, and thus represents a more advanced vaccine candidate compared to Bavarian Nordic's previous MVA-based HIV vaccine candidates, MVA HIV *nef* and MVA-BN® HIV *polytope*. In previous clinical studies with MVA HIV *nef*, Bavarian Nordic has demonstrated proof of concept for the MVA technology's ability to control HIV replication. Furthermore, the vaccine was shown to be immunogenic and to induce a broad T-cell response to Nef. The improved technology using the MVA-BN® HIV *multiantigen* advances the technology further and thus represents an excellent opportunity to stimulate a broad immune response to the majority of the HIV proteins that will likely have important implications in a prophylactic and therapeutic setting for HIV.

The first Phase I trial in 15 HIV-infected patients for this MVA-BN®-based prophylactic and therapeutic HIV vaccine candidate completed enrolment in 2008. All subjects received three vaccinations of MVA-BN® HIV *multiantigen*, which was well tolerated, and no serious adverse events were reported, further confirming the excellent safety profile of MVA-BN®-based vaccines in this immune compromised population. Following the vaccination course with MVA-BN® HIV *multiantigen*; the majority (87%) of the HIV-infected subjects generated a T-cell response to HIV. This cell-mediated response was demonstrated to be broad as 67% of the subjects had responses to at least two HIV antigens, while approximately 50% had generated response to at least 3 HIV antigens. This study confirms the proof of concept studies performed with MVA HIV nef, as an MVA-BN® based HIV vaccine has again shown to be well tolerated and able to induce a broad T-cell response to multiple HIV proteins in HIV infected subjects.

**Childhood vaccines**

The ability of recombinant MVA-BN® to stimulate durable antibody production in newborns has not been seen with other highly attenuated vaccine vectors or licensed vaccines and is considered novel and an exciting opportunity to improve existing childhood vaccines and to develop vaccines for diseases such as Respiratory Syncytial Virus (RSV), for which there is currently no licensed vaccine.

These properties of MVA-BN® that allow the vaccination of newborns led Bavarian Nordic to develop its childhood vaccines program with a measles vaccine candidate as a proof-of-concept vaccine i.e. demonstrate that an MVA-BN® based vaccine could induce protective immune responses in children younger than

12 months old. The measles vaccine candidate was chosen as the lead product, because there is a clear unmet medical need for more effective measles vaccines for use in children below 1 year of age in sub-Saharan Africa and South East Asia, where the measles virus is still endemic and significant measles related morbidity and mortality still exists. This has allowed the rapid development and testing of MVA-BN® Measles vaccine in the paediatric population.

**Measles**
A Phase I clinical study in healthy adults revealed that Bavarian Nordic's vaccine candidate was highly immunogenic in subjects that had prior measles immunity. Comparison of these results to another vaccination study performed by Bavarian Nordic in which adult subjects with existing measles immunity were vaccinated with a licensed measles vaccine revealed that Bavarian Nordic's measles vaccine construct was capable of inducing much better measles immune responses than the licensed measles vaccine. This information suggests that Bavarian Nordic's vaccine construct has a high potential to overcome the weaknesses of current measles vaccines. Maternally derived antibodies will not affect the efficacy of the vaccine, and the vaccine may induce effective immune responses in very young children with immature immune systems.

The first paediatric clinical trial evaluating the safety and immunogenicity of MVA-BN® Measles was initiated as planned in 2009. Recruitment and vaccination of 90 children between the ages of 6 months to 6 years for this Phase I study was completed early in 2010, with no serious adverse side effects reported. A clinical study report is expected to be finalized in the second half of 2010.

The clinical development of the measles candidate vaccine is planned to demonstrate that a MVA-BN®-based vaccine is not only safe, but also capable of inducing strong immune responses in the very young, which will support the childhood platform concept for MVA-BN®.

**RSV**
Bavarian Nordic's strategy is to develop a recombinant MVA-BN® vaccine encoding two surface proteins of RSV, Fusion (F) and Gylcoprotein (G). This vaccine candidate has shown to induce a protective immune response in a relevant animal model, while not inducing any enhanced disease (inflammation in the lungs as measured by the induction of eosinophils).

The Phase I study for the RSV vaccine is expected to be initiated after the measles vaccine has been shown to be well tolerated and immunogenic in children younger than 6 months old.

# Corporate Social Responsibility

For several years, Bavarian Nordic has reported on the company's environmental work via the green accounts which have been prepared in accordance with Danish legislation. Now, the company takes its reporting a step further with the integration of social responsibility, including environmental issues, in the annual report as from 2009.

In Bavarian Nordic we have defined our work with social responsibilty through various stakeholders. Initiallt we will focus on the environment, employees and suppliers. In time we will assess whether it is relevant to include other stakeholders as well.

**Exisiting objectives and policies will form the basis of an overall strategy**

We do not have a formalised general policy for corporate social responsibility. However, we have for several years worked according to specific objectives and policies in relevant areas. These objectives and policies are now united in an overall policy for corporate social responsibility, which will be implemented continuously and will form part of the Company's overall strategy going forward.

The objectives are in line with existing activities, which are relevant for the work with social responsibility. We aim to secure, that all parameters that are being reported either directly or indirectly have a relevant business purpose. The primary subject of our report is the environment, where we have used our existing reporting procedures as a starting point. This includes the green accounts that have been prepared on a yearly basis since 2005 where our production facility in Kvistgård was put into operation. Besides the environment, our CSR report is concentrated on issues related to employees and suppliers.

The CSR report has been reviewed by the Company's auditor. The auditor's report on the review is included in the complete CSR report, which can be downloaded from the company's website.

**Download the CSR report**
**www.bavarian-nordic.com/csr**

# Corporate Governance

NASDAQ OMX recommends that companies listed on NASDAQ OMX comply with the corporate governance principles recommended by NASDAQ OMX' committee on Corporate Governance in 2001 (revised in 2008 with effect for financial years beginning on or after 1 January 2009).

Bavarian Nordic regularly evaluates developments within Corporate Governance and best practice in relation to the business areas of the Company.

According to "Rules for Issuers of Shares" issued by NASDAQ OMX, a company listed on NASDAQ OMX must comment on its position relative to the "Recommendations on Corporate Governance". The comments must be prepared by applying the"comply or explain" principle.

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

The Company complies with the "Recommendations on Corporate Governance". The Company has decided to embark on certain deviations as explained in detail on the Company's website: **www.bavarian-nordic.com/corporategovernance.**

## Board practices

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

The Board of Directors discharges its duties in accordance with the rules of procedure of Bavarian Nordic A/S set out for the Board of Directors. The rules of procedure are reviewed and updated by all members of the Board of Directors.

The Board of Directors holds four ordinary board meetings each year. In addition, the Board of Directors meets as and when required. In 2009, seven board meetings were held.

The Board of Directors receives regular reports about the affairs of the Group from the Corporate Management.

**Practices of the Corporate Management**
Members of the Corporate Management are appointed by the Board of Directors which lays down their terms and conditions of employment and the framework for their duties. The Corporate Management is responsible for the day-to-day management of Bavarian Nordic A/S in compliance with the guidelines and directions issued by the Board of Directors. The day-to-day operations do not include transactions of an unusual nature or of material importance to the affairs of Bavarian Nordic A/S.

# Risk Management

It is Company strategy with respect to risk management to work continually to identify material risks that could affect the Company's work, future performance or goals or the interests of the shareholders, so that the Company is run in accordance with best practice in the Company's area of business.

The Company has set up internal systems for this purpose and also uses external advisers to assist in the constant assessment and updating work. The Board of Directors regularly monitors reporting on these initiatives, and its work is then included in the Board's assessments and decisions about the Company's activities and future.

In 2009, the Company has focused on risks regarding currency exposure and liquidity. A reduction in the outstanding foreign exchange contracts was executed in order to eliminate the adverse effect on the liquidity a rise in USD will have.

To partly compensate for the increased currency exposure the Company's construction loan was swapped from DKK to USD.

**Risk factors**

Expectations and assumptions in the annual report concerning Bavarian Nordic's business, the market for vaccines against smallpox, cancer and infectious diseases, and Bavarian Nordic's revenue, accounting results and expected market share are subject to substantial uncertainty. There is no guarantee that Bavarian Nordic will wholly or partly achieve its expectations for revenue or the profit/loss for the year. The major uncertainties include, but are not limited to:

- Fulfilment of the RFP-3 contract for IMVAMUNE®
- Ability to enter a partnership agreement on PROSTVAC™
- Collaborative agreements
- Developments in the USD exchange rate and how it affects the free liquidity and futures revenue
- Bavarian Nordic's production capacity and subcontractors
- Duration of review processes by various authorities
- Protection of patents and other intellectual property rights
- Clinical development
- Risks relating to Bavarian Nordic's technologies and products
- The company's cash preparedness
- Establishment of a credit facility for working capital
- Foreign currency risks
- Tax risks
- Interest rate risks

The primary risk in 2010 relates to the fulfilment of the RFP-3 contract.

In case Bavarian Nordic only receives the delivery allowance from the US authorities to initiate delivery of IMVAMUNE® in late 2010 instead of during first half 2010, or if a conditional delivery allowance is granted or if the Group is not able to obtain a credit facility for financing working capital going forward, once delivery allowance regarding the RFP-3 contract has been obtained from the US authorities, the Group must align its strategy including action plans and will subsequently rely on additional financing by the end of first half 2010.

Bavarian Nordic's operational risks further include the ability to enter into collaborations with partners for development, manufacturing, marketing and financial resources.

There are additional risks related to sales contracts and the related production.

Currency risk includes the risk arising because sales and production contracts are denominated in currencies other than Danish kroner, and the cost base is primarily in Danish kroner. Contracts are primarily in US dollars and thus other currencies do not represent significant currency risks. The Company assesses that exposure from fluctuations in the USD is reduced in the income statement and on the equity, because a significant part of the exposure is hedged either by loans in USD or by forward exchange instruments. The liquidity can be influenced by changes in the USD/DKK exchange rate in that profit or loss from the forward exchange contracts can be settled when the contracts are due for extension. Changes in the USD/DKK exchange rate can affect the liquidity by approximately DKK 5 million per 0.10 change in the USD/DKK exchange rate.

Bavarian Nordic is primarily exposed to interest rate risk through interest-bearing assets and obligations. The liquidity surplus is primarily invested in short-term solid credit-rated bonds in Danish kroner or US dollars and also in fixed deposits in Danish kroner or euros.

The intellectual property position on matters relating to biopharmaceuticals and bio-technological innovation is uncertain and involves complex legal and factual issues. There can be no assurance that Bavarian Nordic can successfully defend the validity of its patents or oppose infringement claims.

Delays or intervention by the authorities in future or current clinical trials could also have a substantial impact on Bavarian Nordic's operations and financial position.

# Internal Control

**Financial Reporting Process**
The Board of Directors and the Management of Bavarian Nordic are overall responsible for the Group's control and risk management in connection with the financial reporting process, including compliance with rules and regulations that are relevant for the reporting.

Bavarian Nordic has an audit committee consisting of the Company's board members and chaired by Flemming Pedersen. The audit committee reviews and discusses the accounting and audit practices with the Company's auditors elected at the general meeting and the Corporate Management in accordance with the working framework of the audit committee.

Bavarian Nordic's main focus is to ensure that its financial statements are in compliance and give a correct and reliable view of the Company's operations and financial position.

Financial planning, follow up and reporting for the individual business areas are standardised and followed by integrated systems for the Group.

Relevant segregation of duties has been implemented. Further, the controller team in the corporate finance department maintains collaboration between the business areas in the subsidiaries and the parent company and performs qualitative business support as link to ensure efficiency and effectiveness in knowledge sharing between the business and the corporate finance department.

Monthly closing procedures have been developed in the both the accounting and controlling team, including in-depth analysis of deviations between actual performance, business plans and budgets and last updated estimate for the financial year. Monthly management reporting is compiled based upon top-down approach, included deviation explanation for key business area and reviewed by Executive Management, before distribution to the Board of Directors.

The quarterly financial reporting is prepared by the corporate finance and for key risk focus areas reviewed by the auditors.

The annual audit and reporting process includes detailed planning of individual tasks, planning meeting between IR, Finance and the auditors, based on an audit strategy, approved by the audit committee.

The annual report is completed in close collaboration with key personnel of the Management and individuals in the business units.

Further, the auditors ensure that the financial statements give a reliable and true view of the Group's assets, liabilities, financial position and ensure that the annual report is prepared in accordance and compliance with accounting policies and practice.

**Control environment**
Once a year as a minimum, the Board of Directors assesses the organisational structure, the risk of fraud and the presence of internal rules and guidelines.

The Group's control and risk management systems give a reasonable, but not absolute certainty that unlawful use of assets, loss and/or significant errors or deficiencies in relation to the financial reporting process can be avoided.

The Board of Directors determines and approves the overall policies, procedures and controls in significant areas in relation to the financial reporting process. The Board of Directors approves the overall policies, procedure and controls, which are maintained and monitored by the Executive Management and key personnel representing each business area.

Bavarian Nordic has established policies, procedures and manuals in the key areas related to the financial reporting process; business procedures for investments, financial reporting and planning, process for the finance function, other key business restricted operations and IT security.

**Risk assessment**
Once a year as a minimum, the Board of Directors assesses the risks connected with the financial reporting process.

The goal of Bavarian Nordic's internal control system is to maintain effective procedures for identification, monitoring and reporting of risks and maintain safety and security measures in the IT area. Information technology and computerised systems are widely used in almost any area in Bavarian Nordic. Several processes are automated and key decisions and actions are being taken through electronic interfaces.

As part of the risk assessment, the Board of Directors assesses the risk of fraud and the measures that should be taken in order to reduce and/or eliminate such risks. In that regard any incentive or motive from the Management to perform earnings manipulation or any other fraudulent action is being discussed.

# The Bavarian Nordic Share

## Bavarian Nordic's core data

| | |
|---|---|
| Stock Exchange | NASDAQ OMX Copenhagen |
| Share capital | DKK 79,517,450 |
| Number of shares | 7,951,745 |
| Class of shares | One class |
| Nominal value | DKK 10 |
| Bearer security | Yes |
| Ownership and voting right restrictions | No |
| ID code | DK0015998017 |
| Ticker symbol | BAVA.CO |

As of 9 March 2010 the share capital comprises of 11,912,052 shares, corresponding to a share capital of DKK 119,120,520.

**Share price development and trading volume in 2009**
Bavarian Nordic's share price rose approx. 9 % in 2009. The share price at 2008 year-end was DKK 132.00 and at year-end 2009 the price was up at DKK 143.50. During the same period, the MidCap index in which Bavarian Nordic is placed rose with 17.5 %. Share price volatility has in general been very high. The Bavarian Nordic share price fluctuated between a low of DKK 103.00 and a high of DKK 288.00.

The trading volume in Bavarian Nordic's share continues to be relatively low. The decline is primarily caused by two factors. Firstly, the technical reason is that a part of the trading is no longer reported as regular trading, but rather as OTC (over the counter) trades and thus does not appear in the statistics. Secondly, the financial crisis and economic slowdown has caused a general decline in the trading on the stock exchange and this has in particular influenced high risk biotech shares in the Smallcap and Midcap index.

**Rights issue completed in January 2010**
During January 2010 Bavarian Nordic successfully completed a rights issue with pre-emptive rights to existing shareholders. The size of the offering was 3.975.872 new shares providing the company with net proceeds of approx. DKK 300 million. In the offering, 3,960,307 new shares with a nominal value of DKK 10 each were subscribed, corresponding to 99.6% of the new shares.

The successful result of the rights issue has attracted a lot of positive attention from both new and existing investors at home and abroad.

**Ownership**
As of 31 December 2009, Bavarian Nordic had 14,953 registered shareholders owning 6,674,165 shares, which corresponds to 83.9 percent of the share capital. In 2009 the number of registered shareholders increased by 871. Bavarian Nordic invites its shareholders to have their shares registered with the Company.

