BAVARIAN NORDIC

Bavarian Nordic A/S

(a Danish public limited company, CVR no. 16271187)

Rights issue of up to 3,975,872 new shares with a nominal value of DKK 10 each at a price of DKK 80 per share with preemptive rights to the Existing Shareholders of Bavarian Nordic A/S at the ratio of 1:2.

This prospectus (the "Prospectus") has been prepared in connection with a capital increase comprising an offering (the "Offering") of up to 3,975,872 new shares (the "New Shares") with a nominal value of DKK 10 each in Bavarian Nordic A/S (the "Company" or "Bavarian Nordic A/S") with preemptive rights for the Existing Shareholders (as defined below) of Bavarian Nordic A/S at the ratio of 1:2.

Prior to the Offering, Bavarian Nordic A/S has 7,951,745 shares with a nominal value of DKK 10 each (the "Existing Shares") and, consequently, Bavarian Nordic A/S has a nominal share capital of DKK 79,517,450.

On 8 January 2010, under the authorisation adopted as article 5a of the articles of association of Bavarian Nordic A/S, the board of directors (the "Board of Directors") resolved to increase the share capital of Bavarian Nordic A/S by a nominal value of up to DKK 39,758,720 (3,975,872 Shares of DKK 10 nominal value) each.

Each holder of shares in Bavarian Nordic A/S who is registered with VP Securities A/S ("VP Securities") on 15 January 2010 at 12.30 p.m. CET as a shareholder of Bavarian Nordic A/S (the "Existing Shareholders") will be allocated one (1) preemptive right ("Preemptive Right") for each Existing Share. For every two (2) Preemptive Rights, the holder is entitled to subscribe for one (1) New Share at a price of DKK 80 per New Share (the "Offer Price").

The trading period for the Preemptive Rights commences on 13 January 2010 at 9.00 a.m. CET and closes on 26 January 2010 at 5.00 p.m. CET. The subscription period for the New Shares (the "Subscription Period") commences on 16 January 2010 and closes on 29 January 2010 at 5.00 p.m. CET. Any Preemptive Rights which have not been exercised during the Subscription Period will lapse with no value, and the holder of such Preemptive Rights will not be entitled to compensation. Once a holder of Preemptive Rights has exercised such rights and subscribed for New Shares, such subscription cannot be withdrawn or modified by the holder. The Preemptive Rights and the New Shares have been approved for trading and official listing on NASDAQ OMX Copenhagen A/S (the "NASDAQ OMX").

Bavarian Nordic A/S' Shares are listed on NASDAQ OMX under ISIN code DKK0015998017.

The Offering is not underwritten.

A.J. Aamund A/S is entitled to 1,334,099 Preemptive Rights to subscribe for 667,049 New Shares. A.J. Aamund A/S has agreed with the Joint Lead Managers to participate in the Offering on a cash-neutral basis (after transaction costs) by subscribing for the maximum number of New Shares that it can finance solely through the sale of Preemptive Rights. The proceeds from any Preemptive Rights sold by A.J. Aamund A/S will be used to subscribe for New Shares. The Preemptive Rights will be sold during the trading period for Preemptive Rights by the Joint Lead Managers on behalf of A.J. Aamund A/S, in open market transactions, private placements, block trades or otherwise.

The proceeds from the Offering will be used to fulfil the Group strategy within biodefence and cancer, by maintaining momentum in the production of IMVAMUNE®, gaining strategic flexibility in the clinical development of PROSTVAC™ as well as for new initiatives within the two business areas.

Following the Offering the Group will seek to consolidate its operating activities within the biodefence business area as well as expand the cancer activities. Further, the Group seeks to ensure that it has an appropriate capital base in order to strengthen its future operational flexibility. Accordingly, the Group expects to be able to maintain momentum in the development, production and delivery of IMVAMUNE® and continue the Phase III preparations of PROSTVAC™.

Investors should be aware that an investment in the Preemptive Rights and the New Shares involves a high degree of risk. See "Risk factors" for a description of the factors that should be considered before investing in the Preemptive Rights and the New Shares.

The Preemptive Rights and the New Shares will be delivered in book-entry form through allocation to accounts with VP Securities. The New Shares have been accepted for clearance through Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking S.A. ("Clearstream").

The Offering comprises a public offering in Denmark and the United Kingdom and private placements in certain other jurisdictions.

This Prospectus may not be distributed in or otherwise be made available, the New Shares may not be offered or sold, directly or indirectly, and the Preemptive Rights may not be exercised or otherwise offered or sold, directly or indirectly, in the United States, Canada, Australia or Japan, unless such distribution, offering, sale or exercise is permitted under applicable laws in the relevant jurisdiction, and Bavarian Nordic A/S and the Joint Lead Managers must receive satisfactory documentation to that effect. This Prospectus may not be distributed or otherwise made available, the New Shares may not be offered or sold, directly or indirectly, and the Preemptive Rights may not be exercised or otherwise offered or sold, directly or indirectly, in any jurisdiction outside Denmark and the United Kingdom, unless such distribution, offering, sale or exercise is permitted under applicable laws in the relevant jurisdiction, and Bavarian Nordic A/S and the Joint Lead Managers may require receipt of satisfactory documentation to that effect. Due to such restrictions under applicable laws, Bavarian Nordic A/S expects that some or all investors residing in the United States, Canada, Australia, Japan and other jurisdictions outside Denmark and the United Kingdom may not have the Prospectus distributed to them and may not be able to exercise the Preemptive Rights and subscribe for the New Shares. Bavarian Nordic A/S makes no offer or solicitation to any person under any circumstances that may be unlawful.

The Preemptive Rights and the New Shares have not been approved, disapproved or recommended by the US Securities and Exchange Commission, any state securities commission in the United States or any other US regulatory authority, nor have any of such regulatory authorities passed upon or endorsed the merits of the Offering or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

The Preemptive Rights and the New Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "US Securities Act"), or any state securities laws in the Unites States. Any offer and sale of the Preemptive Rights or the New Shares in the United States will be made only to qualified institutional buyers pursuant to an exemption from the registration requirements of the US Securities Act, and outside the United States will be made in accordance with Regulation S under the US Securities Act ("Regulation S").

Joint Lead Managers

Nordea

SEB ENSKILDA

The date of this Prospectus is 8 January 2010 (the "Prospectus Date").

GENERAL INFORMATION

Important information relating to this Prospectus
This Prospectus has been prepared in compliance with Danish legislation and regulations, including Consolidated Act no. 795 of 20 August 2009 on Securities Trading (the "Danish Securities Trading Act"), Commission Regulation (EC) no. 809/2004 of 29 April 2004 as amended and Executive Order no. 885 of 14 September 2009 issued by the Danish Financial Supervisory Authority on prospectuses for securities admitted for trading on a regulated market and for public offerings of securities of at least EUR 2,500,000. The Prospectus is governed by Danish law.

This Prospectus has been prepared for the Offering.

In connection with the Offering and the admittance for trading and official listing of the New Shares, this Prospectus has been prepared in a Danish-language, an international English-language and a US English-language version for qualified institutional buyers in the United States. In the event of any discrepancy, the Danish Prospectus shall prevail. The Danish Prospectus is identical to the international English-language version and the US English-language version of the Prospectus, except that the Danish Prospectus also contains responsibility statements made by the Joint Lead Managers and Bavarian Nordic A/S' independent auditors and further the Danish and international English-language version of the Prospectus also contain Bavarian Nordic A/S' independent auditor's report on prospective financial information for Bavarian Nordic A/S for 2009 and 2010.