Bavarian Nordic does not hold any of its own shares.

Due to the rights issue that was completed in the beginning of 2010, Bavarian Nordic's share capital was increased with 3,960,307 shares with a nominal value of DKK 10 each, totalling the outstanding number of shares to 11,912,052 with a nominal value of DKK 10 each. The company regularly updates its website with information about the number of registered shareholders and their holding of shares.

**Major shareholders as of 9 March 2010**
By 9 March 2010, the following shareholders had publicly informed Bavarian Nordic that they owned five percent or more of the Company's shares:

| | |
|---|---|
| A. J. Aamund A/S, Copenhagen | 13.06% |
| Arbejdsmarkedets Tillægspension (ATP), Hillerød | 12.17% |
| Lønmodtagernes Dyrtidsfond, Copenhagen | 7.84% |

**Dividend policy**
Bavarian Nordic does not expect to declare dividends until the Company has achieved an adequate capital base. However, the Company continues to strive towards securing an adequate capital base for future dividend payments. The Board of Directors will propose at the Annual General Meeting on 27 April 2010 that no dividends be paid.

**Annual General Meeting**
The 2010 Annual General Meeting will be held at 4 pm on Tuesday, 27 April 2010, at Comwell Borupgaard, Nørrevej 80 DK-3070 Snekkersten, Denmark.

**Investor Relations**
Through its investor relations policy, the Company wishes to comply with the general requirements and recommendations of the NASDAQ OMX Copenhagen. The Company seeks to do so by, among other things, ensuring timely and correct communication

about relevant strategic, economic, financial, operational and scientific affairs of the Company.

Bavarian Nordic has upgraded the corporate website in order to ensure that visitors to the site are quickly and efficiently provided with the latest up to date overview of the Company's activities and plans.

The direct investor contact is important in the communication of company progress, and the Company has added additional management resources to the Investor Relations Department in recent years. Bavarian Nordic wishes to continue to develop its dialogue with the Company's shareholders, analysts, prospective investors and other stakeholders by providing open, honest and accessible information.

Around ten analysts from different investment banks and companies in Denmark and abroad follow the Bavarian Nordic share and regularly issue recommendations based on the Company's performance and factors that may influence on its business. A list of all analysts is found on the company's website.

**Road shows and investor meetings abroad**

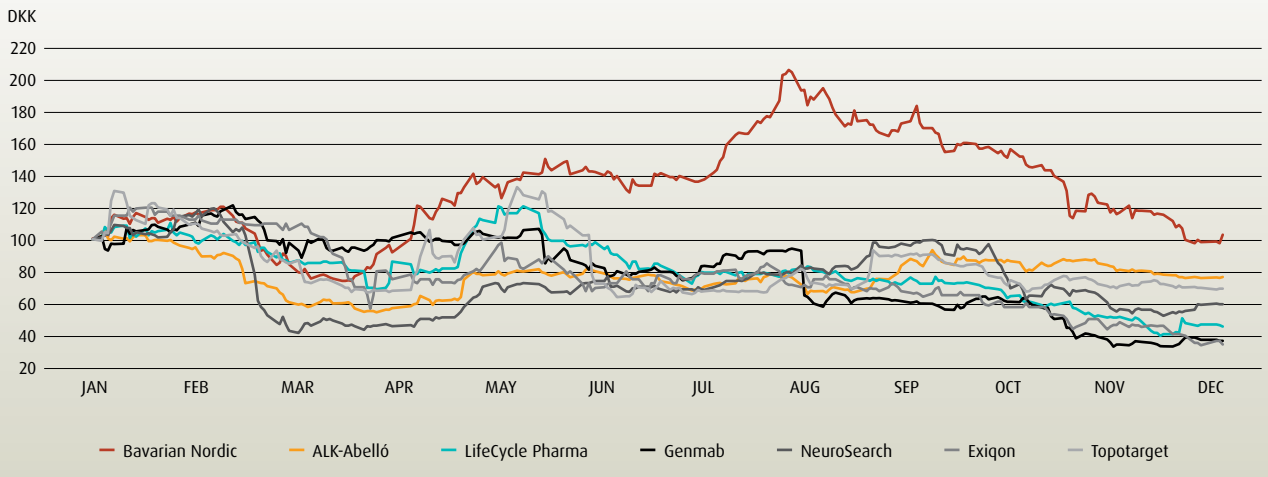
The management and the investor relations team work hard to present Bavarian Nordic to international institutional investors, analysts and the media. These activities will be given high priority with the aim of attracting more international investors, including investors from the United States and UK, so as to ensure that the shareholder base better reflects the geographic diversification of the Company's activities and future sales. Over the past year, Bavarian Nordic's road shows travelled to venues such as Paris, Frankfurt, Scandinavia, Zurich, Geneva, London, New York and Boston. The Company also participates in a number of investor conferences.

Bavarian Nordic is also presented to private investors in Denmark. This is done in collaboration with other Danish biotech and pharmaceutical companies and investment banks. Bavarian Nordic often participates in shareholder events and meetings for private investors. In order to promote good relations with the local community, local shareholders and stakeholders are occasionally invited for an evening presentation at Bavarian Nordic.

## Financial Calendar 2010

| | |
|---|---|
| 9 March | 2009 Annual accounts |
| 27 April | Annual General Meeting |
| 27 April | First quarterly report (Q1) |
| 31 August | Half-year report (Q2) |
| 9 November | Third quarterly report (Q3) |

## Danish biotech shares in 2009, indexed



# Financial Review 2009

Unless otherwise stated, the financial review is based on the Group's consolidated financial information for the year ended 31 December 2009 as included in this Annual Report with comparative figures for the Group in 2008 in brackets.

A pre-tax loss of DKK 331million (DKK 183 million) was recorded for the year, which was in line with our guidance in our announcement dated 18 December 2009.

The Group's net free cash flow was DKK 185 million at the end of the year (DKK 796 million).

Equity stood at DKK 704 million at 31 December 2009 (DKK 1,015 million).

## Income statement

**Revenue**
Bavarian Nordic generated revenue of DKK 75 million in 2009 (DKK 209 million). The revenue was primarily composed of revenue from the ongoing contracts with the US health authorities (development contracts RFP-1 and RFP-2) and from delivery of IMVAMUNE© primarily to Canada.

**Production costs**
Production costs, which amounted to DKK 140 million (DKK 197 million), include costs incurred to generate the recognised revenue and costs of external suppliers, payroll costs, depreciation and amortisation. The decline compared to 2008 is mainly due to a reassessment of the estimate for amortisation, which has resulted in a write-back DKK 18 million from 2008 as stated in note 13 as well as a reassessment of cost centres used for production of inventories.

**Research and development costs**
Research and development costs totalled DKK 164 million (DKK 130 million) excluding capitalised costs, which totalled DKK 38 million. The development costs primarily consisted of in-house payroll costs and costs related to projects. The increase is primarily due to increased activities in the cancer business area. The increase is further related to the expansion of the Quality Assurance department as a result of an increase in regulatory demands as a consequence of the initiation of production activities as well as increase in studies in general.

**Distribution costs and administrative expenses**
Distribution costs and administrative expenses in 2009 totalled DKK 112 million (DKK 92 million). The increase is partly due to the implementation of IT systems, partly to personnel costs related to an increase in the number of employees and partly to legal fees related to the acquisition of the minority shares in BN ImmunoTherapeutics and the Oxford BioMedica case.

**Financials**
During 2009, Bavarian Nordic posted net financial income of DKK 10 million (DKK 26 million). The reduction compared to 2008 was mainly due to the reduction in net free liquidity during the year and the lower interest rate level in general.

**Income before tax**
Bavarian Nordic recorded a loss before tax of DKK 331 million (a loss of DKK 183 million).

**Tax**
Adjustment of deferred tax yielded DKK 65 million (DKK 33 million).

**Net profit**
A net loss of DKK 266 million after tax was posted in 2009 (a loss of DKK 150 million). It is proposed that the loss be transferred to free reserves.

## Balance sheet

The balance sheet total was DKK 1,271 million as at 31 December 2009 (DKK 1,694 million).

**Assets**
Non-current assets stood at DKK 715 million (DKK 594 million). The increase was primarily due to an increase of research and development costs related to the registration of IMVAMUNE© under the RFP-3 contract, acquisition of a new IT system and related consultancy costs as well as an increase in the tax asset as a result of the loss in the period.

Development costs for IMVAMUNE® of DKK 96 million were capitalised as of 31 December 2009 (DKK 64 million as of 31 December 2008) under intangible assets as an investment in progress.

Based on the contracts already concluded and expectations for future operations, the tax assets at the end of 2009 are recognised in the balance sheet in the amount of DKK 234 million (DKK 159 million).

Inventories amounted to DKK 246 million (DKK 62 million). Inventories comprised raw materials for production at the Kvistgård facility, work in progress and manufactured goods and commodities. Inventories were written down by DKK 34 million on 31 December 2009 (DKK 43 million), due to that vaccines were not released.

Receivables stood at DKK 125 million (DKK 242 million), Most of these receivables are pre-payments for future fillings. The reduction is due to the fair values on financial instruments entered earlier to hedge future cash flows.

In 2009, Bavarian Nordic's cash and cash equivalents were primarily invested in fixed-term deposits with banks, short-term government and mortgage bonds and ordinary bank deposits.

As at 31 December 2009, net free cash and cash equivalents stood at DKK 185 million (DKK 796 million).

The fixed-term deposits are denominated in Danish kroner and are at interest rates reflecting the short term Danish money market. The investments in bonds were also denominated in Danish kroner at year-end 2009.

## Equity

After the transfer of the loss for the year, equity stood at DKK 704 million (DKK 1,015 million). The DKK 311 million decline was primarily attributable retained earnings of DKK 266 million and to the acquisition of the minority shares in BN ImmunoTherapeutics which affected the equity by DKK 59 million, partly set-off by the capital increase as part of the acquisition..

**Creditors**

The Group's borrowings was reduced to DKK 119 million (DKK 135 million) in connection with ordinary repayment of debt. Trade creditors amounted to DKK 48 million (DKK 64 million). Other creditors totalled DKK 112 million in 2009 (DKK 204 million). The reduction in other creditors was primarily attributable to financial instruments, which was reduced by DKK 108 million.

In connection with the award of the RFP-3 contract in 2007, an advance payment of DKK 277 million was received from the US health authorities in that year. The advance payment is subject to a repayment obligation if Bavarian Nordic does not meet the delivery requirements under the contract and is recognised as a liability. It will be recognised in the income statement as delivery of the doses to fulfil the contract takes place.

# Management

## Board of Directors

**Asger Aamund**, Chairman
Born in 1940
President & CEO of A.J. Aamund A/S
Chairman of the Board since establishment in 1994.

*Chairman of the board of directors*
Bankinvest Biomedical Venture Advisory Board

*Member of the board of directors*
A.J. Aamund A/S
Modern Times Group MTG AB, Stockholm
Verdensnaturfonden WWF

| | 31.12 2009 | 09.03 2010 |
|---|---|---|
| Holding of shares in Bavarian Nordic: | 1,334,099 | 1,556,148 |
| Number of warrants: | 19,279 | 22,989 |

**Erling Johansen**
Born in 1944
Joined the Board of Directors in 2000

| | 31.12 2009 | 09.03 2010 |
|---|---|---|
| Holding of shares in Bavarian Nordic: | 3,146 | 3,596 |
| Number of warrants: | 19,279 | 22,989 |

**Flemming Pedersen**
Born in 1965
President & CEO of NeuroSearch A/S
Joined the Board of Directors in 2006

*Chairman of the board of directors*
Atonomics A/S
Azign Bioscience A/S
Sophion Bioscience A/S
Poseidon Pharmaceuticals A/S

*Member of the board of directors*
NsGene A/S
MB IT Consulting A/S

*Managerial positions*
Member of the executive management of NeuroSearch A/S
Member of the corporate management of Naapster ApS

| | 31.12 2009 | 09.03 2010 |
|---|---|---|
| Holding of shares in Bavarian Nordic: | 0 | 0 |
| Number of warrants: | 19,279 | 22,989 |

**Claus Bræstrup**
Born in 1945

Joined the Board of Directors in 2008

*Member of the board of directors*
Santaris Pharma A/S
University of Copenhagen

Managerial positions
Member of the corporate management of Kastan ApS

| | 31.12 2009 | 09.03 2010 |
|---|---|---|
| Holding of shares in Bavarian Nordic: | 1,500 | 2,250 |
| Number of warrants: | 9,000 | 10,732 |

**Gerard van Odijk**
Born in 1957
President & CEO of Teva Pharmaceuticals Europe B.V.
Joined the Board of Directors in 2008

*Chairman of the board of directors*
Merus Biopharmaceuticals B.V., The Netherlands

*Managerial positions*
Member of the corporate management of Teva Pharmaceuticals Europe B.V.

| | 31.12 2009 | 09.03 2010 |
|---|---|---|
| Holding of shares in Bavarian Nordic: | 0 | 0 |
| Number of warrants: | 9,000 | 10,732 |

## Executive Management

**Anders Hedegaard**
President & CEO
MSc. Born in 1960

Joined the Corporate Management in 2007

**Paul Chaplin**
General Manager Bavarian Nordic GmbH, Executive Vice President, Research & Development, CSO

MSc in Biology, ph.d. in Immunology.
Born in 1967

Joined the Executive Management in 2001

**Steen Vangsgaard**
Executive Vice President, Commercial Affairs
Born in 1966

Joined the Executive Management in 2009

**Morten Max Rasmussen**
Executive Vice President, Transactions, Legal and IPR
Born in 1963

Joined the Executive Management in 2005

**Ole Larsen**
Executive Vice President, CFO
Cand. merc. i finansiering og økonomistyring.
Born in 1965

Joined the Executive Management in 2008

**Anders Gram**
Executive Vice President, Technical Operations, CTO
MSc, PhD
Born in 1960

Joined the Executive Management in 2008

**Reiner Laus**
Executive Vice President, President & CEO of BN ImmunoTherapeutics Inc.
MD.
Born in 1960

Joined the Executive Management in 2008

*Member of the board of directors*
CG Therapeutics Inc.

# Statement by Management on the annual report

We have today presented the annual report of Bavarian Nordic for the financial year 1 January to 31 December 2009.

The annual report is prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31 December 2009 as well as of their financial performance and their cash flows for the financial year 1 January to 31 December 2009.

We also believe that the management commentary contains a fair review of the development and performance of the Group's and the Parent's business and of their financial position as a whole, together with a description of the principal risks and uncertainties that they face.

We recommend the annual report for adoption at the Annual General Meeting.

Kvistgård, 9 March 2010

**Corporate Management**

Anders Hedegaard
President & CEO

**Board of Directors**

Asger Aamund
Chairman

Claus Bræstrup

Erling Johansen

Gerard van Odijk

Flemming Pedersen

# Independent auditor's report

**To the shareholders of Bavarian Nordic A/S**

## Report on the consolidated financial statements and parent financial statements

We have audited the consolidated financial statements and parent financial statements of Bavarian Nordic for the financial year 1 January - 31 December 2009, which comprise the income statement, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flow and notes, including the accounting policies, for the Group as well as the Parent.

The consolidated financial statements and parent financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed companies.

**Management's responsibility for the consolidated financial statements and parent financial statements**
Management is responsible for the preparation and fair presentation of consolidated financial statements and parent financial statements in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed companies.

This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

**Auditor's responsibility and basis of opinion**
Our responsibility is to express an opinion on these consolidated financial statements and parent financial statements based on our audit. We conducted our audit in accordance with Danish and International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements and parent financial statements are free from material misstatement.