Nordea Markets (division of Nordea Bank Danmark A/S) ("Nordea Markets") and SEB Enskilda, Skandinaviska Enskilda Banken AB (publ), Copenhagen Branch ("SEB Enskilda") are the Joint Lead Managers in connection with the Offering and will in that connection receive a fee from Bavarian Nordic A/S. In connection with their usual business activities, Nordea Markets and/or SEB Enskilda or certain of their affiliates may have provided and may in future provide investment banking advice and carry on normal banking business with Bavarian Nordic A/S and any future subsidiaries and affiliates of Bavarian Nordic A/S.

No person is authorised to give any information or to make any representation in connection with the Offering not contained in this Prospectus. Any information or representation not so contained must not be relied upon as having been made or authorised by Bavarian Nordic or Nordea Markets or SEB Enskilda. Bavarian Nordic, Nordea Markets and SEB Enskilda accept no liability for any such information or representation. The information contained in this Prospectus has been provided by Bavarian Nordic and other sources identified herein.

The information in this Prospectus relates to the date printed on the front cover, unless expressly stated otherwise. The distribution of this Prospectus shall not in any circumstances imply that there have been no changes in the affairs of Bavarian Nordic A/S since that date, or that the information contained in this Prospectus is correct as at any time subsequent to the date hereof.

Any material change as compared with the contents of this Prospectus that occurs or is ascertained between the time of approval of this Prospectus and the final completion of the Offering, i.e. until registration with the Danish Commerce and Companies Agency has taken place, will be published as a supplement to the Prospectus pursuant to applicable laws and regulations in Denmark.

Investors who have accepted to exercise Preemptive Rights and/or purchase New Shares prior to publication of a supplement are entitled to withdraw their acceptance during two business days after the publication of such supplement.

Bavarian Nordic A/S is responsible for the Prospectus under current Danish legislation. Neither Nordea Markets nor SEB Enskilda nor any other person makes any direct or indirect representation for the accuracy and completeness of this Prospectus or the information or representations contained herein.

Prospective subscribers or purchasers of Preemptive Rights and/or the New Shares should make an independent assessment as to whether the information in this Prospectus is relevant, and any subscription or any purchase of Preemptive Rights and/or the New Shares should be based on the examinations that the prospective subscribers or purchasers may deem necessary.

This Prospectus may not be forwarded, reproduced or in any other way redistributed by anyone but the Joint Lead Managers and Bavarian Nordic. Investors may not reproduce or distribute this Prospectus, in whole or in part, and investors may not disclose any of the contents of this Prospectus or use any information herein for any purpose other than for considering the purchase of Preemptive Rights and the purchase of or subscription for the New Shares described in this Prospectus. Investors agree to the foregoing by accepting delivery of this Prospectus.

Where the Offering will be made
The Offering comprises a public offering in Denmark and the United Kingdom and private placements in certain other jurisdictions.

Consistent with the rules on cross-border offers of Directive 2003/71/EC of the European Parliament and the European Council, the Company will request that the Danish Financial Supervisory Authority provides the competent authorities for approving prospectuses in the United Kingdom with a certificate of approval regarding the Prospectus. Such certificate of approval, accompanied by the Prospectus and a translation thereof, will be filed with the competent authorities for approving prospectuses in the United Kingdom after which the Prospectus will be valid for public offerings in that jurisdiction.

Restrictions applicable to the Offering

General restrictions
The Offering will be implemented under Danish law, and neither the Company nor the joint Lead Managers have taken any action or will take any action in any jurisdictions, with the exception of Denmark and the United Kingdom, which may result in a public offering of the Preemptive Rights and/or the New Shares.

The distribution of the Prospectus and the Offering as well as the marketing of Preemptive Rights or Shares may be restricted by law and/or be comprised by other restrictions in certain jurisdictions, and this Prospectus may not be used for, or in connection with, any offer or solicitation to any person in any jurisdiction in which such offer or solicitation is not authorised or to any persons to whom it is unlawful to make such offer or solicitation. This Prospectus does not constitute an offer of or an invitation to purchase any Preemptive Rights or purchase or subscribe for New Shares in any jurisdiction in which such offer or invitation would be unlawful. Bavarian Nordic A/S and the Joint Lead Managers require persons into whose possession this Prospectus comes to inform themselves of and observe such restrictions, including any tax and currency restrictions that may be relevant in connection with the Offering. Each investor is advised to investigate through such investor's own advisers the tax consequences of an investment in New Shares. Neither Bavarian Nordic A/S nor the Joint Lead Managers accepts any legal liability for any violation of these restrictions by any person, irrespective of whether such person is an Existing Shareholder or a potential purchaser of Preemptive Rights and/or subscriber of the New Shares.

The Preemptive Rights and the New Shares are subject to transfer and reselling restrictions in certain jurisdictions. By purchasing or subscribing for the Preemptive Rights or the New Shares, purchasers of or subscribers for Preemptive Rights or New Shares will be deemed to have confirmed that Bavarian Nordic A/S and the Joint Lead Managers and their respective affiliates and other persons may rely on the accuracy of the representations, acknowledgements, guarantees and agreements contained herein.

Each prospective purchaser of or subscriber for Preemptive Rights and/or New Shares must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, subscribes, offers or sells Preemptive Rights and/or New Shares or possesses or distributes this Prospectus and must obtain any consent, approval or permission required by it for acquiring Preemptive Rights or New Shares.

This Prospectus may not be distributed in or otherwise be made available, the New Shares may not be offered or sold, directly or indirectly, and the Preemptive Rights may not be exercised or otherwise offered or sold, directly or indirectly, in the United States, Canada, Australia or Japan, unless such distribution, offering, sale or exercise is permitted under applicable laws in the relevant jurisdiction, and Bavarian Nordic A/S and the Joint Lead Managers must receive satisfactory documentation to that effect. This Prospectus may not be distributed or otherwise made available, the New Shares may not be offered or sold, directly or indirectly, and the Preemptive Rights may not be exercised or otherwise offered or sold, directly or indirectly, in any jurisdiction outside Denmark and the United Kingdom, unless such distribution, offering, sale or exercise is permitted under applicable laws in the relevant jurisdiction, and Bavarian Nordic A/S and the Joint Lead Managers may require receipt of satisfactory documentation to that effect. Due to such restrictions under applicable laws, Bavarian Nordic A/S expects that some or all investors residing in the United States,

Canada, Australia, Japan and other jurisdictions outside Denmark and the United Kingdom may not have the Prospectus distributed to them and may not be able to exercise the Preemptive Rights and subscribe for the New Shares. Bavarian Nordic A/S makes no offer or solicitation to any person under any circumstances that may be unlawful.

Notice to US residents
The Preemptive Rights and the New Shares have not been approved, disapproved or recommended by the US Securities and Exchange Commission, any state securities commission in the United States or any other US regulatory authority, nor have any of such regulatory authorities passed upon or endorsed the merits of the Offering or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

The Preemptive Rights and the New Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "US Securities Act"), or any state securities laws in the Unites States. Any offer and sale of the Preemptive Rights or the New Shares in the United States will be made only to qualified institutional buyers pursuant to an exemption from the registration requirements of the US Securities Act, and outside the United States will be made in accordance with Regulation S under the US Securities Act ("Regulation S").

The Offering concerns securities in a Danish company. The Offering is subject to Danish disclosure requirements deviating from the disclosure requirements under US law. The financial statements contained in this document have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU, which may not be comparable with the financial statements of US companies.

It may be difficult to enforce investors' rights and claims under US federal securities laws because Bavarian Nordic A/S is domiciled in Denmark and some or all executive officers and board members of Bavarian Nordic A/S may be residents of Denmark. It may not be possible to file a lawsuit against a non-US company or its executive officers or board of directors with a court outside the US concerning breach of the US securities laws. It may be difficult to enforce judgments obtained in US courts against a non-US company and its affiliates.

Available information
The Company is not required to file periodic reports under Section 13 or Section 15(d) of the US Securities Exchange Act of 1934, as amended (the "Exchange Act"). For so long as the Preemptive Rights or New Shares are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Company will, during any period in which it is neither subject to Section 13 or 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, provide, upon written request, to holders of Preemptive Rights or New Shares, any owner of any beneficial interest in Preemptive Rights or New Shares or to any prospective purchaser designated as such by such a holder or owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Notice to New Hampshire Residents
NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENCED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Notice regarding the European Economic Area
In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each a "Relevant Member State"), no offering of Preemptive Rights or New Shares to the public will be made in any Relevant Member State prior to the publication of a prospectus concerning the Preemptive Rights and the New Shares, which has been approved by the competent authority in such Relevant Member State or, where relevant, approved in another Relevant Member State and notified to the competent authority in such Relevant Member State, all pursuant to the Prospectus Directive, except that with effect from and including the date of implementation of the Prospectus Directive in such Relevant Member State, an offering of Preemptive Rights and New Shares may be made to the public at any time in such Relevant Member State under the following exemptions under the Prospectus Directive:

(a) to legal entities that are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity fulfilling at least two of the following criteria: (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than EUR 43,000,000; and (iii) an annual net revenue of more than EUR 50,000,000, as shown in its last annual or consolidated accounts;

(c) to less than 100 individuals or legal persons (except for "qualified investors" as defined in the Prospectus Directive) subject to the prior written consent of Bavarian Nordic A/S and the Joint Lead Managers; or

(d) in any other circumstances which do not require the publication by Bavarian Nordic A/S of a prospectus under Article 3 of the Prospectus Directive.

For the purposes of the above, the expression an "offer of Preemptive Rights and New Shares to the public" in relation to any Preemptive Rights and New Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering, the Preemptive Rights and the New Shares so as to enable an investor to decide to purchase the Preemptive Rights or purchase or subscribe for the New Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State. The term "Prospectus Directive" means Directive 2003/71/EC and includes all relevant implementation procedures in each Relevant Member State.

Notice to residents of Canada, Australia, Japan and other jurisdictions outside Denmark and the United Kingdom
The Preemptive Rights and the New Shares have not been approved, disapproved or recommended by any foreign regulatory authorities, nor have any of such authorities passed upon or endorsed the merits of the Offering or the accuracy or adequacy of this Prospectus.

Due to restrictions under applicable laws and regulations, Bavarian Nordic A/S expects that certain or all investors residing in Canada, Australia, Japan and other jurisdictions outside Denmark and the United Kingdom may not be able to exercise their Preemptive Rights and/or subscribe for the New Shares.

Enforceability of judgments
Bavarian Nordic A/S is a public limited liability company incorporated in Denmark. Most of the members of Management are residents of Denmark, and all or a substantial share of Bavarian Nordic A/S' and such persons' assets are located in Denmark. As a result, it may not be possible for investors to effect service of process outside Denmark upon Bavarian Nordic A/S or such persons or to enforce against them judgments obtained in courts outside Denmark based upon applicable laws in jurisdictions outside Denmark.

Forward-looking statements
Certain statements in this Prospectus may contain forward-looking statements. Such statements concern Management's expectations, beliefs, intentions or strategies relating to the future as at the Prospectus Date. The statements can be identified by the use of terminology such as "expect", "assess", "estimate", "anticipate", "intend", "may", "plan", "predict", "will", "should", "seek" or similar expressions. The forward-looking statements reflect Management's current views and assumptions with respect to future events and hence involve substantial risks and uncertainties. Actual and future results and performance may differ materially from those contained in such statements. Except for any prospectus supplements that Bavarian Nordic A/S may be required to publish under Danish law, Bavarian Nordic A/S does not intend to and does not assume any obligation to update the forward-looking statements in this Prospectus subsequent to the Prospectus Date.

Presentation of figures
Figures and percentages in this Prospectus have generally been rounded. Accordingly, the figures presented in the Prospectus may differ from the figures presented in the annual reports and interim reports of Bavarian Nordic.

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RESPONSIBILITY STATEMENT

Responsibility statements by the Company's auditors and Joint Lead Managers are only included in the Danish-language version of the Prospectus.

The Company's statement

We hereby declare that we have taken all reasonable care to ensure that, to the best of our knowledge and belief, the information contained in this Prospectus is in accordance with the facts and contains no omissions likely to affect the import thereof.

Kvistgaard, 8 January 2010

Bavarian Nordic A/S

Board of Directors

Asger Aamund, Chairman | Claus Bræstrup | Erling Johansen | Gerard van Odijk | Flemming Pedersen

Asger Aamund is President & CEO of A.J. Aamund A/S
Claus Bræstrup is former President & CEO of H. Lundbeck A/S
Erling Johansen is former President & CEO of BASF Health and Nutrition A/S
Gerard van Odijk is President & CEO of Teva Pharmaceuticals Europe B.V.
Flemming Pedersen is President & CEO of NeuroSearch A/S

Corporate Management

Anders Hedegaard
President & CEO

SUMMARY

This summary should be considered as an introduction to this Prospectus. Any decision to invest in the securities should be made on the basis of the information contained in this Prospectus as a whole. The individuals or legal entities that have prepared the summary or any translation thereof, and that have requested approval thereof, may be subject to civil liability, but only if it is misleading, incorrect or inconsistent when read in conjunction with the other parts of the Prospectus. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might have to bear the costs of translating the Prospectus before such legal proceedings are initiated.

Overview

Bavarian Nordic is an industrial biotechnology company developing and producing novel vaccines for the treatment and prevention of life-threatening diseases with a significant unmet medical need. The Group's business strategy is focused in three areas: *biodefence, cancer* and *infectious diseases,* and includes seven development programmes. Two programmes are ready for Phase III: IMVAMUNE®, a third-generation smallpox vaccine is being developed under a contract with the US authorities, and PROSTVAC™, a therapeutic vaccine for advanced prostate cancer is being developed under a collaboration agreement with the National Cancer Institute, USA (NCI).

Bavarian Nordic's patented technology, MVA-BN®, is, as demonstrated in clinical studies, one of the most safe, multivalent vaccine vectors for the development of vaccines against various infectious diseases such as smallpox, HIV, as well as against breast and prostate cancer.

Bavarian Nordic has two high-technology production facilities. One of the facilities, located in Kvistgaard in Denmark, is designed for the commercial production of IMVAMUNE® and MVA-BN® recombinant vaccines. Located in Berlin, Germany, the other facility is designed for the production of recombinant vaccines for clinical research. Bavarian Nordic also has a filling and packing contract with IDT Biologika in Dessau, Germany.

With operations in Denmark, Germany, the USA, and Singapore, Bavarian Nordic employs over 365 people.