Copenhagen, 9 March 2010

**Deloitte**
Statsautoriseret Revisionsaktieselskab

Jens Rudkjær
State Authorised Public Accountant

Carsten Vaarby
State Authorised Public Accountant

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and parent financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements and parent financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of consolidated financial statements and parent financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements and parent financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

**Opinion**
In our opinion, the consolidated financial statements and parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31 December 2009, and of their financial performance and their cash flows for the financial year 1 January - 31 December 2009 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed companies.

## Statement on the management commentary

Management is responsible for preparing a management commentary that contains a fair review in accordance with the Danish Financial Statements Act.

Our audit did not include the management commentary, but we have read it pursuant to the Danish Financial Statements Act. We did not perform any procedures other than those performed during the audit of the consolidated financial statements and parent financial statements.

Based on this, we believe that the disclosures in the management commentary are consistent with the consolidated financial statements and parent financial statements.

# Financial Statements

# Income statements for the period 1 January – 31 December

| | | Parent Company | | Group | |
|---|---|---|---|---|---|
| Note | Amounts in DKK thousands | 2009 | 2008 | 2009 | 2008 |
| 2 | Revenue | 74,783 | 208,805 | 74,783 | 208,805 |
| 3,4 | Production costs | 140,098 | 196,660 | 140,098 | 196,660 |
| | **Gross profit** | **(65,315)** | **12,145** | **(65,315)** | **12,145** |
| 3,4 | Research and development costs | 117,857 | 93,238 | 163,980 | 129,647 |
| 3,4 | Distribution costs | 17,647 | 16,349 | 20,408 | 22,510 |
| 3,4,5 | Administrative costs | 94,191 | 74,412 | 91,480 | 69,533 |
| | **Total operating costs** | **229,695** | **184,000** | **275,868** | **221,690** |
| | **Income before interest and tax** | **(295,010)** | **(171,855)** | **(341,183)** | **(209,545)** |
| 6 | Financial income | 24,093 | 39,964 | 17,809 | 40,089 |
| 7 | Financial expenses | 8,131 | 16,747 | 7,759 | 13,842 |
| | **Income before company tax** | **(279,048)** | **(148,638)** | **(331,133)** | **(183,298)** |
| 8 | Tax on income for the year | (67,863) | (35,571) | (64,855) | (32,944) |
| | **Net profit for the year** | **(211,185)** | **(113,067)** | **(266,278)** | **(150,355)** |
| | **Distribution of result** | | | | |
| | Parent company´s part of the result | | | (266,278) | (146,105) |
| | Minority interest | | | - | (4,250) |
| | | | | **(266,278)** | **(150,355)** |
| | **Earnings per share (EPS) – DKK** | | | | |
| 9 | Basic earnings per share of DKK 10.00 | | | (34.0) | (18.7) |
| 9 | Diluted earnings per share of DKK 10.00 | | | (34.0) | (18.7) |

# Statement of comprehensive income for the period 1 January – 31 December

| Note | Amounts in DKK thousands | Parent Company 2009 | Parent Company 2008 | Group 2009 | Group 2008 |
|---|---|---|---|---|---|
| | **Net profit for the period** | **(211,185)** | **(113,067)** | **(266,278)** | **(150,355)** |
| | Exchange rate adjustments | - | - | 1,424 | 4,744 |
| | Adjustment financial instrument as of January 1st | - | (22,893) | - | (22,893) |
| | Fair value of financial investments entered into to hedge future cash flow | (27,185) | (60,219) | (27,185) | (60,219) |
| | Fair value adjustment transferred to income statement concerning financial instruments entered into to hedge revenues | - | 6,683 | - | 6,683 |
| | Tax effect on total income | 6,796 | 13,384 | 6,796 | 13,384 |
| | **Other comprehensive income of tax** | **(20,389)** | **(63,045)** | **(18,965)** | **(58,301)** |
| | **Total comprehensive income** | **(231,574)** | **(176,112)** | **(285,242)** | **(208,657)** |
| | **Distribution of comprehensive result** | | | | |
| | Parent Company´s part of the result | | | (285,242) | (205,050) |
| | Minority Interest | | | - | (3,607) |
| | | | | **(285,242)** | **(208,657)** |

# Statement of cash flow for the period 1 January - 31 December

| | Parent Company | | Group | |
|---|---|---|---|---|
| Amounts in DKK thousands | 2009 | 2008 | 2009 | 2008 |
| **Earnings before interest and tax** | **(295,010)** | **(171,855)** | **(341,183)** | **(209,545)** |
| Depreciation, amortisation and write-down | 43,710 | 41,753 | 49,231 | 48,339 |
| Share-based payment | 7,321 | 5,767 | 7,603 | 6,121 |
| Changes in inventories | (183,698) | (50,724) | (184,267) | (50,580) |
| Changes in receivables | (99,002) | 115,237 | (30,271) | 89,425 |
| Changes in provisions | - | - | - | (670) |
| Changes in current liabilities | (6,727) | 64,396 | (2,767) | 68,146 |
| **Cash flow from operating activities** | **(533,406)** | **4,574** | **(501,655)** | **(48,764)** |
| Received financial income | 35,218 | 39,181 | 28,341 | 39,306 |
| Paid financial expenses | (8,964) | (13,429) | (7,873) | (11,984) |
| Paid taxes during the year | - | - | (2,953) | (969) |
| **Cash flow for activities** | **(507,151)** | **30,326** | **(484,139)** | **(22,411)** |
| Investments in intangible assets | (58,551) | (62,131) | (60,412) | (68,143) |
| Investments in tangible assets | (28,698) | (8,378) | (35,605) | (11,998) |
| Investments in financial assets | 7 | (67,357) | 9 | (34) |
| Investments in securities | 122,115 | (1,356) | 122,115 | (1,356) |
| **Cash flow for investment activities** | **34,873** | **(139,222)** | **26,108** | **(81,531)** |
| Payment on mortgage debt | (70,048) | (1,386) | (70,048) | (1,386) |
| Payment on financial leasing liabilities | (12,909) | (13,677) | (12,909) | (13,677) |
| Proceeds through financial commitments | 68,000 | - | 68,000 | - |
| Repurchase of stock options in subsidiary | - | - | (15,835) | - |
| **Cash flow from financing activities** | **(14,957)** | **(15,063)** | **(30,792)** | **(15,063)** |
| **Cash flow of the year** | **(487,235)** | **(123,959)** | **(488,824)** | **(119,005)** |
| **Cash as of 1 January** | **559,160** | **683,119** | **569,778** | **688,783** |
| **Cash, end of period** | **71,925** | **559,160** | **80,954** | **569,778** |
| Securities – highly liquid bonds | 104,045 | 226,160 | 104,045 | 226,160 |
| Credit lines | 20,000 | 20,000 | 20,000 | 20,000 |
| **Cash preparedness** | **195,970** | **805,320** | **204,999** | **815,938** |

Bavarian Nordic A/S has undertaken to maintain a cash preparedness of a minimum of DKK 150 million, in breach of its funding agreement with Nordea Bank Danmark A/S.

# Statement of financial position – Assets as of 31 December

| | | Parent Company | | Group | |
|---|---|---|---|---|---|
| Note | Amounts in DKK thousands | 2009 | 2008 | 2009 | 2008 |
| | **Non-current assets** | | | | |
| 10 | Purchased rights | 2,242 | 2,690 | 8,759 | 7,887 |
| 10 | Software | 15,925 | 317 | 15,925 | 318 |
| 10 | Intangible assets under construction | 102,117 | 79,024 | 102,117 | 79,024 |
| | **Intangible assets** | **120,283** | **82,031** | **126,800** | **87,228** |
| 11 | Land and buildings | 150,925 | 154,079 | 150,925 | 154,079 |
| 11 | Leasehold improvements | 1,531 | - | 2,317 | 1,184 |
| 11 | Plant and machinery | 144,745 | 172,375 | 144,745 | 172,375 |
| 11 | Machinery, equipment and furniture | 5,258 | 3,638 | 14,448 | 12,754 |
| 11 | Assets under construction | 39,520 | 7,050 | 42,049 | 7,778 |
| | **Tangible assets** | **341,980** | **337,142** | **354,485** | **348,170** |
| 12 | Investments in subsidiaries | 183,657 | 147,757 | - | - |
| | Other financial non-current assets | 23 | 30 | 192 | 201 |
| | **Financial assets** | **183,680** | **147,787** | **192** | **201** |
| 8 | **Deferred tax assets** | **233,792** | **159,040** | **233,645** | **158,640** |
| | **Total non-current assets** | **879,735** | **725,999** | **715,122** | **594,240** |
| | **Current assets** | | | | |
| 13 | **Inventories** | **244,016** | **60,318** | **246,468** | **62,201** |
| 14 | Trade receivables | 15,095 | 19,052 | 15,095 | 19,052 |
| | Receivables from subsidiaries | 69,645 | 254 | - | - |
| 15 | Other receivables | 30,230 | 170,269 | 31,383 | 171,038 |
| 16 | Pre-payments and accrued income | 75,641 | 49,196 | 78,035 | 51,791 |
| | **Receivables** | **190,611** | **238,771** | **124,514** | **241,882** |
| 18 | Securities | 104,045 | 226,160 | 104,045 | 226,160 |
| 18 | Cash and cash equivalents | 71,925 | 559,160 | 80,954 | 569,778 |
| | **Securities and cash and cash equivalents** | **175,970** | **785,320** | **184,999** | **795,938** |
| | **Total current assets** | **610,596** | **1,084,408** | **555,981** | **1,100,021** |
| | **Total assets** | **1,490,331** | **1,810,408** | **1,271,104** | **1,694,261** |

# Statement of financial position – Equity and liabilities as of 31 December

| | | Parent Company | | Group | |
|---|---|---|---|---|---|
| Note | Amounts in DKK thousands | 2009 | 2008 | 2009 | 2008 |
| | Share capital | 79,517 | 78,156 | 79,517 | 78,156 |
| | Retained earnings | 791,598 | 978,414 | 590,684 | 888,115 |
| | Other reserves | 28,621 | 41,688 | 34,012 | 45,148 |
| | **Equity, parent company** | **899,737** | **1,098,258** | **704,214** | **1,011,420** |
| | Equity, minority interest | - | - | - | 3,708 |
| | **Equity total** | **899,737** | **1,098,258** | **704,214** | **1,015,128** |
| | **Liabilities** | | | | |
| 19 | Provisions | 11,099 | - | 11,099 | - |
| 20 | Credit institutions | 101,925 | 52,659 | 101,925 | 52,659 |
| | **Non-current liabilities** | **113,023** | **52,659** | **113,023** | **52,659** |
| 20 | Credit institutions | 16,881 | 82,112 | 16,881 | 82,112 |
| 21 | Prepayment from customers | 276,640 | 276,640 | 276,640 | 276,640 |
| | Accounts payable | 41,746 | 57,553 | 48,020 | 63,825 |
| | Payables to subsidiaries | 43,496 | 50,236 | - | - |
| | Company tax | - | - | 53 | 72 |
| 17 | Other debts | 98,807 | 192,949 | 112,272 | 203,824 |
| | **Current liabilities** | **477,571** | **659,490** | **453,866** | **626,473** |
| | **Total liabilities** | **590,594** | **712,149** | **566,890** | **679,132** |
| | **Total liabilities and shareholders´ equity** | **1,490,331** | **1,810,408** | **1,271,104** | **1,694,261** |

18 Financial risks and financial instruments
22 Related party transactions
23 Incentive plans
24 Contingent liabilities, contractual obligations
25 Events after the balance date

# Statement of changes in equity – Parent Company

| Amounts in DKK thousands | Share-capital | Retained earings | Reserves for fair value of financial instruments | Share-based payment | Equity Total |
|---|---|---|---|---|---|
| **Shareholders´ equity as of 1 January 2009** | **78,156** | **978,414** | **31,044** | **10,644** | **1,098,258** |
| Share-based payment | - | - | - | 7,322 | 7,322 |
| Issue of new shares | 1,362 | 24,650 | - | - | 26,012 |
| Cost related to issue of new shares | - | (375) | - | - | (375) |
| Tax on transactions in equity | - | 94 | - | - | 94 |
| Total comprehensive income | - | (211,185) | (20,389) | - | (231,574) |
| **Shareholders equity as of 31. December 2009** | **79,517** | **791,598** | **10,655** | **17,966** | **899,737** |
| The share capital comprises a total of 7,951,745 shares of DKK 10 as of 31 December 2009 (2008: 7,815,568 shares). The shares are not divided into share classes, and each share carries one vote. | | | | | |
| **Shareholders´ equity as of 1 January 2008** | **78,156** | **1,091,481** | **94,089** | **4,877** | **1,268,603** |
| Share-based payment | - | - | - | 5,767 | 5,767 |
| Total comprehensive income | - | (113,067) | (63,045) | - | (176,112) |
| **Shareholders equity as of 31. December 2008** | **78,156** | **978,414** | **31,044** | **10,644** | **1,098,258** |
| The share capital comprises a total of 7,815,568 shares of DKK 10 as of 31 December 2008 (2007: 7,815,568 shares). The shares are not divided into share classes, and each share carries one vote. | | | | | |

Transactions on the share capital have been the following:

| Amounts in DKK thousands | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Share capital as of 1 January | 78,156 | 78,156 | 63,762 | 57,971 | 46,395 |
| Issue of new shares | 1,362 | - | 14,394 | 5,791 | 11,576 |
| **Share capital as of 31 December** | **79,517** | **78,156** | **78,156** | **63,762** | **57,971** |

# Statement of changes in equity – Group

| Amounts in DKK thousands | Share-capital | Retained earings | Reserved for adjustment | Reserves for fair value of financial instruments | Share-based payment | Equity parent company | Equity minority | Equity group |
|---|---|---|---|---|---|---|---|---|
| **Shareholders´ equity as of 1 January 2009** | **78,156** | **888,115** | **2,765** | **31,044** | **11,339** | **1,011,420** | **3,708** | **1,015,127** |
| Share-based payment | - | - | - | - | 7,829 | 7,829 | - | 7,829 |
| Transfer of minority interest | - | 3,708 | - | - | - | 3,708 | (3,708) | - |
| Purchase of minority interest in subsidiary | - | (35,899) | - | - | - | (35,899) | - | (35,899) |
| Repurchase of stock options in subsidiary measured at fair value at the time of cancellation | - | (23,332) | - | - | - | (23,332) | - | (23,332) |
| Issue of new shares | 1,362 | 24,650 | - | - | - | 26,012 | - | 26,012 |
| Cost realted to issue of new shares | - | (375) | - | - | - | (375) | - | (375) |
| Tax on transactions in equity | - | 94 | - | - | - | 94 | - | 94 |
| Total comprehensive income | - | (266,278) | 1,424 | (20,389) | - | (285,242) | - | (285,242) |
| **Shareholders equity as of 31. December 2009** | **79,517** | **590,684** | **4,189** | **10,655** | **19,168** | **704,214** | **-** | **704,214** |
| **Shareholders´ equity as of 1 January 2008** | **78,156** | **1,040,843** | **(1,335)** | **94,089** | **5,218** | **1,216,971** | **692** | **1,217,663** |
| Share-based payment | - | - | - | - | 6,121 | 6,121 | - | 6,121 |
| Loss on increase of the share capital in subsidiary | - | (6,623) | - | - | - | (6,623) | 6,623 | - |
| Total comprehensive income | - | (146,105) | 4,100 | (63,045) | - | (205,050) | (3,607) | (208,657) |
| **Shareholders equity as of 31. December 2008** | **78,156** | **888,115** | **2,765** | **31,044** | **11,339** | **1,011,420** | **3,708** | **1,015,127** |

# List of notes

# Accounting policies

## General information

**Basis of preparation**
The Annual Report of Bavarian Nordic A/S for the year ended 31 December 2008, comprising the financial statements of the parent company and the consolidated financial statements, has been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for the annual reports of listed companies. Additional Danish disclosure requirements for the presentation of annual reports are imposed by the Statutory Order on Adoption of IFRS issued under the Danish Financial Statements Act and by the OMX Nordic Exchange Copenhagen.