Strategy

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 biodefence and cancer. In addition, the Group seeks to create shareholder value by striving for sustained profitable operations, by focusing its development activities and by optimising the resources applied.

Biodefence

Strategy: Full value chain

This is the Group'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. One goal is to complete the clinical development of IMVAMUNE® until final FDA approval. 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®.

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

It is furthermore the strategy of Bavarian Nordic 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.

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 Group's facilities in Berlin where PROSTVAC™ will be manufactured. The Group will seek partnerships for PROSTVAC™ with one or more pharmaceutical companies in order to contribute to the comprehensive Phase III studies and through product registration and commercialisation.

Infectious diseases

Strategy: Maximise value

The Group 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 does not plan to initiate any cost-intensive Phase II studies for its infectious disease projects without external funding.

Short-term goals

In order to succeed with the overall strategy, Bavarian Nordic also 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

Reasons for the Offering and use of proceeds

The proceeds from the Offering will be used to fulfil the Group strategy within biodefence and cancer, by maintaining momentum in the production of IMVAMUNE®, gaining strategic flexibility in the clinical development of PROSTVAC™ as well as for new initiatives within the two business areas.

Following the Offering, the Group will seek to consolidate its operating activities within the biodefence business area as well as expand the cancer activities. Further, the Group seeks to ensure that it has an appropriate capital base in order to strengthen its future operational flexibility. Accordingly, the Group expects to be able to maintain momentum in the development, production and delivery of IMVAMUNE® and continue the Phase III preparations of PROSTVAC™.

With net proceeds from the Offering of DKK 299.0 million (the Net Maximum Proceeds) combined with expected payments from RFP contracts and expected payments from deliveries of IMVAMUNE® to the US authorities, the obtaining of a credit facility in the amount of DKK 150 to 200 million and the Group's current cash preparedness, Management expects that the cash preparedness will be sufficient to support the planned future operations, including preparations for Phase III for PROSTVAC™. In this case the Group's cash preparedness will be sufficient to cover its capital requirements until the end of 2012, where upon the Group expects its cash preparedness to cover the operational needs for an order producing company.

In case the gross proceeds from the Offering are DKK 0 million combined with expected payments from RFP contracts and expected payments from deliveries of IMVAMUNE® to the US authorities, the obtaining of a credit facility in the amount of DKK 150 to 200 million and the Group's current cash preparedness, Bavarian Nordic will be in a situation where the Group's cash preparedness will not be sufficient to support the planned future operations and thus the Group would not initiate new projects and would cancel existing research and development programmes and, if required, delay the upscaling of production as well as would rely on additional financing in first quarter of 2010 in order to continue operations. In case sufficient additional financing is not obtained, Bavarian Nordic will, among other things, be in breach of its funding agreement with Nordea Bank Danmark A/S pursuant to which Bavarian Nordic has undertaken to maintain a cash preparedness of a minimum of DKK 150 million.

In case the gross proceeds from the Offering are DKK 0 million and Bavarian Nordic only receives the delivery allowance from the US authorities to deliver IMVAMUNE® in late 2010 instead of in the first half of 2010, the Group must align its strategy including an action plan containing both delay or closing of clinical projects, delay of the preparations for Phase III for PROSTVAC™, downscaling of production, restructuring of commercial and administrative activities and establish an alternative financing structure in order to secure continued operations. In case sufficient additional financing is not obtained, Bavarian Nordic will, among other things, be in breach of its funding agreement with Nordea Bank Danmark A/S pursuant to which Bavarian Nordic has undertaken to maintain a cash preparedness of a minimum of DKK 150 million.

In case the Offering is fully subscribed, but Bavarian Nordic only receives the delivery allowance from the US authorities to deliver IMVAMUNE® in late 2010 instead of in the first half 2010, 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 rely on additional financing by the end of first half of 2010. In case sufficient additional financing is not obtained, Bavarian Nordic may, among other things, be in breach of its funding agreement with Nordea Bank Danmark A/S pursuant to which Bavarian Nordic has undertaken to maintain a cash preparedness of a minimum of DKK 150 million.

For further information on the Offering, see "The Offering".

Prospective financial information for 2009 and 2010
For 2009, Management expects revenue at the level of DKK 75 million, and a pre-tax loss at the level of DKK 325 million. The net free liquidity at year-end is expected to be around DKK 175 million.

For 2010, Management expects to deliver and invoice 4-5 million doses of IMVAMUNE®. The remaining doses of the 20 million are expected to be evenly delivered in 2011 and 2012. 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 PROSTVAC™ 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 Kvistgaard 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 budget for 2010, including among others that the Offering is fully subscribed, 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 to 200 million to finance working capital is obtained, Management expects cash preparedness in the range of DKK 225 to 275 million by the end of 2010.

Provided that the Offering is completed with the Maximum Proceeds, and 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.

Risk factors

Any investment in shares involves an element of risk. Bavarian Nordic's risk profile reflects the risks related to the Group's pipeline, day-to-day operations, including the formation and fulfilment of customer contracts, and the goal of continuing expansion.

Prospective investors are advised to carefully examine all the relevant risks and legal matters, including any tax consequences and possible exchange control regulations that might be relevant in subscribing for Shares of the Company. Investors should be aware that an investment in the New Shares and in Preemptive Rights involves a high degree of risk and should carefully consider the factors set out in "Risk factors" in this Prospectus.

The section "Risk factors" outlines a number of risk factors which may influence Bavarian Nordic's pipeline, future performance and growth, activities, results of operations, cash flows and financial position. The risk factors should not be taken as an exhaustive description of all risks faced by the Group, but as an expression of the risk factors which Management believes are particularly material and relevant for the Group. Specifically, there is a risk that the Group will not meet the requirements for use of IMVAMUNE® following a declared emergency (EUA) under the RFP-3 contract with the US authorities; that the Group will not be able to generate adequate liquidity; that the Group fails to meet the forecasts for 2009 and 2010; that the Group's production facilities will not be able to supply the required number of smallpox vaccines; that the Group's production facilities will not meet the requirements imposed; that the Group will not be able to protect its patents and intellectual property rights; that the Group's technologies become obsolete or otherwise lose their competitiveness; that the Group's collaborative agreements are not maintained or observed; that the Group's clinical development trials do not demonstrate the expected results; that the Group becomes dependent on one or a few suppliers; that the Group continues to remain dependent on one or a few customers; that the Group is met with significant claims for damages; that the Group is not able to attract and retain qualified employees; that the Group's operations are influenced by exchange rate fluctuations; that the Group's competitors develop new products that impair the Group's competitive position; and that the value of the Shares will be affected by fluctuations in the equity market. However, additional risks and uncertainties not presently known to the Group or that the Group currently deems immaterial may also impair its business operations and development.

This Prospectus also contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including but not limited to the risks the Group faces as described in "Risk factors".

If any or several of the risk factors described below materialise, it may have a material adverse impact on the Group's pipeline, performance and growth, activities, results of operations, cash flows and financial position. This may cause a fall in the price of the Shares, including the Preemptive Rights and the New Shares, and the shareholders may lose all or part of their investment.

Summary of the Offering

Issuer:	Bavarian Nordic A/S, Hejreskovvej 10A, DK-3490 Kvistgaard, Denmark. The Company's ISIN code is DK0015998017 (BAVA). The Company's company reg. (CVR) no. is 16 27 11 87.
The Offering:	The Offering comprises 3,975,872 New Shares of DKK 10 nominal value each, which are offered with preemptive rights to Existing Shareholders.
Offer Price:	All the New Shares are offered at DKK 80 per Share of DKK 10 nominal value.
Proceeds:	The gross proceeds from the Offering will be up to DKK 318.1 million (the Maximum Offering). The net proceeds from the Maximum Offering (gross proceeds from the Maximum Offering after deduction of estimated expenses to the Company relating to the Offering) are expected to be DKK 299.0 million.
Subscription ratio and allocation of Preemptive Rights:	The New Shares are offered with Preemptive Rights to the Existing Shareholders of Bavarian Nordic A/S at the ratio of 1:2. On 15 January 2010 at 12.30 p.m. CET, any person registered with VP Securities as a shareholder of Bavarian Nordic A/S will be allocated one (1) Preemptive Right for each Existing Share held. As from 13 January 2010 at 09.00 CET, the Shares will be traded ex Preemptive Rights, assuming that such Shares are traded with customary three-day settlement.
Trading in Preemptive Rights:	The Preemptive Rights will be traded on NASDAQ OMX in the period from 13 January 2010 at 9.00 a.m. CET to 26 January 2010 at 5.00 p.m. CET, inclusive. Holders wishing to sell their Preemptive Rights should instruct their custodian bank or other financial intermediary accordingly.
Subscription Period:	The Subscription Period for the New Shares commences on 16 January 2010 at 9.00 a.m. CET and closes on 29 January at 5.00 p.m. CET. During this period, the New Shares will thus be allocated temporarily through VP Securities upon exercise of Preemptive Rights against payment of the Offer Price.
Subscription method:	The Preemptive Rights are negotiable instruments which are traded on NASDAQ OMX. Holders of Preemptive Rights who wish to subscribe for New Shares will be required to do so through their own custodian institution in accordance with the rules of such institution. For holders of the Preemptive Rights, the deadline for notification of exercise depends on the agreement with and the rules and procedures of the relevant custodian institution or other financial intermediary, and the deadline may be earlier than the last day of the Subscription Period. When a holder has exercised its Preemptive Rights, such exercise cannot be withdrawn or changed. Upon exercise of the Preemptive Rights and payment of the Offer price in the course of the Subscription Period, the New Shares will, at the end of a trading day, be allocated temporarily through VP Securities under the temporary ISIN code.
Delivery:	The Preemptive Rights and the New Shares will be delivered in book-entry form through allocation to accounts with VP Securities. The New Shares have been accepted for clearance through Euroclear Bank S.A./N.V. as operator of the Euroclear System ("Euroclear") and Clearstream Banking S.A. ("Clearstream").

Payment:	Upon exercise of the Preemptive Rights, the holder must pay DKK 80 per New Share subscribed. Payment for the New Shares shall be made in Danish kroner on the subscription date and shall be made not later than on 29 January 2010 at 5.00 p.m. CET for subscription on the last day of the Subscription Period – against registration of the New Shares in the holder's account with VP Securities under the temporary ISIN code.
Unexercised Preemptive Rights:	Any Preemptive Rights which have not been exercised during the Subscription Period will lapse with no value, and the holder of such Preemptive Rights will not be entitled to compensation. The Subscription Period closes on 29 January 2010 at 5.00 p.m. CET.
Joint Lead Managers	Nordea Markets and SEB Enskilda are Joint Lead Managers.
Advance subscription:	A.J. Aamund A/S is entitled to 1,334,099 Preemptive Rights to subscribe for 667,049 New Shares. A.J. Aamund A/S has agreed with the Joint Lead Managers to participate in the Offering on a cash-neutral basis (after transaction costs) by subscribing for the maximum number of New Shares that it can finance solely through the sale of Preemptive Rights. The proceeds from any Preemptive Rights sold by A.J. Aamund A/S will be used to subscribe for New Shares. The Preemptive Rights will be sold during the trading period for Preemptive Rights by the Joint Lead Managers on behalf of A.J. Aamund A/S, in open market transactions, private placements, block trades or otherwise.
Termination of the Rights Issue Agreement and withdrawal of the Offering	The completion of the Offering is subject to no events occurring no later than 12 January 2010, the last business day before trading in the Preemptive Rights commences, which in the opinion of Bavarian Nordic A/S or the Joint Lead Managers would make it inadvisable to proceed with the Offering. Furthermore, in the period until registration of the capital increase with the Danish Commerce and Companies Agency, the Joint Lead Managers are each entitled, in certain exceptional and unpredictable circumstances (including *force majeure*) to terminate the Rights Issue Agreement, and in such case, Bavarian Nordic A/S shall withdraw the Offering. The Rights Issue Agreement also contains conditions for the completion of the Offering which Management believes are usual in such offerings, including that the completion of the Offering is subject to compliance with all conditions of the Rights Issue Agreement. If one or more conditions for completion of the Offering are not met, the Joint Lead Managers may, at their discretion, terminate the Rights Issue Agreement and thereby require that the Company withdraw the Offering. Any withdrawal will be notified immediately to NASDAQ OMX and announced as soon as possible in the same Danish daily newspapers in which the Offering was advertised. If the Offering is not completed, any exercise of Preemptive Rights that has already taken place will automatically be cancelled, the subscription price for the New Shares will be refunded (less any brokerage fees), all Preemptive Rights will be null and void, New Shares will not be issued, whereby investors who have acquired Preemptive Rights (in off-market transactions) may incur a loss. However, trades of Preemptive Rights executed during the trading period for the Preemptive Rights will not be affected. As a result, investors who acquired Preemptive Rights will incur a loss corresponding to the purchase price of the Preemptive Rights and any brokerage fees.
ISIN codes:	Existing Shares DK0015998017 (BAVA). New Shares (temporary code) DK0060205185. Preemptive Rights DK0060205268.
Voting rights:	Each New Share of DKK 10 carries one (1) vote.

Rights, including rights to dividends: No shares in the Company carry any special rights, and the New Shares will have the same preemptive rights on future capital increases as the Existing Shares and will rank pari passu in all respects with the existing share capital when the New Shares have been fully paid up and registered. The New Shares will be fully eligible for all dividends and other rights in the Company from the date of registration of the capital increase with the Danish Commerce and Companies Agency. The New Shares are eligible for any dividends payable in respect of the financial year ended 31 December 2009 and all dividends declared and paid thereafter. However, the Company does not expect to declare any dividend in respect of the 2009 financial year.

Issuing agent: Bavarian Nordic A/S' issuing agent is Nordea Bank Danmark A/S, Issuer Services/HH 7371, P. O. Box 850, DK-0900 Copenhagen C, Denmark

Governing law and jurisdiction: The Offering is subject to Danish law. This Prospectus has been prepared in compliance with the standards and requirements of Danish law, including the rules issued by NASDAQ OMX. Any dispute which may arise as a result of the Offering, shall be brought before the Danish courts of law.

Selling and transfer restrictions: The Preemptive Rights and the New Shares are subject to certain selling and transfer restrictions. See II, "Terms and conditions of the Offering – Jurisdictions in which the Offering will be made and restrictions applicable to the Offering".