The accounting policies are unchanged from last year, except for changes in presentation according to new and changed standards.

The Annual Report is presented in Danish kroner (DKK), which is considered the primary currency of the Group's activities and the functional currency of the parent company.

The annual report is presented on a historical cost basis, apart from derivative financial instruments which are measured at fair value. A further description of the accounting policies applied is given below.

The accounting policies described below have been consistently applied for the financial year and for the comparative figures. Certain layouts and notes to the financial statements have been changed compared with previous years.

**Implementation of new and revised standards and interpretations**
The International Accounting Standards Board (IASB) has issued revisions to existing standards and new interpretations of existing standards which are mandatory for accounting periods commencing on or after 1 January 2009.

*Standards affecting the presentation and information:*
The revised IAS 1, Presentation of Financial Statements, has resulted in a change in presentation of the primary accounting statements of accounts, since there is incorporated a new total income statement and equity is adjusted as a result.

The amendment to IFRS 7, Financial Instruments, requires expanded information regarding fair value measurements and liquidity risk. The Group has chosen not to publish comparative figures for the current financial statements in accordance with the transitional provisions in the amendment to the standard.

The new IFRS 8, Operating Segments requires that the reporting segments determined based on internal reporting, which continuously presented to the decision maker in the group to support his decisions about allocating resources to segments and assessing their performance. The implementation of this has not led to a change in the identification of the Group's reporting segments.

*Standards and interpretations that affect net profit or financial position:*
The revised IAS 23, Borrowing Costs, means that the group recognize borrowing costs in the cost of qualifying assets in the form of intangible and tangible assets and inventories, with longer production periods. In accordance with the provisions of the amended IAS 23, borrowing costs only cost price for qualified assets where construction or production commencement 1st January 2009 or later. The implementation of the revised IAS 23, borrowing costs have not affected the annual report.

In addition, a number of changes to standards and issue of new interpretations have been implemented. These have not had a significant impact on the accounting policies.

**Standards and interpretations not yet in force**
The revised IAS 27, consolidated financial statements and separate financial statements relating to the accounting treatment of transactions that result in changes in the Group's shares in its subsidiary.

Management believes that the application of these new and revised standards and interpretations will not have any material impact on the Annual Report for the coming financial years.

**Significant accounting estimates, assumptions and uncertainties**
The recognition and measurement of assets and liabilities often depends on future events that are somewhat uncertain. In that connection, it is necessary to assume a course of events that reflects Management's assessment of the most probable course of events.

In connection with the preparation of the consolidated financial statements, management has made a number of estimates and assumptions concerning carrying amounts. Management has made the following accounting judgements which that significantly affect the amounts recognised in the annual report:

*Capitalisation of development costs*
Management has assessed that development costs relating to the registration of IMVAMUNE® under the RFP-3 contract with the US health authorities continues to meet the conditions for capi-

talisation. See "Research and development costs". The carrying amount of capitalised development projects was DKK 96 million as at 31 December 2009 (DKK 64 million as at 31 December 2008).

*Useful lives of property, plant and equipment*
As stated below, management reviews the estimated useful lives of material property, plant and equipment at the end of each financial year. Management's review of useful lives in 2009 did not give rise to any changes as compared with 2008. The carrying amount of property, plant and equipment was DKK 354 million as at 31 December 2009 (DKK 348 million as at 31 December 2008).

*Value of investments in subsidiaries in the parent company's financial statements*
The carrying amount as at 31 December 2009 of the investment in the Group company Bavarian ImmunoTherapeutics Inc, USA, exceeded the net assets in the company. In such a situation, management estimates whether there are any events or other circumstances that indicate that the carrying amount may not be recoverable. Management estimates that the value of non-recognised intangible assets related to the Group company corresponds at least to the amount by which the cost of the Group company exceeds the carrying amount of the net assets, and management therefore assessed that no impairment exists. The recognised value of investments was DKK 184 million as of 31 December 2009 (DKK 148 million as of 31 December 2008).

*Production overheads*
Production overheads are measured on the basis of actual costs. The basis of the actual costs is reassessed regularly to ensure that they are adjusted for changes in the utilisation of production capacity, production changes and other relevant factors. Biological living material is used, and the measurements and assumptions for the estimates made may be incomplete or inaccurate, and unexpected events or circumstances may occur, which may cause the actual outcomes to later deviate from these estimates. It may be necessary to change previous estimates as a result of changes in the assumptions on which the estimates were based or due to new information or subsequent events, for which certainty could not be achieved in the earlier estimates.

Estimates that are material to the financial reporting are made in the determination of the quantity and any impairment of inventories as a result of technical obsolescence.

The value recognised inventories was DKK 246 million as at 31 December 2009 (DKK 62 million as at 31 December 2008).

*Deferred tax asset*
Management is required to make an estimate in the recognition of deferred tax assets and liabilities. On the basis of the coming years' activities and budgets, management believes the tax assets can be used against future profits. The value of the recognised deferred tax assets was DKK 234 million as at 31 December 2009 (DKK 159 million as at 31 December 2008).

*Derivative financial instruments*
Bavarian Nordic uses derivative financial instruments to hedge future cash flows. The fair value of derivative financial instruments is based on the official exchange rates, market interest rates and other market data such as volatility adjusted for the special characteristics of each instrument. The carrying amount of recognised financial instruments was DKK -10 million as at 31 December 2009 (DKK 41 million as at 31 December 2008).

The estimates and assumptions applied are based on historical experience and other factors which management considers relevant under the circumstances, but which are inherently incomplete and inaccurate at the time of presentation of the financial statements, and unexpected events or circumstances may arise. The Company is subject to risks and uncertainties which may have the effect that the actual outcomes may deviate from the estimates made. Such risks are described in "Risk management", which is a separate section in the Annual Report.

*Other financial liabilities*
A management discretion is required when recognition of conditional payments. Management considers the light of expectations for the coming year's technical achievements likelihood that expected results will trigger contingent payments. On initial recognition, contingent payments are measured at fair value. Determining the fair value is based on a management estimate of the likelihood that the triggering event is achieved and a fixed discount factor. Contingent payments were DKK 11 million as at 31 December 2009.

*Change in accounting estimates*
Net profit was affected positively by DKK 42 million before tax arising from change in estimate on inventory write-off.

## Accounting Policy

**Recognition and measurement**
Income is recognised in the income statement when generated. Assets and liabilities are recognised in the balance sheet when it is probable that any future economic benefit will flow to or from the Company and the value can be reliably measured. On initial

recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described below for each item.

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

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

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

On acquisition of companies, the purchase method of accounting is applied under which the identifiable assets and liabilities of the acquired companies are recognised at market value at the date of acquisition, and any excess of the cost of the acquired companies over the market value is recognised as goodwill.

Merger of subsidiaries subject to the pooling method and does not generate a reassessment of the assets and liabilities. Cost is hereby recognized in the income statement.

Purchase of minority shares in a subsidiary is treated in the consolidated financial statements as an equity transaction and the difference between the consideration and the carrying amount allocated to the parent company's share of equity

The items of the financial statements of subsidiaries are fully consolidated in the consolidated financial statements. Minority interests include a proportionate share of the profit and are stated as part of the consolidated profit and as a separate line item in equity.

**Foreign currency translation**
On initial recognition, transactions denominated in currencies other than the Group's functional currency are translated at the exchange rate ruling at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Exchange differences between the exchange rate at the date of the transaction and the exchange rate at the date of payment or the balance sheet date, respectively, are recognised in the income statement under financial items. Property, plant and equipment and intangible assets, inventories and other nonmonetary assets acquired in foreign currency and measured based on historical cost are translated at the exchange rates at the transaction date.

Transactions hedged by forward exchange instruments are recognised at the hedged exchange rate. See "Derivative financial instruments" below. On recognition in the consolidated financial statements of subsidiaries whose financial statements are presented in a functional currency other than Danish kroner (DKK), the income statements are translated at average exchange rates for the respective months. Balance sheet items are translated at the exchange rates at the balance sheet date.

Exchange differences arising on the translation of foreign subsidiaries' opening balance sheet items to the exchange rates at the balance sheet date and on the translation of the income statements from average exchange rates to exchange rates at the balance sheet date are recognised in the statement of comprehensive income. Similarly, exchange differences arising as a result of changes made directly in the equity of the foreign subsidiary are also recognised as other comprehensive income.

Foreign exchange adjustment of receivables or debt to subsidiaries which are considered part of the parent company's overall investment in the subsidiary in question are recognised as other comprehensive imcome in the consolidated financial statements, whereas they are recognised in the income statement of the parent company.

**Derivative financial instruments**
On initial recognition, derivative financial instruments are measured at the fair value on the settlement date.

Directly attributable costs related to the purchase or issuance of the individual financial instruments (transaction costs) are added to the fair value on initial recognition unless the financial asset or the financial liability is measured at fair value with recognition of fair value adjustments in the income statement. Subsequently, they are measured at fair value at the balance sheet date.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as fair value hedges of a recognised asset or a recognised liability are recognised in the income statement together with any changes in the value of the hedged asset or hedged liability. Changes in the fair value of derivative financial instruments designated as and qualifying for

recognition as effective hedges of future transactions are recognised as comprehensive income. The ineffective portion is recognised immediately in the income statement. When the hedged transactions are realised, cumulative changes are recognised as part of the cost of the transactions in question.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised as financial items in the income statement as they occur.

**Share-based payment**
Share-based incentive plans in which employees can only opt to buy shares in the parent company (equity schemes) are measured at the equity instruments' fair value at the grant date and recognised in the income statement in staff costs under the respective functions over the vesting period. The balancing item is recognised directly in equity. The fair value on the date of grant is determined using the Black-Scholes model.

Cash-based incentive programmes in which employees can have the difference between the agreed price and the actual share price settled in cash are measured at fair value at the date of grant and recognised in the income statement under staff costs over the period when the final right of cash-settlement is obtained. Vested rights are subsequently remeasured on each balance sheet date and upon final settlement, and any changes in the fair value of the programmes are recognised in the income statement under administration costs. The balancing item is recognised under liabilities.

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

## Income statement

**Revenue recognition**
Revenue comprises the value of sales of products and income derived from development contracts and amounts received for achieving milestones in development projects. These are recognised in the year in which any major risks and rewards connected with the title to the goods or right to the services are transferred and the Company no longer retains managerial responsibility for, or control of, the goods sold.

Revenue from milestone payments are recognised if all attached obligations are fulfilled and it is certain that there will be no demand for these to be refunded. Revenue from development contracts are recognised in line with the execution and delivery of the work. Research and development grants without a profit element are set off against the costs of research and development at the time when a final and binding right to the grant has been obtained.

**Production costs**
Production costs consist of costs incurred to earn the revenue for the year. Production costs comprise consumables, factory-related general and administration costs, transport insurance and freight costs, salaries, depreciation, costs to secure production processes by way of maintenance, excess capacity and external costs required to fulfil the contractual deliveries.

**Research and development costs**
Research and development costs include salaries and costs directly attributable to the Company's research and development projects, less government grants. The Company considers a project to be a development project upon receipt of regulatory approval to initiate clinical trials. Furthermore, salaries and costs supporting direct research and development, including costs of patents, rent, leasing and depreciation attributable to laboratories, and external scientific consultancy services, are recognised under research and development costs.

Contract research costs incurred to achieve revenue are recognised under production costs.

Research costs are normally written off in the year they are incurred.

Where there is sufficient certainty that the future earnings to the Company will cover not only production and direct sales costs and administrative expenses, but also the development costs, the development costs that cover the ongoing costs of a clinical programme after the date of regulatory approval of the said clinical trial are recognised as assets. Due to the general risk relating to the development of pharmaceutical products, capitalisation in the balance sheet requires that the product can be completed and marketed. If sufficient certainty thereof does not exist, the development costs are expensed.

**Distribution expenses**
Distribution costs include costs incurred for distribution of goods sold and sales campaigns, including costs for sales and distribution personnel, advertising costs and depreciation and amortization of tangible and intangible assets used in the distribution process.

**Administrative expenses**
Administrative expenses include costs of Company management, staff functions, administrative personnel, office costs, rent, lease

payments and depreciation not relating specifically to production or research and development activities and distributions costs.

**Financial items**
Interest income and expenses are recognised in the income statement at the amounts relating to the financial year. Financials also include financing costs related to finance leases, value adjustments of financial instruments, securities, items denominated in foreign currency and charges.

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

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, unless the parent company has a possibility of controlling when the deferred tax is to be realised and it is likely that the deferred tax will not crystallise as current tax within the foreseeable future.

Deferred tax is measured using the balance sheet liability method on all temporary differences between accounting values and tax values. Deferred tax liabilities arising from temporary tax differences are recognised in the balance sheet as a provision. Deferred tax assets arising from temporary deductible differences and tax losses carried forward are recognised when it is probable that they can be realised by offsetting them against tax on future income. At each balance sheet date, it is assessed whether it is likely that there will be sufficient future taxable income for the deferred tax asset to be utilised.

Unrealised temporary deductible differences are disclosed in a note to the financial statements with the relevant amounts.

Full deferred tax is provided on the accumulated fair value reserve under equity. The tax effect of costs that have been recognised directly in equity is recognised in equity under the relevant items.

Deferred tax is calculated at the tax rate applicable on the balance sheet date.

**Minority interests**
Minority interests include the part of net profit that is attributable to minority shareholders.

**Earnings per share and diluted earnings per share**
Earnings per share is calculated as the profit or loss for the year compared to the weighted average of the issued shares in the financial year. The basis for the calculation of diluted earnings per share is the weighted average number of shares in the financial year adjusted for the dilutive effects of warrants.

## Balance sheet

**Intangible assets**
Intangible assets are measured at historic cost less accumulated amortisation and impairment.

Development projects that meet the requirements for recognition as assets are measured at direct cost relating to the development projects. Interest expenses on borrowings to finance the production of intangible assets included in cost if they relate to the period of production. Other borrowing costs are expensed.

Amortisation of development projects commences when the asset is taken into use and is provided on a straight-line basis over the useful economic lives of the assets. An asset is defined as being taken into use at the commencement of sales activities. For development projects, an individual assessment of the useful economic life of the project is made by the Management.

Purchased rights or rights acquired in connection with acquisitions which fulfil the requirements for recognition are measured at cost. Individual assessments are made of the useful economic lives of rights.

Amortisation is made on a straight-line basis over the expected useful lives of the assets, which are:

| | |
|---|---|
| Rights max. | 15 years |
| Software | 3 years |

Development projects not defined (under construction)

Acquired intellectual property rights are written down to their recoverable amount where this is lower than the carrying amount. See the section on impairment below.

**Property, plant and equipment**
Property, plant and equipment includes land and buildings, production equipment, leasehold improvements, office and IT equipment and laboratory equipment and are measured at cost less accumulated depreciation and impairment losses. Cost

includes the costs directly attributable to the purchase of the asset, until the asset is ready for use. For assets manufactured by the Company, cost includes direct and indirect costs of materials, components, third-party suppliers and labour.

Interest expenses on loans to finance the manufacture of property, plant and equipment are included in cost if they relate to the production period. Other borrowing costs are taken to the income statement.

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

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

Depreciation and gains and losses from regular replacement of property, plant and equipment are recognised in the income statement.

**Leasing**
Assets held under finance leases are measured in the balance sheet at the lower of the present value and future lease payments on the date of acquisition. The capitalised value of the residual lease obligation is carried as a liability in the balance sheet, and the interest element of the lease payment is recognised in the income statement under financial items. The interest rate implicit in the lease is used in the calculations. The liability is reduced by the repayment element of the lease payment. The assets are depreciated over the expected useful lives of the assets in the same way as other similar assets.