How to order this Prospectus: Requests for copies of this Prospectus may be addressed to:

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Securities Operations/HH 7324
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This Prospectus can also, with certain exceptions, including prohibition on access by persons located in the US, be downloaded from the Company's website:
www.bavarian-nordic.com

Expected timetable of principal events

Last day of trading in Existing Shares including Preemptive Rights:	12 January 2010.
First day of trading in Existing Shares excluding Preemptive Rights:	13 January 2010.
Trading period for Preemptive Rights commences:	13 January 2010.
Allocation time of Preemptive Rights:	15 January 2010 at 12.30 p.m. CET.
Subscription Period for New Shares commences:	16 January 2010.
Trading period for the Preemptive Rights closes:	26 January 2010 at 5.00 p.m. CET.
Subscription Period for New Shares closes:	29 January 2010 at 5.00 p.m. CET.
Announcement of the results of the Offering:	Not later than two Business Days after the end of the Subscription Period (expected to be on 2 February 2010)
Completion of the Offering:	The Offering will only be completed when and if the New Shares subscribed are issued by Bavarian Nordic A/S after registration of the capital increase with the Danish Commerce and Companies Agency, which is expected to take place on 2 February 2010.
Admission of the New Shares to trading and official listing under the ISIN code of the Existing Shares:	4 February 2010.

RISK FACTORS

Any investment in shares involves an element of risk. Bavarian Nordic's risk profile reflects the risks related to the Group's pipeline, day-to-day operations, including the formation and fulfilment of customer contracts, and the goal of continuing expansion.

The following section outlines a number of risk factors which may influence the Group's pipeline, future performance and growth, activities, results of operations, cash flows and financial position. The risk factors should not be taken as an exhaustive description of all risks faced by the Group, but as an expression of the risk factors which Management believes are particularly material and relevant for the Group. However, additional risks and uncertainties not presently known to the Group or that the Group currently deems immaterial may also impair its business operations and development.

This Prospectus also contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including but not limited to the risks the Group faces as described below and elsewhere in this Prospectus.

The risk factors are not listed in any order of priority with regard to significance, size or probability. It is not possible to quantify the significance to the Group of each individual risk factor as each of the risk factors mentioned below may materialise to a greater or lesser degree and have unforeseen consequences. The description of the risk factors is qualified in its entirety by the full text of this Prospectus, and you should carefully consider the risk factors and other information contained in this Prospectus prior to making any investment decision with respect to Preemptive Rights and/or the New Shares.

If any or several of the risk factors described below materialise, it may have a material adverse impact on the Group's pipeline, performance and growth, activities, results of operations, cash flows and financial position. This may cause a fall in the price of the Company's Shares, including the Preemptive Rights and the New Shares, and the shareholders may lose all or part of their investment.

The FDA inspections of Bavarian Nordic's and IDT Biologika's production sites have delayed the delivery allowance for IMVAMUNE® and have thereby had a significant negative impact on the Company's activities, results of operations, cash flows and financial position.

Risks related to the business

The RFP-3 contract with the US authorities

There is a risk that the RFP-3 contract awarded to Bavarian Nordic by the US authorities in June 2007 may be further delayed or cancelled. If this occurs, the Group may not receive any compensation of costs incurred and any such compensation may not offset the costs incurred or make up for lost profits.

Processing of contracts with public authorities is often very time consuming and may be subject to considerable uncertainty and political challenges. The RFP-3 contract signed may at any time be terminated by the US authorities. However, if the US authorities terminate the contract, the Group may in certain cases, as the RFP-3 contract is governed by Federal Acquisition Regulation (FAR), seek to have all of its expenses covered and seek to receive reasonable financial compensation for work performed.

There is a risk that the Group may not be able to meet the requirements for use of IMVAMUNE® following a declared emergency (Emergency Use Authorisation or EUA) and/or that the EUA requirements and/or other requirements may not be met at the expected time and that the subsequent delivery of 20 million doses of IMVAMUNE® may not be initiated.

In order to commence deliveries of the base contract for 20 million doses of IMVAMUNE® to the US authorities under the RFP-3 contract, Bavarian Nordic must meet the requirements for use of IMVAMUNE® following a declared emergency (EUA) as stipulated by the US Food and Drug Administration (FDA).

When the RFP-3 contract was concluded with the US authorities in June 2007, commencement of delivery and invoicing was subject to additional clinical studies of IMVAMUNE® in order to meet the requirements for use of IMVAMUNE® following a declared emergency (EUA). Following a preliminary evaluation of data from Bavarian Nordic, the FDA has not expressed any concerns in respect of the animal, clinical or production data filed by Bavarian Nordic with a view to supporting the use of IMVAMUNE® following a declared emergency. Management believes that satisfactory clinical data have been submitted to the US authorities in order to meet the requirements for use of IMVAMUNE® following a declared emergency (EUA). However, Management cannot rule out that the US authorities will require that Bavarian Nordic conducts additional clinical studies of IMVAMUNE® in order to meet the requirements for use of IMVAMUNE® following a declared emergency (EUA). Against Management's expectations, this may result in the RFP-3 contract being further delayed or cancelled.

The US authorities may not accept delivery of IMVAMUNE® doses manufactured to date, whereby Bavarian Nordic would not be able to commence delivery of 20 million doses of IMVAMUNE® under the RFP-3 contract immediately after Bavarian Nordic has fulfilled the requirements for using IMVAMUNE® following a declared emergency (EUA) as stipulated by the FDA and whereby Bavarian Nordic would have to make an impairment write-down of IMVAMUNE® inventories.

In order for Bavarian Nordic to be able to commence delivery of IMVAMUNE® under the base contract for 20 million doses of IMVAMUNE® to the US authorities immediately after Bavarian Nordic has received the authorisation to ship the vaccine, Bavarian Nordic has manufactured and stocked a number of doses

of IMVAMUNE® since 2008. If the US authorities do not accept delivery of all or parts of the doses of IMVAMUNE® manufactured to date, this could cause a delay in deliveries of IMVAMUNE® under the RFP-3 contract and an impairment write-down of Bavarian Nordic's IMVAMUNE® inventories.

In May 2009, the FDA performed a Good Manufacturing Practice (GMP) inspection at Bavarian Nordic and IDT Biologika GmbH (IDT Biologika) (Bavarian Nordic's contract filling partner). The inspection resulted in a number of observations that require corrective actions. Bavarian Nordic and IDT Biologika have responded to questions arising from these observations and have taken the necessary corrective actions. Management expects that these corrective actions and the subsequent FDA review of the actions will be finalised during the first half of 2010. Management believes that the inspections have been successfully completed and that the corrective actions required as a result of the inspections will be fully implemented and approved by the US authorities no later than at the end of first half 2010 and without the need for additional investments. Following satisfactory implementation of the corrections after the inspection, IMVAMUNE® deliveries can commence.

Negative results from additional clinical trials may result in IMVAMUNE® not being finally registered as a drug and therefore cannot be marketed. Furthermore, if IMVAMUNE® is not registered as a drug, Bavarian Nordic will not be entitled to receive the last part of the total contract payment under the RFP-3 contract of USD 50 million, which is only payable when a licence is granted. In addition a milestone payment of USD 25 million is only payable upon enrolment of 500 patients in a Phase III study in IMVAMUNE®. In the event that IMVAMUNE® is not registered as a drug, a review will have to be made of the Group's capitalised development costs.

There is a risk that IMVAMUNE® may not be registered and that Bavarian Nordic thereby does not become entitled to the final USD 50 million of the total contract payment.

In the case of a default by Bavarian Nordic in the RFP-3 contract with the US authorities Bavarian Nordic may be under an obligation to repay milestone and advanced payments.