Lease payments for assets held under operating leases are charged to the income statement. The total lease commitment is disclosed in a note to the financial statements.

**Investment in subsidiaries of the parent company financial statements**
Investments in subsidiaries are recognised and measured at cost in the financial statements of the parent company.

Where the recoverable amount of the investments is lower than cost, the investments are written down to this lower value.

**Impairment of non-current assets**
The carrying amounts of both intangible assets, property, plant and equipment and investments carried at cost or amortised cost are tested annually to determine whether there are indications of any impairment in excess of that expressed in normal amortisation and depreciation. If that is the case, the asset is written down to the recoverable amount, which is the higher value of the net sales price and the capitalised value. Impairment losses on intangible assets and property, plant and equipment are recognised under the same line item as amortisation and depreciation of the assets.

For ongoing development projects, the recoverable amount is assessed annually, regardless of whether any indications of impairment have been found.

**Inventories**
Inventories are measured at the lower of cost using the weighted average cost formula method less write-downs for obsolescence and net realisable value.

For raw materials and packaging materials, cost is determined as direct acquisition costs incurred.

The cost of finished goods produced in-house and work in progress includes raw materials, consumables, direct payroll costs plus production overheads. Indirect costs of production include indirect materials and labour as well as maintenance of and depreciation on the machinery used in production processes, factory buildings and equipment used, cost of production administration and management and filling costs incurred.

The net realisable value is the estimated sales price in the ordinary course of business less relevant sales costs determined on the basis of marketability, obsolescence and changes in the expected sales price.

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

Receivables from subsidiaries are written down when the receivable is deemed to be irrecoverable. In the event that the parent company has a legal or constructive obligation to cover the negative balance of the subsidiary, a provision will be made for the amount.

**Securities**
Securities consist of listed bonds, which are measured at fair value as of the balance sheet date. Bonds with a maturity of less than three months on the date of acquisition are recognised in the line item "Cash and cash equivalents".

Bavarian Nordic's portfolio of short-term securities is classified as "financial items at fair value through profit or loss", as the portfolio is accounted for and valued on the basis of the fair value in compliance with Bavarian Nordic's investment policy and information provided in-house to the Corporate Management.

Both realised and unrealised value adjustments are recognised in the income statement under financial items.

**Provisions**
Provisions are recognised when the Company has an obligation as a result of events in the current or in previous financial years with a probability that the obligation will result in an outflow of the Company's financial resources.

Provisions are measured as the best estimate of the costs needed to balance day to settle obligations.

**Prepayments from customers**
Advance payments are recognised under liabilities and will be recognised in the income statement as the delivery of paid products takes place.

**Pension obligations and similar obligations**
For defined contribution plans, the Group pays regular fixed contributions to independent pension funds and insurance companies. The Group has no obligations to pay additional contributions.

Periodical payments to defined contribution plans are disclosed in the income statement, in the period in which employees have completed the outpost, giving entitlement to pension.

**Mortgages**
Mortgage loans measured at time for borrowings at fair value minus any transaction costs. Subsequent mortgage debt is measured at amortized cost. This means that the difference between the proceeds of the loan is made and the amount to be repaid, are recognized in the income statement over the term of the loan as a financial cost using the effective interest method

**Leasing obligations**
Lease obligations regarding financial leased assets is recognized in the balance sheet as liabilities and measured at the time the contract is awarded, at the lowest of the fair value of the leased asset and the present value of future lease payments. After initial recognition, leased liabilities are measured at amortized cost. The difference between the present value and the nominal value of lease payments are recognized in the income statement as financial cost for the period of the contract duration.

Lease payments for operating leases are recognized in the income statement, linearly for the period of the lease term.
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**Other financial liabilities**
Other financial liabilities include bank debt, trade payables and other payables to public authorities. Other liabilities also include contingent payments at the conclusion of agreements, contracts, etc.

Other financial liabilities are measured at initial recognition at fair value minus any transaction costs. The fair value of contingent payments is calculated as the probability that the results, which trigger future payments to be achieved and a fixed discount factor.

Subsequent obligations are measured at amortized cost using the effective interest method, whereby the difference between proceeds and the nominal value is recognized in income as a financial expense over the period. Changes to the assessed fair value due to changes in risk factor included in administrative expenses and disclosed in the notes.

Loans are classified as short-term obligations, unless the company has an unconditional right to defer payment for at least 12 months after the balance sheet date.

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

Cash flows in foreign currencies are translated into Danish kroner at the exchange rate on the transaction date. In the cash flows from operating activities, operating profit/(loss) is adjusted for non-cash operating items and changes in working capital.

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

Cash flows from financing activities include cash flows from the raising and payment of loans and capital increases as well as financial itemsAdditional, cash flows of financial leased assets are recognized the in the form of lease payments payable.

**Segment reporting**
The Group is operating with research, development, production and sales of vaccines.

In accordance with the internal management reporting, based on what management believes to and distribute resources, the Group is exclusively engaged in the business segment vaccines. In Bavarian Nordic follows the internal management reporting group's accounting policies.

**Financial definitions**

Equity/assets ratio, %: $\frac{\text{Total equity x 100}}{\text{Total assets}}$

Market capitalisation of equity, DKK: Market price at end of year x total share capital

Equity value, DKK: $\frac{\text{Equity}}{\text{Number of shares}}$

Market price/equity value: $\frac{\text{Market price per share}}{\text{Equity asset value per share}}$

Earnings per share and diluted earnings per share are calculated as specified in note 9.

The ratios are calculated and applied in accordance with "Recommendations and Financial Ratios 2005" issued by the Danish Society of Financial Analysts. The ratios are stated on page 5.

# Notes

| Amounts in DKK thousands | Parent Company 2009 | Parent Company 2008 | Group 2009 | Group 2008 |
|---|---|---|---|---|
| **2 Revenue** | | | | |
| Contract work | 67,966 | 69,556 | 67,966 | 69,556 |
| Product sale | 6,817 | - | 6,817 | - |
| Milestone payment from RFP-3 contract | - | 139,249 | - | 139,249 |
| **Total** | **74,783** | **208,805** | **74,783** | **208,805** |
| | | | | |
| Denmark | - | 720 | - | 720 |
| USA | 67,966 | 199,222 | 67,966 | 199,222 |
| Other Geographic markets | 6,817 | 8,863 | 6,817 | 8,863 |
| **Total** | **74,783** | **208,805** | **74,783** | **208,805** |
| | | | | |
| Net sales include: | | | | |
| Fair value adjustment transferred from equity concerning financial instruments entered into to hedge revenues | **-** | **(6,683)** | **-** | **(6,683)** |

**More than 10% of the total turnover is derived from contracts with the U.S. Government.**

# Notes

| Amounts in DKK thousands | Parent Company 2009 | Parent Company 2008 | Group 2009 | Group 2008 |
|---|---|---|---|---|
| **3 Staff costs** | | | | |
| Wages and salaries | 104,469 | 83,106 | 180,247 | 149,684 |
| Contribution based pension | 8,782 | 4,994 | 17,167 | 12,342 |
| Social security expenses | 1,979 | 358 | 3,495 | 1,126 |
| Other staff expenses | 10,482 | 9,008 | 13,708 | 13,835 |
| Share-based payment | 7,530 | 4,773 | 8,063 | 5,125 |
| **Total staff costs** | **133,241** | **102,239** | **222,679** | **182,112** |
| Staff expenses are distributed as follows: | | | | |
| Production costs | 72,983 | 52,870 | 95,377 | 58,135 |
| Research and Development costs | 4,010 | 9,830 | 52,782 | 68,970 |
| Distribution costs | 8,832 | 8,386 | 10,172 | 11,901 |
| Administrative costs | 43,924 | 30,427 | 47,108 | 32,947 |
| Capitalised salaries | 3,493 | 726 | 17,242 | 10,159 |
| **Total staff costs** | **133,241** | **102,239** | **222,679** | **182,112** |
| Of which: | | | | |
| **Board of Directors:** | | | | |
| Remuneration to the Board of Directors | 1,200 | 1,200 | 1,200 | 1,200 |
| Share-based payment | 1,026 | 621 | 1,026 | 621 |
| **President of the company:** | | | | |
| Salary | 5,346 | 5,043 | 5,346 | 5,043 |
| Contribution based pension | - | 2 | - | 2 |
| Share-based payment | 955 | 684 | 955 | 684 |
| **Managerial Staff:** | | | | |
| Salaries | 8,424 | 10,745 | 15,471 | 16,372 |
| Contribution based pension | 730 | 854 | 1,085 | 1,120 |
| Share-based payment | 2,813 | 2,818 | 2,813 | 2,818 |
| **Total management remuneration** | **20,493** | **21,967** | **27,896** | **27,860** |

A long term incentive agreement has been entered into with Paul Chaplin in December 2009. The incentive scheme offers one-off payments ranging from EUR 150.000 up to EUR 1.5 million. The one-off payments are subject to achievement of various possible future milestones and are, furthermore, conditioned upon continuing employment (irrespective of the position held) with the Company at the time of the achievement of the respective milestone event. The long term incentive scheme will cease to be effective as of 31 December 2015. Bavarian Nordic A/S has no obligation to continue with other similar programmes after this date.

Incentive programmes are disclosed in note 23.

Members of the Management have contracts of employement containing standard conditions for members of the Management of Danish listed companies, including with regard to the periods of notice that both parties are required to give and competition clauses. If the Management's contract of employment is terminated by Bavarian Nordic, without there having been misconduct on the part of the Management, the Management has the right to compensation, which, depending of the circumstances, may amount to maximum of two years' salary and pension contributions.

| | | | | |
|---|---|---|---|---|
| Average numbers of employees convert to full-time | 177 | 128 | 340 | 270 |
| Numbers of employees as of December 31 convert to full-time | 185 | 147 | 354 | 294 |

| Amounts in DKK thousands | Parent Company 2009 | Parent Company 2008 | Group 2009 | Group 2008 |
|---|---|---|---|---|
| **4 Depreciation and amortisation** | | | | |
| Depreciation and amortisation included in: | | | | |
| Production costs | 37,748 | 35,993 | 37,839 | 37,597 |
| Research and development costs | 138 | 445 | 6,827 | 5,323 |
| Distributions costs | - | - | - | - |
| Administrative costs | 6,274 | 5,314 | 5,463 | 5,419 |
| **Total depreciations** | **44,159** | **41,753** | **50,129** | **48,339** |
| Hereof profit/loss from disposed fixed assets | - | - | 14 | (2) |
| **5 Fees to board auditor** | | | | |
| Statutory audit of annual accounts | 581 | 361 | 706 | 545 |
| Other assurance services | 375 | 15 | 416 | 41 |
| Tax advices | 665 | 176 | 803 | 207 |
| Other assistance | 666 | 74 | 680 | 189 |
| **Total fees** | **2,287** | **626** | **2,605** | **982** |
| **6 Financial income** | | | | |
| Financial income from securities and realised/unrealised capital gains on securities measured at the fair value through the income statement | 7,225 | 9,525 | 7,225 | 9,525 |
| Financial income from bank and deposit contracts | 10,579 | 23,157 | 10,585 | 23,281 |
| Financial income from subsidiaries | 6,289 | - | - | - |
| Fair value adjustment of financial contracts held for trading | - | 7,282 | - | 7,282 |
| **Total** | **24,093** | **39,964** | **17,809** | **40,089** |
| **7 Financial expenses** | | | | |
| Interest expenses on debt | 6,208 | 6,150 | 6,213 | 6,218 |
| Financial leasing expense | 653 | 1,582 | 653 | 1,582 |
| Financial expenses to subsidiaries | 725 | 2,505 | - | - |
| Net expenses from exchange rate adjustments | 546 | 6,510 | 892 | 6,042 |
| **Total** | **8,131** | **16,747** | **7,759** | **13,842** |

| | Parent Company | | Group | |
|---|---|---|---|---|
| Amounts in DKK thousands | 2009 | 2008 | 2009 | 2008 |
| **8 Tax for the year** | | | | |
| Current income tax | - | - | 2,809 | 2,648 |
| Change in deferred tax | (67,863) | (33,900) | (67,863) | (33,900) |
| Tax recognised directly in equity transferred to the income statement | - | (1,671) | - | (1,671) |
| Corrections to previous years | - | - | 199 | (21) |
| **Tax for the year recognised in the income statement** | **(67,863)** | **(35,571)** | **(64,855)** | **(32,944)** |
| Tax on income for the year is explained as follows: | | | | |
| Income before company tax | (279,048) | (148,638) | (331,133) | (183,299) |
| Calculated tax (25%) tax on income before tax | (69,762) | (37,160) | (82,783) | (45,825) |
| Tax effect on: | | | | |
| Different percentage in foreign subsidaiaries | - | - | 1,100 | 953 |
| Tax values in foreign subsidairies, not included | - | - | 15,122 | 10,497 |
| Loss of tax loss carry-forwards | - | - | - | - |
| Permanent differences | 1,899 | 1,500 | 1,899 | 1,500 |
| Other corrections | - | 89 | (193) | (69) |
| **Tax on income for the year** | **(67,863)** | **(35,571)** | **(64,855)** | **(32,944)** |
| **Tax on income and costs recognised directly in equity:** | | | | |
| Tax on cost related to issue of new shares | (94) | - | (94) | - |
| **Tax for the year recognised directly in equity** | **(94)** | **-** | **(94)** | **-** |
| **Tax on income and costs recognised in the comprehensive income:** | | | | |
| Tax recognised directly in conprehensive income transferred to the income statement | - | 1,671 | - | 1,671 |
| Tax on fair value adjustment of financial instruments entered into to hedge future cash flow | (6,796) | (15,055) | (6,796) | (15,055) |
| **Tax for the year recognised directly in equity** | **(6,796)** | **(13,384)** | **(6,796)** | **(13,384)** |
| **Deferred tax** | | | | |
| Recognised deferred tax assets relates to temporary differences between valuations for accounting and taxation purposes and tax losses carried forward in the Parent Company: | | | | |
| Non-current assets | (25,608) | (27,050) | (25,755) | (27,450) |
| Patent costs | (29,553) | (15,356) | (29,553) | (15,356) |
| Obligations | 1,743 | 1,923 | 1,743 | 1,923 |
| Inventories | 572 | 1,016 | 572 | 1,016 |
| Prepayment from customers | 69,160 | 69,160 | 69,160 | 69,160 |
| Tax losses carried-forward | 217,478 | 129,347 | 217,478 | 129,347 |
| **Recognised tax assets** | **233,792** | **159,040** | **233,645** | **158,640** |

Deferred tax assets arising from temporary differences for tax purposes and tax losses carried forward are recognised as these will be offset against future taxable income.

The tax asset of non-recognised tax losses and tax credits carried forward, with certain limitations, in subsidiaries amounts to DKK 73.4 million (2008: DKK 44.7 million)

# Notes

| Amounts in DKK thousands | | Group 2009 | 2008 |
|---|---|---|---|
| **9** | **Earnings per share (EPS)** | | |
| | Profit for the Parent company´s shareholders | (266,278) | (146,105) |
| | Weighted average of shares (thousand units) | 7,821 | 7,816 |
| | Earnings per share of DKK 10 | (34.0) | (18.7) |
| | Diluted earnings, per share of DKK 10 | (34.0) | (18.7) |
| | In accordance with IAS 33, the weighted average number of shares, when calculating diluted earnings, equals earnings per share, as the inclusion of potential shares would improve earnings per share. | | |
| | As of 31. December 2009 the following warrants are excluded by calculating the average number of shares in calculating diluted earnings per share: | | |
| | 2009-programme re. note 23 | 270,000 | - |
| | 2008-programme re. note 23 | 158,500 | 175,000 |
| | 2007-programme re. note 23 | 150,000 | 165,000 |
| | 2006-programme re. note 23 | 138,840 | 143,590 |

# Notes

| Amounts in DKK thousands | Rights | Software | Intangible assets under construction | 2009 Total |
|---|---|---|---|---|
| **10 Intangible assets – Parent company 2009** | | | | |
| Costs as of 1 January | 6,864 | 15,677 | 79,024 | 101,565 |
| Additions during the year | - | 5,578 | 38,033 | 43,611 |
| Transfer | - | 14,940 | (14,940) | - |
| Disposals during the year | - | - | - | - |
| **Cost as of 31 December** | **6,864** | **36,195** | **102,117** | **145,176** |
| Amortisation as of 1 January | 4,174 | 15,360 | - | 19,534 |
| Amortisation during the year | 448 | 4,911 | - | 5,359 |
| Disposals during the year | - | - | - | - |
| Exchange rate adjustments | - | - | - | - |
| **Amortisation as of 31 December** | **4,622** | **20,270** | **-** | **24,893** |
| **Book value as of 31 December** | **2,242** | **15,925** | **102,117** | **120,283** |
| **10 Intangible assets – Group 2009** | | | | |
| Costs as of 1 January | 12,149 | 16,707 | 79,024 | 107,880 |
| Additions during the year | 1,861 | 5,578 | 38,033 | 45,471 |
| Transfer | - | 14,940 | (14,940) | - |
| Disposals during the year | - | - | - | - |
| Exchange rate adjustments | (18) | (3) | - | (20) |
| **Cost as of 31 December** | **13,992** | **37,222** | **102,117** | **153,331** |
| Amortisation as of 1 January | 4,262 | 16,389 | - | 20,652 |
| Amortisation during the year | 989 | 4,911 | - | 5,900 |
| Disposals during the year | - | - | - | - |
| Exchange rate adjustments | (18) | (2) | - | (21) |
| **Amortisation as of 31 December** | **5,233** | **21,297** | **-** | **26,531** |
| **Book value as of 31 December** | **8,759** | **15,925** | **102,117** | **126,800** |

Intangible assets under construction include development costs related to the registration of IMVAMUNE® under the RFP-3 contract (own development) and investment in Software (DKK 6.1 million).

| Geographical split of intangible assets - Group 2009 | |
|---|---|
| Denmark | 120,283 |
| USA | 6,517 |
| | 126,800 |

# Notes

| Amounts in DKK thousands | Rights | Software | Intangible assets under construction | 2008 Total |
|---|---|---|---|---|
| **10 Intangible assets – Parent company 2008** | | | | |
| Costs as of 1 January | 6,864 | 16,407 | 16,941 | 40,212 |
| Additions during the year | - | 106 | 62,083 | 62,189 |
| Disposals during the year | - | (836) | - | (836) |
| **Cost as of 31 December** | **6,864** | **15,677** | **79,024** | **101,565** |
| | | | | |
| Amortisation as of 1 January | 3,726 | 12,131 | - | 15,857 |
| Amortisation during the year | 448 | 4,065 | - | 4,513 |
| Disposals during the year | - | (836) | - | (836) |
| **Amortisation as of 31 December** | **4,174** | **15,360** | **-** | **19,534** |
| | | | | |
| **Book value as of 31 December** | **2,690** | **317** | **79,024** | **82,031** |
| | | | | |
| **10 Intangible assets – Group 2008** | | | | |
| Costs as of 1 January | 6,864 | 17,437 | 16,941 | 41,242 |
| Additions during the year | 5,285 | 106 | 62,083 | 67,473 |
| Disposals during the year | - | (836) | - | (836) |
| Exchange rate adjustments | - | - | - | - |
| **Cost as of 31 December** | **12,149** | **16,707** | **79,024** | **107,880** |
| | | | | |
| Amortisation as of 1 January | 3,726 | 13,153 | - | 16,879 |
| Amortisation during the year | 536 | 4,072 | - | 4,608 |
| Disposals during the year | - | (836) | - | (836) |
| Exchange rate adjustments | - | - | - | - |
| **Amortisation as of 31 December** | **4,262** | **16,389** | **-** | **20,652** |
| | | | | |
| **Book value as of 31 December** | **7,887** | **318** | **79,024** | **87,228** |

Intangible assets under construction include development costs related to the registration of IMVAMUNE® under the RFP-3 contract (own development) and investment in new ERP system (DKK 14.9 million).

| Geographical split of intangible assets - Group 2008 | |
|---|---|
| Denmark | 82,031 |
| USA | 5,198 |
| | 87,228 |

# Notes

| Amounts in DKK thousands | Land and buildings | Leasehold improv-ment | Plant and machinery | Equipment | Pre-payment of assets | 2009 Total |
|---|---|---|---|---|---|---|
| **11 Tangible assets – Parent company 2009** | | | | | | |
| Costs as of 1 January | 168,278 | - | 222,615 | 16,302 | 7,050 | 414,245 |
| Additions during the year | 4,721 | 1,657 | 1,634 | 3,156 | 39,239 | 50,407 |
| Transfer | - | - | - | - | (6,769) | (6,769) |
| Disposals during the year | - | - | - | (225) | - | (255) |
| **Cost as of 31 December** | **172,999** | **1,657** | **224,249** | **19,232** | **39,520** | **457,657** |
| Depreciation of 1 January | 14,199 | - | 50,241 | 12,664 | - | 77,103 |
| Depreciation during the year | 7,875 | 126 | 29,263 | 1,536 | - | 38,800 |
| Disposals during the year | - | - | - | (225) | - | (225) |
| **Depreciation as of 31 December** | **22,074** | **126** | **79,504** | **13,973** | **-** | **115,677** |
| **Book value as of 31 December** | **150,925** | **1,531** | **144,745** | **5,258** | **39,520** | **341,980** |
| **Book value of leased assets as of 31 December** | **-** | **-** | **8,963** | **-** | **-** | **8,963** |
| **11 Tangible assets – Group 2009** | | | | | | |
| Costs as of 1 January | 168,278 | 8,865 | 222,615 | 59,598 | 7,778 | 467,134 |
| Additions during the year | 4,721 | 2,199 | 1,634 | 7,734 | 41,768 | 58,057 |
| Transfer | - | - | - | - | (7,497) | (7,497) |
| Disposals during the year | - | (33) | - | (551) | - | (584) |
| Exchange rate adjustments | - | (38) | - | (131) | - | (169) |
| **Cost as of 31 December** | **172,999** | **10,993** | **224,249** | **66,650** | **42,049** | **516,941** |
| Depreciation of 1 January | 14,199 | 7,681 | 50,241 | 46,844 | - | 118,964 |
| Transfer | - | - | - | - | - | - |
| Depreciation during the year | 7,875 | 1,067 | 29,263 | 6,025 | - | 44,230 |
| Disposals during the year | - | (33) | - | (537) | - | (570) |
| Exchange rate adjustments | - | (39) | - | (130) | - | (169) |
| **Depreciation as of 31 December** | **22,074** | **8,676** | **79,504** | **52,202** | **-** | **162,456** |
| **Book value as of 31 December** | **150,925** | **2,317** | **144,745** | **14,448** | **42,049** | **354,485** |
| **Book value of leased assets as of 31 December** | **-** | **-** | **8,963** | **-** | **-** | **8,963** |

Tangible assets under construction includes investment in new QC Laboratory (DKK 23.6 million) and Production Equipment (DKK 16.0 million). As of 31 December 2008 mortgage deeds of total of DKK 75 million have been issued for safety on loan of DKK 68 million against credit institution on the property Bøgeskovvej 9/Hejreskovvej 10, Kvistgård, Denmark

| Geographical split of tangible assets - Group 2009 | |
|---|---|
| Denmark | 341,980 |
| Europe, other | 8,499 |
| USA | 4,007 |
| | 354,485 |

# Notes

| Amounts in DKK thousands | Land and buildings | Leasehold improv-ment | Plant and machinery | Equipment | Pre-payment of assets | 2008 Total |
|---|---|---|---|---|---|---|
| **11 Tangible assets – Parent company 2008** | | | | | | |
| Costs as of 1 January | 165,974 | - | 222,151 | 14,407 | 2,691 | 405,223 |
| Additions during the year | 2,304 | - | 464 | 1,252 | 4,359 | 8,379 |
| Transfer from subsidiary | - | - | - | 865 | - | 865 |
| Disposals during the year | - | - | - | (222) | - | (222) |
| **Cost as of 31 December** | **168,278** | **-** | **222,615** | **16,302** | **7,050** | **414,245** |
| Depreciation of 1 January | 6,776 | - | 21,569 | 10,816 | - | 39,161 |
| Transfer from subsidiary | - | - | - | 865 | - | 865 |
| Depreciation during the year | 7,423 | - | 28,672 | 1,203 | - | 37,297 |
| Disposals during the year | - | - | - | (220) | - | (220) |
| **Depreciation as of 31 December** | **14,199** | **-** | **50,241** | **12,664** | **-** | **77,103** |
| **Book value as of 31 December** | **154,079** | **-** | **172,375** | **3,638** | **7,050** | **337,142** |
| **Book value of leased assets as of 31 December** | **-** | **-** | **21,868** | **-** | **-** | **21,868** |
| **11 Tangible assets – Group 2008** | | | | | | |
| Costs as of 1 January | 165,974 | 8,792 | 222,151 | 55,528 | 2,691 | 455,136 |
| Additions during the year | 2,304 | - | 464 | 4,720 | 5,087 | 12,575 |
| Transfer | - | - | - | 865 | - | 865 |
| Disposals during the year | - | - | - | (1,646) | - | (1,646) |
| Exchange rate adjustments | - | 73 | - | 132 | - | 204 |
| **Cost as of 31 December** | **168,278** | **8,865** | **222,615** | **59,598** | **7,778** | **467,134** |
| Depreciation of 1 January | 6,776 | 6,331 | 21,569 | 41,227 | - | 75,903 |
| Transfer | - | - | - | 865 | - | 865 |
| Depreciation during the year | 7,423 | 1,314 | 28,672 | 6,380 | - | 43,789 |
| Disposals during the year | - | - | - | (1,645) | - | (1,645) |
| Exchange rate adjustments | - | 36 | - | 16 | - | 52 |
| **Depreciation as of 31 December** | **14,199** | **7,681** | **50,241** | **46,844** | **-** | **118,964** |
| **Book value as of 31 December** | **154,079** | **1,184** | **172,375** | **12,754** | **7,778** | **348,170** |
| **Book value of leased assets as of 31 December** | **-** | **-** | **21,868** | **-** | **-** | **21,868** |

As of 31 December 2008 mortgage deeds of total of DKK 75 million have been issued for safety on loan of DKK 68 million against credit institution on the property Bøgeskovvej 9/Hejreskovvej 10, Kvistgård, Denmark

| Geographical split of tangible assets - Group 2008 | |
|---|---|
| Denmark | 337,142 |
| Europe, other | 7,218 |
| USA | 3,810 |
| | 348,170 |

# Notes

| Amounts in DKK thousands | | Parent Company 2009 | 2008 |
|---|---|---|---|
| **12** | **Investment in subsidiaries** | | |
| | Cost of subsidiaries as of 1 January | 147,757 | 80,423 |
| | Additions during the year | 35,900 | 67,334 |
| | **Cost of subsidiaries as of 31 December** | **183,657** | **147,757** |
| | Write-down as of 1 January | - | - |
| | Disposals during the year | - | - |
| | **Write down as of 31 December** | **-** | **-** |
| | **Book value as of 31 December** | **183,657** | **147,757** |

**Company summary**

| | Domicile | Ownership % | Voting rights % |
|---|---|---|---|
| **Subsidiaries** | | | |
| Bavarian Nordic GmbH | Germany | 100 | 100 |
| BN ImmunoTherapeutics Inc | USA | 100 | 100 |
| – Bavarian Nordic Inc | USA | 100 | 100 |
| **Representative office** | | | |
| Bavarian Nordic A/S | Singapore | | |

In 2009 Bavarian Nordic Holding Inc. and BN ImmunoTherapeutics Inc. were merged, with Bavarian Nordic Holding Inc. as the continuing corporation and the name changed to BN ImmunoTherapeutics Inc.

In December 2009, Bavarian Nordic A/S obtained full ownership of the subsidiary BN ImmunoTherapeutics Inc. by purchasing shares in BN ImmunoTherapeutics Inc. from the CEO and President in BNIT and Executive Vice President in Bavarian Nordic A/S, Reiner Laus, and two former employees in the subsidiary.

The companies in USA are not under audit obligations.

# Notes

| Amounts in DKK thousands | Parent Company 2009 | Parent Company 2008 | Group 2009 | Group 2008 |
|---|---|---|---|---|
| **13 Inventories** | | | | |
| Raw materials and supply materials | 20,454 | 15,347 | 22,907 | 17,230 |
| Work in progress | 236,663 | 87,708 | 236,663 | 87,708 |
| Manufactured goods and commodities | 20,753 | - | 20,753 | - |
| Write-down on inventory | (33,855) | (42,738) | (33,855) | (42,738) |
| **Raw materials and supply materials** | **244,016** | **60,318** | **246,468** | **62,201** |
| Write-down on inventory recognised under production costs | (9,584) | (42,738) | (9,584) | (42,738) |
| Reversal of write-down recognised under production costs | 18,467 | - | 18,467 | - |
| Product consumption amount to | 2,602 | - | 2,602 | - |
| **14 Trade receivables** | | | | |
| Trade receivables from product sale and contract work | 15,095 | 19,052 | 15,095 | 19,052 |
| **Total** | **15,095** | **19,052** | **15,095** | **19,052** |
| **15 Other receivables** | | | | |
| Financial instruments to fair value | - | 147,377 | - | 147,377 |
| Other receivables | 30,230 | 22,892 | 31,383 | 23,661 |
| **Total** | **30,230** | **170,269** | **31,383** | **171,038** |
| Except from financial instruments, other receivables are measured at amortised cost. | | | | |
| **16 Prepayments and accrued income** | | | | |
| Prepayments for future fillings | 68,976 | 46,052 | 68,976 | 46,052 |
| Other prepayments | 6,666 | 3,144 | 9,060 | 5,740 |
| **Total** | **75,641** | **49,196** | **78,035** | **51,791** |
| **17 Other debts** | | | | |
| Financial instruments to fair value | 9,673 | 117,840 | 9,673 | 117,840 |
| Other receivables | 89,134 | 75,109 | 102,599 | 85,984 |
| **Total** | **98,807** | **192,949** | **112,272** | **203,824** |
| Except from financial instruments, other debts are measured at amotised cost. | | | | |

# Notes

## 18 Financial risks and financial instruments

**Policy for managing financial risks**
Through its operations, investments and financing the Bavarian Nordic Group is exposed to fluctuations in exchange rates and interest rates. These risks are managed centrally in the parent company, which managers the Group´s liquidity. The Group pursues a financial policy approved by the Board of Directors. The policy operates with a low risk profile, so that exchange rate, interest rate and credit risks arise only in commercial relation. Thus, the Geoup does not undertake any active speculation in financial risk.

The Group´s capital structure is regularly assessed by the Board of Directors relative to the Group´s cash flow position and cash flow budgets.

**Currency risks**
The Group´s exchange rate exposure is primarily to USD and EUR. The exchange rate exposure to USD is hedged to the greatest possible extent by matching incoming and outgoing payments denominated in USD. Furthermore in connection with the RFP-3 contract, the Group entered into forward exchange contracts for USD 300 million to hedge future cash flows from the contract. As of 31 December 2009, the balance on the forward exchange contract was USD 46 million. Furthermore the construction loan of originally DKK 68 million has been swapped into USD upon renewal and works as a hedge of USD revenue.

The forward exchange contracts are subject to a sensitivity which affects equity equivalent to DKK 4.6 million per 0.10 points of change in the USD/DKK exchange rate.