Bavarian Nordic has already received an advance payment of USD 50 million and three milestone payments of USD 25 million each. The initial advance payment of USD 50 million is required to be repaid if there is failure to perform by Bavarian Nordic under the RFP-3 contract. Furthermore, the last outstanding milestone of USD 25 million is fully recoverable in the event of default under the RFP-3 contract.

There is a risk that the RFP-3 contract may be cancelled and/or that possible costs may be imposed on Bavarian Nordic if the Group does not fulfil its obligations in connection with the contract.

In the event that Bavarian Nordic does not fulfill its obligations, including delivery of 20 million doses of IMVAMUNE® towards the US authorities (HHS/BARDA) under the RFP-3 contract, the US authorities will eventually be entitled to call for financial considerations from Bavarian Nordic, cancellation of the RFP-3 contract or demand possible structural changes in the contract.

Furthermore, HHS (BARDA) is entitled to terminate the contract at its convenience in accordance with standard FAR against reimbursement of costs already incurred and as agreed and negotiated by HHS (BARDA) and Bavarian Nordic. This is standard in US authorities procurement contracts and the contract is in general regulated by usual standard FAR provisions.

Cash preparedness

Bavarian Nordic's cash preparedness is limited and the Group may not be able to generate positive cash flows from operating activities or attract new capital or additional debt financing that may secure the Group's ongoing operations after the time when the present cash preparedness, including the net proceeds from the Offering, will be depleted.

Bavarian Nordic aim for net proceeds from the Offering of DKK 299.0 million (the Net Maximum Proceeds).

The Offering is not underwritten, however A.J. Aamund A/S has agreed with the Joint Lead Managers to participate in the Offering on a cash-neutral basis (after transaction costs) by subscribing for the maximum number of New Shares that it can finance solely through the sale of Preemptive Rights.

In case the Offering is fully subscribed combined with expected payments from RFP contracts and expected payments from deliveries of IMVAMUNE® to the US authorities, the obtaining of a credit facility in the amount of DKK 150 to 200 million and the Group's current cash preparedness, Management expects that the cash preparedness will be sufficient to support the planned future operations, including preparations for Phase III for PROSTVAC™.

In case the gross proceeds from the Offering are DKK 0 million combined with expected payments from RFP contracts and expected payments from deliveries of IMVAMUNE® to the US authorities, the obtaining of a credit facility in the amount of DKK 150 to 200 million and the Group's current cash preparedness, Bavarian Nordic will be in a situation where the Group's cash preparedness wil not be sufficient to support the planned future operations and thus the Group would not initiate new projects and would cancel existing research and development programmes and, if required, delay the up-scaling of production as well as would rely on additional financing in the first quarter of 2010 in order to continue operations. In case sufficient additional financing is not obtained, Bavarian Nordic will, among other things, be in breach of its funding agreement with Nordea Bank Danmark A/S pursuant to which Bavarian Nordic has undertaken to maintain a cash preparedness of a minimum of DKK 150 million.

In case the gross proceeds from the Offering are DKK 0 million and Bavarian Nordic only receives the delivery allowance from

the US authorities to deliver IMVAMUNE® in late 2010 instead of during the first half of 2010, the Group must align its strategy including an action plan containing both delay or closing of clinical projects, delay of the preparations for Phase III for PROSTVAC™, downscaling of production, restructuring of commercial and administrative activities and establish an alternative financing structure in order to secure continued operations. In case sufficient additional financing is not obtained, Bavarian Nordic will, among other things, be in breach of its funding agreement with Nordea Bank Danmark A/S pursuant to which Bavarian Nordic has undertaken to maintain a cash preparedness of a minimum of DKK 150 million.

In case the Offering is fully subscribed, but Bavarian Nordic only receives the delivery allowance from the US authorities to deliver IMVAMUNE® in late 2010 instead of during the first half 2010, 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 rely on additional financing by the end of first half of 2010. In case sufficient additional financing is not obtained, Bavarian Nordic may, among other things, be in breach of its funding agreement with Nordea Bank Danmark A/S pursuant to which Bavarian Nordic has undertaken to maintain a cash preparedness of a minimum of DKK 150 million.

Forecasts for 2009 and 2010

Bavarian Nordic's forecasts are based on a number of assumptions being met. If these assumptions are not met in full or in part, the Group's future results may deviate significantly from the forecasts made.

For 2009, Management expects revenue at the level of DKK 75 million, and a pre-tax loss at the level of DKK 325 million. The net free liquidity at year-end is expected to be around DKK 175 million.

For 2010, Management expects revenue of approximately DKK 475 million and a pre-tax loss of approximately DKK 250 million. The revenue and loss expectations are made under the assumptions that:

- The Offering is fully subscribed
- The delivery allowance for IMVAMUNE® to the US authorities is obtained no later than Q2 2010 enabling the Group to commence delivery of the 20 million doses under the RFP-3 contract
- The already produced doses of IMVAMUNE® will be accepted for delivery to SNS
- The Group will deliver 4-5 million doses of IMVAMUNE® in 2010 to SNS
- The RFP-2 contract and the RFP contract for freeze dried IMVAMUNE® will meet the milestones set for 2010
- The upscaling of IMVAMUNE® production will follow the delivery plan
- The Group's preclinical and clinical trials proceed as planned
- The exchange rates (especially USD/DKK and EUR/DKK) do not change significantly compared to the exchange rates ruling on 1 September 2009. For the Budget 2010 are used USD/DKK 5.20 and EUR/DKK 7.45.
- The sub-contractors are able to live up to the assumptions made by the Group
- The obtaining of a credit facility in the amount of DKK 150 to 200 million to finance working capital

Furthermore the costs for preparing PROSTVAC™ for Phase III are included. No sales to markets outside the USA of IMVAMUNE® are included.

Based upon the above assumptions, Management expects cash preparedness in the range of DKK 225 to 275 million by the end of 2010.

There is a risk that changes and/or postponement may occur in agreements already signed by the Group for the supply of smallpox vaccines, and/or that the Group will not initiate new or may cancel existing research and development programmes and that the Group will sign other agreements that could affect the forecasts made.

Manufacturing

If the market for IMVAMUNE® should cease to exist, if the Group fails to meet the requirements for using IMVAMUNE® following a declared emergency (EUA) imposed by the US authorities in relation to the RFP-3 contract, or if Bavarian Nordic is unable to supply the products demanded by customers, it may have the effect that the Group's expected revenue cannot be generated or is delayed, because it is uncertain whether the Group can find alternative ways of using its production facilities to fully or partly replace the lost earnings.

If the market for IMVAMUNE® should cease to exist, or be substantially reduced, Management believes that the Group's manufacturing facilities in Kvistgaard, Denmark, could be reconfigured to produce vaccines against other diseases. Management believes that the manufacturing facilities could be reconfigured to produce other vector-based vaccines at a moderate additional investment within a period of 9-15 months.

If the manufacturing facilities are to be reconfigured to produce a vaccine that is not based on MVA-BN®, but which can be produced using the same basic production technology as IMVAMUNE® (the "wave bioreactor" technology), Management believes that such a manufacturing reconfiguration would require a DKK 10-25 million investment. If another production technology than the one currently applied is required, Management believes that it would require a DKK 25-50 million investment, depending on the vaccine to be produced. Management believes that the delivery of vaccines could commence within a period of 1-3 years, as the production processes in case of a shift in production site must be approved by the regulatory authorities before deliveries can commence.