The forward exchange contracts further affect equity with respect to the forward premiums/discounts that apply to extension on the forward exchange contracts. These forward premiums/discounts reflect the difference in interest rates between the two currencies. At the current interest rate levels, a forward premium applies, and the sensitivity of the forward exchange contracts is therefore a positive change of DKK 0.1 million per quarter. A rise in the USD/DKK exchange rate will affect the equity adversely.

The sensitivity to exchange rate fluctuations of bank deposits denominated in USD per USD 1 million, is DKK 0.1 million per 0.10 points of change in the USD/DKK exchange rate.

# Notes

**18 Financial risks and financial instruments – continued**

**Interest rate and cash risks**
It is the Group's policy to hedge interest rate risks on loans whenever it is deemed that interest payments can be hedged at a satisfactory level relative to the related costs. Hedging will then consist of interest rate swaps that convert floating rate loans to fixed rate loans. The interest rate risk involved in placing cash funds and investing in securities is managed on the basis of duration.

IIt is the Group's policy to achieve the greatest possible flexibility by raising loans and depositing cash, taking into account the pricing thereof, in order to meet its business targets.

The Group´s bank deposits are placed in term deposits for terms of less than one year.
Cash for the Group totalled DKK 81 million (2008: DKK 570 million)

The Group's securities, fixed rates, are shown below. Amount indicated are excluding interests.
Note 20 shows the due dates of financial liabilities

| | Parent Company and Group 2009 | | Parent Company and Group 2008 | |
|---|---|---|---|---|
| Amounts in DKK thousands | Securities | Effective interest | Securities | Effective interest |
| **Securities** | | | | |
| Due between 0-2 years | 72,813 | 3.0% | 143,370 | 4.3% |
| Due between 2-5 years | 10,268 | 3.8% | 14,578 | 8.3% |
| Due after 5 years | 20,963 | 4.3% | 68,212 | 5.3% |
| **Total** | **104,045** | **3.3%** | **226,160** | **4.9%** |

Fluctuations in interest rate levels affect the Group's bond portfolio, bank deposits, bank debt and mortgage debt. An increase in the interest rate level by 1 percentage point relative to the interest rate level on the balance sheet date would have had a negative effect on DKK 0-2 million on the Group´s results of operations and equity, primarily related to a loss on the Group´s bond portfolio (2008: DKK 1-3 million). A corresponding fall in the interest rate level would have had an equivalent positive effect on the results of operations and equity.

With respect to the Group´s bank deposits at floating rates, an increase in the applicable interest rate by 1 percentage point would have had a positive effect on the results of operations and equity of DKK 0-1 million. A corresponding fall in the interest rate would have had an equivalent negative effect.

# Notes

**18 Financial risks and financial instruments – continued**

**Credit risks**
The primary credit risk relates to trade receivables. The Group´s customers are predominantly public authorities, and the credit risk on the Company´s receivables is therefore considered to be very low.

Cash and cash equivalents are not deemed to be subject to any special credit risk as they are deposited with Nordea and invested in bonds, either government bonds, Danish mortgage bonds or bonds issued by Danish banks with high ratings. Due to the government guarantee issued, the Danish State is ultimately the creditor in respect of all cash and cash equivalents.

As of December 31, none of the receivables are overdue.

**Exchange rate risks in respect of recognised financial assets and liabilities**
The Group uses forward exchange contracts to hedge recognised and non-recognised transactions. The Group's exposure to currency is shown below.

| Amounts in DKK thousands | Bank, cash equivalents and securities | Receivables | Non-current liabilities | Net position | Covered | Non-secure net position |
|---|---|---|---|---|---|---|
| **2009 Parent Company** | | | | | | |
| DKK | 161,056 | - | (123,083) | 37,973 | - | 37,973 |
| EUR | 6,059 | 8,862 | (63,865) | (48,944) | - | (48,944) |
| USD | 8,853 | 106,108 | (127,005) | (12,044) | - | (12,044) |
| **As of 31 December 2009** | **175,969** | **144,970** | **(313,954)** | **(23,015)** | **-** | **(23,015)** |
| **2009 Group** | | | | | | |
| DKK | 161,069 | - | (123,083) | 37,984 | - | 37,984 |
| EUR | 7,562 | 10,016 | (30,421) | (12,844) | - | (12,844) |
| USD | 16,368 | 36,463 | (136,691) | (83,860) | - | (83,860) |
| **As of 31 December 2009** | **184,999** | **46,478** | **(290,197)** | **(58,720)** | **-** | **(58,720)** |
| **2008 Parent Company** | | | | | | |
| DKK | 761,923 | 156,617 | (385,273) | 533,267 | - | 533,267 |
| EUR | 2,107 | 2,067 | (35,876) | (31,702) | - | (31,702) |
| USD | 21,290 | 30,892 | (14,360) | 37,822 | - | 37,822 |
| **As of 31 December 2008** | **785,320** | **189,575** | **(435,508)** | **539,386** | **-** | **539,386** |
| **2008 Group** | | | | | | |
| DKK | 761,923 | 156,617 | (385,273) | 533,267 | - | 533,267 |
| EUR | 7,299 | 2,836 | (9,410) | 724 | - | 724 |
| USD | 26,716 | 30,638 | (7,737) | 49,617 | - | 49,617 |
| **As of 31 December 2008** | **795,938** | **190,090** | **(402,420)** | **583,609** | **-** | **583,609** |

# Notes

**18 Financial risks and financial instruments – continued**

**Exchange rate risks relating future cash flows**
The Group´s exchange rate risk is deemed to be the exposure to USD. Management belives that the impact from fluctuations in the USD/DKK exchange rate, delimited to include solely disbursements for R&D activities in the US-based entities, is reduced to the income statement and equity as most of the exposure over the next year is hedge by forward exchange contracts, and revenues from the RFP-2 contract are considered not to be sensitive to exchange rate fluctuations as the basis of the RFP-2 contract is made up of cost-plus element with current settlement.

**Hedge accounting of expected future cash flows**
The Group has forward exchange contracts to hedge revenues in USD and interest rate swaps to hedge interest payments on non-current liabilities. The fair value adjustment of of these derivatives at year end is recognised directly in equity and in the relative line items as and when the financial contracts are realised.

At 31 December 2009, the accumulated fair value adjustment of derivative financial instruments (forward exchange contracts) to hedge future cash flows amounts to DKK 14.2 milliono (DKK 41.4 million at 31 December 2008). This amount has been recognised in equity. At 31 December 2008, the forward exchange contracts entered into to hedge future cash flows amounted to USD 175 million, of which USD 129 million has been settled in 2009 and USD 46 million remains unsettled at 31 December 2009. The accumulated fair value adjustment of the forward exchange contracts settled at the settlement date is negative by USD 2.7 million and remains recognised in equity until the originally hedged transactions take place. The accumulated fair value adjustment of open forward exchange contracts amounts to USD 16,9 million at 31 December 2009. At 31 December 2008, the unrealised fair value of open forward exchange contracts was negative by DKK 9.0 million as some of the fair value adjustment had been settled in cash.

Interest settled on interest swaps to hedge interest rate risks is regognised directly in the income statement as they do not qualify as hedges of future cash flows (2009: expense of DKK 1.6 million, 2008: income of DKK 1.8 million).

The term to maturity of the forward exchange contracts is approximately one month, but they are extended regulary, and the will hedge expected cash flow under the RFP-3 contract equalling more than three million doses.

Interest rate swaps run until repayment of the hedged loan.

| | 2009 | | 2008 | |
|---|---|---|---|---|
| Amounts in DKK thousands | Contract amount based on agreed rates | Fair value as of 31 December | Contract amount based on agreed rates | Fair value as of 31 December |
| **Forward exchange contract (sales)** | | | | |
| USD 46 million (2008: USD 175 million) | 228,643 | (9,008) | 827,658 | (112,233) |
| **Interest rate swap** | | | | |
| USD – fixed rate 2.3046% p.a. | 66,388 | (665) | - | - |
| DKK/DKK – fixed rate of 2.79% p.a. | - | - | 68,000 | 960 |
| | **295,031** | **(9,673)** | **895,658** | **(111,273)** |

# Notes

**18 Financial risks and financial instruments – continued**

| | Parent Company | | Group | |
|---|---|---|---|---|
| Amounts in DKK thousands | 2009 | 2008 | 2009 | 2008 |
| Derivative financial instruments to hedge future cash flows (currency) | (9,008) | (112,233) | (9,008) | (112,233) |
| Derivative financial instruments to hedge future cash flows (interest) | (665) | 960 | (665) | 960 |
| **Financial assets/liabilities used as hedging instruments** | **(9,673)** | **(111,273)** | **(9,673)** | **(111,273)** |
| Trade receivables | 15,095 | 19,052 | 15,095 | 19,052 |
| Receivables from subsidiaries | 69,645 | 254 | - | - |
| Other receivables | 30,230 | 22,892 | 31,383 | 23,661 |
| Cash and cash equivalents | 71,925 | 559,160 | 80,954 | 569,778 |
| **Loan and receivables measured at amortised cost** | **186,895** | **601,358** | **127,433** | **612,491** |
| Derivative financial instruments | - | 146,417 | - | 146,417 |
| Securities | 104,045 | 226,160 | 104,045 | 226,160 |
| **Financial assets measured at fair value in the income statement** | **104,045** | **372,577** | **104,045** | **372,577** |
| Mortgage debt | 43,454 | 44,902 | 43,454 | 44,902 |
| Bank debt | 66,388 | 68,000 | 66,388 | 68,000 |
| Financial lease commitments | 8,963 | 21,869 | 8,963 | 21,869 |
| Trade payables | 41,746 | 57,553 | 48,020 | 63,825 |
| Other payables | 89,134 | 75,109 | 102,599 | 85,984 |
| Debt to subsidiaries | 43,496 | 50,236 | - | - |
| **Financial obligations measured at amortised cost** | **293,183** | **317,669** | **269,425** | **284,581** |
| Derivative financial instruments | - | 5,607 | - | 5,607 |
| **Financial liabilites measured at fair value in the income statement** | **-** | **5,607** | **-** | **5,607** |

**Optimisation of capital structure**
The company´s management regularly checks whether the Group´s capital structure best serves the company´s and its shareholders´ interest. The overall goal is to ensure that the Group has a capital structure which supports its long-term growth target.

The current capital structure is deemed to be appropriate in view of the Group's R&D programmes and the coming stockpiling for the RFP-3 contract. Please refer to the Management Review.

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

**Securities (level 1)**
The stock of public traded bonds and public traded mortgage bonds are valued at listed prices and price quotas.

**Derivative financial instruments (level 2)**
Forward exchange contracts and interest rate swaps are valued according to generally accepted valuation methods based on relevant observable swap curves and exchange rates.

# Notes

| Amounts in DKK thousands | Parent Company and Group 2009 Total | 2008 Total |
|---|---|---|
| **19 Provisions** | | |
| Provisions as of 1 January | - | 670 |
| Additions during the year | 11,099 | - |
| Disposals during the year | - | (670) |
| **Provisions as of 31 December** | **11,099** | **-** |

| Other provisions | Due within 1 year | Due between 1 and 5 years | Due after 5 years | Total |
|---|---|---|---|---|
| 2009 | | 8,566 | 2,533 | 11,099 |
| 2008 | | - | - | - |

As part of an agreement entered into between the Company and Reiner Laus regarding the Company's purchase of shares in BN ImmunoTherapeutics Inc in December 2009, Reiner Laus is entitled to receive a consideration triggered upon successful achievement of certain predefined milestones. In addition thereto a separate agreement regarding cancellation of certain contractual rights regarding BN ImmunoTherapeutics Inc. entitles Reiner Laus to a consideration upon successful achievement of certain pre-defined milestones.

Further, other provisions coves agreement with Paul Chaplin, mentioned in note 3.

# Notes

| | Parent Company and Group | | | |
|---|---|---|---|---|
| Amounts in DKK thousands | Due within 1 year | Due between 1 and 5 years | Due after 5 years | Total |
| **20 Credit Insitutions** | | | | |
| **2009** | | | | |
| Mortgage, DKK, fixed interest 4.1684% | 509 | 2,888 | 19,419 | 22,816 |
| Mortgage, DKK, fixed interest 4.5352% | 1,004 | 5,760 | 13,873 | 20,638 |
| Financial leasing, variable interest interval 2.2-7.6% p.a. *) | 8,729 | 235 | - | 8,963 |
| Construction loan, USD, variable interest a) *) | 6,639 | 59,749 | - | 66,388 |
| **Interest carrying obligations, total** | **16,881** | **68,632** | **33,293** | **118,806** |

a) Through SWAP, the variable loan has been refinanced to a fixed interest rate loan of 2.3046% p.a.

*) Annual rate adjustment

| | | | | |
|---|---|---|---|---|
| **2008** | | | | |
| Mortgage, DKK, fixed interest 4.1684% | 488 | 2,770 | 20,046 | 23,305 |
| Mortgage, DKK, fixed interest 4.5352% | 960 | 5,506 | 15,132 | 21,598 |
| Financial leasing, variable interest interval 2.2-7.6% p.a. *) | 12,664 | 9,205 | - | 21,869 |
| Construction loan, variable interest a) *) | 68,000 | - | - | 68,000 |
| **Interest carrying obligations, total** | **82,112** | **17,482** | **35,177** | **134,771** |

a) The variable loan is changed to a loan with fixed interest via a SWAP with Nordea Bank with interest 2.79% p.a. for 2007 and 2008.

*) Annual rate adjustment

It is the company policy to lease production equipment such as machines and systems through financial lease agreements. The average lease period is five years. All lease contracts have a fixed repayment profile and no agreements contain provisions on conditioned lease payments except for provisions on indexing based on official index. The lease agreements are non-terminable in the agreed lease period, but can be extended on renewed terms. The company has guaranteed the residual value of the assets by the end of the lease period.

| Minimum financial lease payments | Due within 1 year | Due between 1 and 5 year | Due after 5 years | Total | Future interest rate on lease | Present value of payments |
|---|---|---|---|---|---|---|
| 2009 | 8,835 | 236 | - | 9,071 | (108) | 8,963 |
| 2008 | 13,127 | 9,307 | - | 22,434 | (565) | 21,869 |

# Notes

| | Parent Company | | Group | |
|---|---|---|---|---|
| Amounts in DKK thousands | 2009 | 2008 | 2009 | 2008 |
| **21 Prepayment from customers** | | | | |
| Prepayment from customers | 276,640 | 276,640 | 276,640 | 276,640 |
| **Total** | **276,640** | **276,640** | **276,640** | **276,640** |

Prepayment of USD 50 million as a part of the RFP-3 contract for 20 million doses of IMVAMUNE®. The amount will be recognised as income in line with delivery of vaccines.

If Bavarian Nordic fails to fulfil the RFP-3 contract the company has a repayment obligation.

| Amounts in DKK thousands | 2009 | 2008 |
|---|---|---|
| **22 Related party transactions** | | |
| The Management and Board of Directors of Bavarian Nordic A/S are considered related parties as they have significant influence | | |
| **Inter-company purchases from the subsidiaries comprise:** | | |
| **Research and Development costs** | | |
| Bavarian Nordic A/S' purchase of research and development services from Bavarian Nordic GmbH | 114,463 | 109,118 |
| Bavarian Nordic A/S' purchase of services from Bavarian Nordic Inc | 7,815 | 10,143 |
| **Management fee (income)** | | |
| BN ImmunoTherapeutics Inc. purchase of management services from Bavarian Nordic A/S | 257 | 254 |
| **Leasing (income)** | | |
| Bavarian Nordic GmbH rents equipment from Bavarian Nordic A/S | - | 874 |

Overview of subsidiaries can be found in note 12.

Information on further inter-company transactions and balances can be found in notes 6 and 7.

Apart from Group inter-company transactions, mentioned above, renumeration of the Board of Directors, president of the company and managerial staff, (note 3), and the warrant programmes (note 23) and redemption of shares in the BN ImmunoTherapeutics Inc., as indicated below, there are no significant transactions with related parties.

Transactions with subsidiaries are eliminated in the consolidated accounts, in accordance with the Accounting Policies in note 1.

In December 2009, Bavarian Nordic A/S obtained full ownership of the subsidiary BN ImmunoTherapeutics Inc. by purchasing shares in BN ImmunoTherapeutics Inc. from the CEO and President in BN ImmunoTherapeutics Inc. and Executive Vice President in Bavarian Nordic A/S, Reiner Laus, and two former employees in the subsidiary. Further, stock options issued to employees in the subsidiary were repurchased. The transaction was part of Bavarian Nordic's strategy to strengthen the cancer business area and gave Bavarian Nordic A/S full control over the Group's activities in this field. The consideration to Reiner Laus and the two former employees was paid partly in shares in Bavarian Nordic A/S and partly with a number of future milestone payments that are triggered upon the successful completion of a number of pre-defined development milestones. In addition to this, a separate agreement regarding cancellation of certain contractual rights, including anti-dilution rights, regarding BN ImmunoTherapeutics Inc., was entered into with Reiner Laus. As compensation, Reiner Laus has the right to a number of future milestone payments which are triggered upon successful completion of pre-defined development milestones, included as provisions.

# Notes

## 23 Incentive plans

**Share-based payment**
In order to motivate and retain key employees and encourage the achievement of common goals for employees, management and shareholders, Bavarian Nordic A/S has established a share-based compensation programmes by way of a warrant plan for the Board of Directors, the Corporate Management, management employees and other employees. Furthermore, the Company has previously established a three-year phantom share programme for all employees of the parent company, Bavarian Nordic GmbH and Bavarian Nordic Inc.

**Warrants**
In August 2006, August 2007, October 2008, March 2009 and December 2009, the board of Directors granted warrants to the Company´s Management, selected employees of the Company and its subsidiaries and to the Company´s Board of Directors. See the table below.

The warrants were granted in accordance with the authorisations given to the Board of Directors by the sharebolders. The Board of Directors has fixed the terms of and the size of the grants of warrants, taking into account authorisations from the shareholders, the Company's guidelines for incentive pay, to the extent applicable, an assessment of expectations of the recipient´s work efforts and contribution to the Company´s growth, as well as the need to motivate and retain the recipient. In addition, the warrants granted are s ubject to the provisions of the Danish Public Companies Act regarding termination of employees prior to their exercise of warrants in the case of recipients who are subject to the act.

The terms of the warrant plans are included in the Articles of Association.

The exercise price and exercise periods for the individual grants are stated in the table below.

# Notes

**23 Incentive plans – continued**

| | Outstanding as of 1 January | Addition during the year | Options exercised | Annulled | Terminations | Outstanding as of 31 December |
|---|---|---|---|---|---|---|
| **2009 DK programmes** | | | | | | |
| Board of Directors [a] | 61,116 | 25,000 | - | - | - | 86,116 |
| CEO & President | 50,000 | 20,000 | - | - | - | 70,000 |
| Group Management | 162,515 | 80,000 | - | (25,000) | - | 217,515 |
| Other employees | 173,843 | 170,000 | - | (11,250) | - | 332,593 |
| Retired employees as of 31 December | 36,116 | - | - | - | - | 36,116 |
| **Total** | **483,590** | **295,000** | **-** | **(36,250)** | **-** | **742,340** |
| Numbers of warrants which can be exercised as of 31 December 2009 | | | | | | 138,840 |
| **2008 DK programmes** | | | | | | |
| Board of Directors [a] | 41,116 | 20,000 | - | - | - | 61,116 |
| CEO & President | 30,000 | 20,000 | - | - | - | 50,000 |
| Group Management | 119,191 | 75,000 | - | (31,676) | - | 162,515 |
| Other employees | 128,345 | 60,000 | - | (14,502) | - | 173,843 |
| Retired employees as of 31 December | 36,116 | - | - | - | - | 36,116 |
| **Total** | **354,768** | **175,000** | **-** | **(46,178)** | **-** | **483,590** |
| Numbers of warrants which can be exercised as of 31 December 2008 | | | | | | - |

[a] Including retired board member.

| | 2006 programme | 2007 programme | 2008 programme | 2009 March | 2009 December |
|---|---|---|---|---|---|
| **Specification of parametres for BlackScholes model** | | | | | |
| Avearge share price (DKK) | 433.00 | 436.50 | 156.00 | 103.00 | 149.00 |
| Average share exercise price (DKK) | 542.00 | 549.00 | 156.00 | 124.00 | 184.00 |
| Expected volatility rate | 36.00% | 31.00% | 39.00% | 62.30% | 50.90% |
| Expected life – number of years | 3.3 | 3.3 | 3.0 | 3.0 | 3.0 |
| Expected dividend per share | - | - | - | - | - |
| Risk-fee interest rate | 3.00% | 4.00% | 4.50% | 2.50% | 2.10% |
| The fair value of the warrants on grant has been determined applying the BlackScholes model in DKK. | 49 | 65 | 49 | 39 | 48 |

The expected volatility is based on the historical volatility (over 12 months).

Recognised costs were 2009: DKK 7.3 million, 2008: DKK 5.8 million.

# Notes

**23 Incentive plans – continued**

**Exercise periods**

**2009 December programme**

The warrants can be exercised wholly or partly in a period of 14 days commencing from the day of publication of the Company's Quarterly Report for the third quarter in 2012, from the day of publication of the Company's Quarterly Report for the first quarter in 2013, from the day of publication of the Company's Quarterly Report for the third quarter in 2013 and/or in a period of 14 days commencing from the day of publication of the Company's Quarterly Report for the first quarter in 2014.

**2009 March programme**

The warrants can be exercised wholly or partly in a period of 14 days commencing from the day of publication of the Company's Annual Report for 2011, from the day of publication of the Company's Half Yearly Interim Results for 2012, from the day of publication of the Company's Annual Report for 2012 and in a period of 14 days commencing from the day of publication of the Company's Half Yearly Interim Results for 2013.

**2008 programmes**

The warrants can be exercised wholly or partly in a period of 14 days commencing from the day of publication of the company's quarterly report for the third quarter in the year of 2011 and/or in a period of 14 days commencing from the day of publication of the company's annual results for 2011 (spring 2012).

**2007 programmes**

The warrants can be exercised wholly or partly in a period of 14 days commencing from the day of publication of the company's quarterly report for the third quarter in the year of 2010 and/or in a period of 14 days commencing from the day of publication of the company's annual results for 2010 (spring 2011).

**2006 programmes**

The warrants can be exercised wholly or partly in a period of 14 days commencing from the day of publication of the company's quarterly report for the third quarter in the year of 2009 and/or in a period of 14 days commencing from the day of publication of the company's annual results for 2009 (spring 2010).

**Adjustment of outstanding warrants in 2010**

The warrant programme has a regulation, if the decision is taken to increase the capital in Bavarian Nordic, it means that the shares in Bavarian Nordic can apply for quotation, which is lower than the market quotation, will the number of shares, subscribe for regarding the warrant programme will the exercise price for the share be adjusted to compensate the warrantholder for dilution. The warrant programmes for 2006, 2007, 2008 and 2009 are adjusted regarding these rules as a result of the Rights Issue in January 2010 as shown in the below table.

| Outstanding warrants | As of 31 December 2009 | | As of 2 February 2010 (after adjustment) | |
|---|---|---|---|---|
| Programme | Exercise price (DKK) | Number of warrants | Exercise price (DKK) | Number of warrants |
| August 2006 | 542 | 138,840 | 455 | 165,566 |
| August 2007 | 549 | 150,000 | 460 | 178,862 |
| October 2008 | 156 | 158,500 | 131 | 189,000 |
| March 2009 | 124 | 25,000 | 104 | 29,808 |
| December 2009 | 184 | 270,000 | 154 | 231,947 |
| | | **742,340** | | **795,183** |

# Notes

**23 Incentive plans – continued**

**Phantom shares**

The Company has previously established a three-year phantom share programme under which all employees of the Parent Company, Bavarian Nordic GmbH and Bavarian Nordic Inc. receive up to three phantom shares per month free of charge during the period from 1 November 2008 to 31 October 2011. Each employee who is a full-time employee during the entire term of the plan will be eligible to receive a maximum of 108 phantom shares.

Upon expiry of the programme in 2011 the employees may exercise the phantom shares granted to them and thus be entitled to a cash bonus calculated on the basis of the increase in the price of the Company´s shares. The exercise of phantom shares is conditional on the price of the Company´s shares being at least 10% higher at the time of exercise than the exercise price.

Furthermore, the Company established a phantom share program in 2006, which terminated and became void in 2009 without payment of profit to those employees who had received phantom shares under the program, in that the conditions for exercising the program were not met.

| | 2009 | 2008 |
|---|---|---|
| **Phantom shares – 2008 programme** | | |
| Outstanding as of 1 January | 1,539 | - |
| Granted during the year | 10,509 | 1,539 |
| Expired during the year | - | - |
| **Outstanding phantom shares as of 31 December** | **12,048** | **1,539** |
| | | |
| Avearge share price (DKK) | 156 | 132 |
| Average share exercise price (DKK) | 156 | 156 |
| Expected volatility rate (% p.a.) | 39% | 39% |
| Expected life – number of years | 2.0 | 3.0 |
| Expected dividend per share | | - |
| Risk-free interest rate (% p.a.) | 3.30% | 3.90% |
| | | |
| The expected volatility is based on the historic volatility (over 12 months). | | |
| | | |
| The recognised cost in 2009 was DKK 267 thousands (2008 was DKK 8 thousands). | | |
| | | |
| **Liability in DKK thousands as of 31 December relating to phantom shares** | **275** | **8** |

# Notes

**23 Incentive plans – continued**

| | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| **Phantom shares – 2006 programme** | | | | |
| Outstanding phantom shares as of 1 January | 17,211 | 8,807 | 1,216 | - |
| Granted during the year | 8,420 | 8,404 | 7,591 | 1,216 |
| Expired during the year | (25,631) | - | - | - |
| **Outstanding phantom shares as of 31 December** | **-** | **17,211** | **8,807** | **1,216** |
| | | | | |
| Avearge share price (DKK) | 156 | 132 | 587 | 515 |
| Average share exercise price (DKK) | 394 | 394 | 394 | 422 |
| Expected volatility rate (% p.a.) | 39% | 22% | 67% | 54% |
| Expected life – number of years | - | 0.9 | 1.9 | 2.9 |
| Expected dividend per share | - | . | | - |
| Risk-free interest rate (% p.a.) | 3.00% | 3.00% | 3.00% | 3.00% |

The expected volatility is based on the historic volatility (over 12 months).

Recognised income was 2009: DKK 59 thousand, (2007: income of DKK 996 thousand).

| | | | | |
|---|---|---|---|---|
| **Liability in DKK thousand as of 31 December relating to phantom shares** | **-** | **59** | **1,064** | **196** |

**Adjustment of outstanding phantomshares in 2010**

The phantom share program has an adjustment mechanism in case of changes in the Bavarian Nordic's capital structure, including raise in capital to price under market level. In compliance of these rules are the average price of the 2008 program reducted from DKK 156 to DKK 131 because of the diluted value of the programme based on Bavarian Nordic succesfully completed a Rights Issue in January 2010..

| | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| **Warrants USA** | | | | |
| Outstanding warrants as of 31 December 2006 | 242,600 | 190,500 | - | - |
| Lapsed | (11,000) | (10,400) | (107,600) | - |
| Granted during the year | - | 62,500 | 298,100 | - |
| Settled | (231,600) | - | - | - |
| **Outstanding warrants as of 31 December 2007** | **-** | **242,600** | **190,500** | **-** |

The programme covers employees in the USA.

The recognised cost in 2009 was DKK 534 thousands (2008 was DKK 352 thousands).

In relation to the merger between Bavarian Nordic Holding Inc. and BN ImmunoTherapeutics Inc., Bavarian Nordic A/S repurchased the outstanding warrants.

# Notes

| Amounts in DKK thousands | Parent Company and Group 2009 | 2008 |
|---|---|---|
| **24 Contingent liabilities, contractual obligations** | | |
| The Parent Company stands surety for a credit facility to the subsidiary of a maximum of | 519 | 1,267 |
| Bank guarantees issued as deposits for laboratory and office buildings in Martinsried, Germany | 2,054 | 2,054 |
| Guarantee issued in connection with sale of IMVAMUNE® to Asia. | 76 | 59 |
| Guarantee issued in connection with filling of IMVAMUNE® in Germany | 15,010 | - |
| **Operational leasing** | | |
| Leasing obligations for cars. | | |
| The rental agreements are irrevocable up to 35 months. | | |
| – Due during the next year | 1,234 | 2,510 |
| – Due between 1 and 5 years | 677 | 2,573 |
| – Due after 5 years | - | - |
| **Rental commitments** | | |
| Rental agreements for laboratory and offices facilities. | | |
| The rental agreements are irrevocable from 6 to 72 months | 46,637 | 52,261 |
| The above-mentioned rental agreements have bound payment obligations as follows: | | |
| – Due during the next year | 12,027 | 18,571 |
| – Due between 1 and 5 years | 27,080 | 33,690 |
| – Due after 5 years | 7,531 | - |
| **Collaborative agreements** | | |
| The company has contractual obligations with research partners for long-term research projects. | | |
| – Due during the next year | 13,147 | 22,064 |
| – Due between 1 and 5 years | 899 | 5,167 |
| – Due after 5 years | - | - |
| **Other contractual obligations** | | |
| Include among other things purchase commitments related to filling of vaccines. | | |
| – Due during the next year | 126,983 | 88,808 |
| – Due between 1 and 5 years | 179,805 | 261,314 |
| – Due after 5 years | 70 | 100 |

**Lawsuits**

Bavarian Nordic is involved in an arbitration requested by Helmholtz Zentrum München, Deutsches Forschungszentrum für Gesundheit und Umwelt Gmbh (formerly also known as GSF). The arbitration, which was filed in August 2009, is based on two old agreements with Bavarian Nordic from 1994 and 1997 regarding a collaboration on certain recombinant vaccines, which was formally terminated in 2001. The agreements do not emcompass the MVA-BN® patents. Bavarian Nordic has rejected the claim.

Bavarian Nordic is not involved in any lawsuits or arbitration cases which could have essential influence on the income statement of the Parent company or the Group's financial position or result.

# Notes

## 25 Significant events after the balance date

Since 31 December 2009 no material changes have occured except for changes related to an offering completed in January/February 2010 and settlement with Oxford BioMedica regarding all legal disputes on MVA-BN®.

Bavarian Nordic has completed an offering in which 3,960,307 new shares with a nominal value of DKK 10 each were subscribed, corresponding to a subscription rate of 99.6%.

The new shares were subscribed at DKK 80 per share with a nominal value of DKK 10, resulting in gross proceeds to Bavarian Nordic of approximately DKK 317 million, equivalent to net proceeds of approximately DKK 298 million after deduction of expenses related to the offering.

Following registration of the 3,960,307 new shares with a nominal value of DKK 10 each, Bavarian Nordic's nominal share capital will be DKK 119,120,520 corresponding to 11,912,052 shares with a nominal value of DKK 10 each.

On 27 January 2010 Bavarian Nordic and Oxford BioMedica reached a global settlement ending the legal disputes between the parties on matters relating to MVA-BN®.

Under the agreement, Bavarian Nordic granted a license to its MVA-BN®patents in return for Oxford BioMedica making milestone payments and royalties. As a part of the agreement Oxford BioMedica granted Bavarian Nordic a license to heterologous prime-boost patents in return for Bavarian Nordic making milestone payments and royalties and a sub-license under poxvirus patents licensed to Oxford BioMedica by sanofi aventis.

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