There is a risk that the Group may not be able to supply the required number of vaccines in the required quality, at a competitive price or within the agreed timeframe. There is also a risk that the Group may not be able to supply IMVAMUNE® under the RFP-3 contract to the US authorities within the agreed timeframe.

For Bavarian Nordic to be able to fulfil orders for the supply of IMVAMUNE®, it is important to have sufficient production capacity and to be able to achieve and maintain a satisfactory product quality. There is a risk that the Group may not be able to keep its production batches free of infection from Specific Pathogen Free (SPF) eggs that may be infected, which may lead to a lower output, delays and higher production costs.

In connection with the GMP inspection by FDA in May 2009, the FDA noted a number of observations at IDT Biologika, requiring corrective actions before the requirements for use of IMVAMUNE® following a declared emergency (EUA) are met.

The Group will not be able to commence delivery of the 20 million doses of IMVAMUNE® to the US authorities under the RFP-3 contract until Bavarian Nordic meets the requirements for using IMVAMUNE® following a declared emergency (EUA). It is beyond Bavarian Nordic's control as to when IDT Biologika has made the necessary corrective actions required by the FDA. Management believes that the inspections have been successfully completed and that the corrective actions required as a result of the inspections will be fully implemented and approved by the US authorities no later than at the end of first half 2010 and without the need for additional investments. Following satisfactory implementation of the corrections after the inspection, IMVAMUNE® deliveries can commence.

There is a risk that the Group may not be able to supply PROSTVAC™ in the required quality, at a competitive price, or within the estimated timeframe.

Bavarian Nordic is currently preparing the production of PROSTVAC™ at the Group's facilities in Berlin. Production is expected to be initiated and verified by the end of 2010. There is a risk that production can not commence in Berlin using the existing manufacturing facilities and technologies within the estimated timeframe. Such a situation may delay and increase the costs of manufacturing PROSTVAC™ and delay the initiation of Phase III.

Requirements for production facilities

The production facilities may not be able to meet the future requirements imposed by the regulatory authorities.

Bavarian Nordic has manufacturing facilities in Kvistgaard, Denmark and Berlin, Germany, which currently meet the requirements imposed by the EU for GMP and meet all regulatory guidelines for industrial vaccine production.

In order to commence deliveries of the base contract under the RFP-3 contract for 20 million doses of IMVAMUNE® to the US authorities under the RFP-3 contract, Bavarian Nordic must meet certain requirements imposed by the FDA with a view to complying with the requirements for the use of IMVAMUNE® following a declared emergency (EUA). In this respect, Bavarian Nordic has completed a number of data submissions to the FDA.

Following these data submissions, in the spring of 2009 the FDA announced that they would perform a GMP inspection of the IMVAMUNE® production facilities. These inspections were made at both Bavarian Nordic's Kvistgaard manufacturing facility and at IDT Biologika in May 2009.

In that connection, the FDA noted a number of observations at Bavarian Nordic and at IDT Biologika that require corrective actions. Bavarian Nordic has responded to questions arising from these observations and has taken necessary corrective actions. Management expects that these corrections and the FDA review of the actions will be finalised during the first half of 2010. According to Management's best estimate, the FDA review and the implementation of the corrections will allow the Company to commence deliveries of IMVAMUNE® before the end of the first half of 2010.

Bavarian Nordic may not be able to comply with the conditions to ensure that the Group or IDT Biologika receive and maintain the necessary approvals for continuing the production at its production facilities.

Bavarian Nordic and IDT Biologika have received the necessary approvals, including approval for the production of sterile vaccines and environmental approvals for working with live viruses, allowing them to commence industrial production of sterile vaccines. Bavarian Nordic endeavours to comply with the requirements on which such approvals are based.

Protection of patents and other intellectual property rights

Bavarian Nordic may not be able to efficiently enforce its patents and intellectual property rights and Bavarian Nordic may infringe the intellectual property rights of others, and this could prevent the Group from continuing its activities in the relevant field or have the effect that the Group would have to pay a fee for using the intellectual property rights of others.

Bavarian Nordic's future competitive strength will depend on the Group's ability to obtain and maintain patent protection and other protection of its intellectual property rights and production processes. There is a risk that the Group's patents will be challenged, invalidated, declared void or circumvented and that the Group will not be able to enforce its intellectual property rights.

As of the Prospectus Date, Bavarian Nordic has a suit against Oxford BioMedica plc, Biomedica Inc and Oxford BioMedica Ltd. (together referred to as "Oxford BioMedica") with the United States District Court of the Southern District of California concerning infringement of Bavarian Nordic's MVA-BN® technology pat-

ents. The legal action, which concerns four US patents, has been instigated by Bavarian Nordic claiming that Oxford BioMedica has infringed Bavarian Nordic's patents by commercialising the patented technology. One of Oxford BioMedica's counter claims is invalidity of Bavarian Nordic's MVA-BN® technology patents.

Furthermore, 7 companies have opposed to the granting of Bavarian Nordic's MVA-BN® technology patents at the European Patent Office, EPO, in Munich. Six companies are still pursuing the oppositions.

Moreover, Helmholtz Zentrum München, Deutsches Forschungszentrum für Gesundheit und Umwelt GmbH has requested arbitration against Bavarian Nordic at the ICC International Court of Arbitration claiming rights to royalties from Bavarian Nordic in connection with the sale of all MVA-BN®-based vaccines, including IMVAMUNE®.

For a detailed description of pending litigation, please see "Research and development, patents and licences".

Bavarian Nordic may not be able to obtain new patents and maintain existing patents that have still not expired.

A patent has a lifetime of 20 years from the date of filing. Bavarian Nordic's core patents are relatively young, with the most important MVA-BN® patents dating back from 2000 or later, and those of Bavarian Nordic's patents directed at the insertion of foreign genes at specific sites of the MVA gene date back from 1995 or later. Key Prostate Specific Antigen (PSA) patents related to PROSTVAC™ are from the period 1995-2003.

Risks relating to Bavarian Nordic's technologies and products

The development of Bavarian Nordic's products are based partly on Bavarian Nordic's vaccine technology platform, MVA-BN®, partly on other external technologies. All the technologies employed by Bavarian Nordic in connection with the development of the Group's pipeline and products are subject to a number of uncertainties and risks. One or more of these risks may materialise.

The development of products that are part of Bavarian Nordic's pipeline is subject to a number of uncertainties and risks, the most important of which are described below:

- To date, no products based on the Group's primary vaccine technology platform MVA-BN® or on other technologies employed by the Group in connection with clinical development have been registered or obtained Marketing Authorisation.
- Bavarian Nordic has tested the therapeutic effect and safety of the technologies employed by the Group in animal models and clinical trials, but there can be no assurance that these results are indicative of the results that will be achieved in the current and future clinical trials in humans, and that adverse side effects will not be observed.
- The risks relating to Bavarian Nordic's technologies may result in material delays or the discontinuation of development programmes.
- The risk that the potential product will not be safe and effective when finally marketed.
- The risk that the necessary regulatory approvals may not be obtained.
- The risk that the Group's products may not be produced cost effectively in commercial quantities, and that any products, if launched, may not obtain acceptance in the market.
- Finally, there is a risk that future clinical trials may not prove that Bavarian Nordic's technologies are as effective as Management expects.

Collaborative agreements

There is a risk that Bavarian Nordic may not be able to retain its present partners and/or enter into new agreements or new alliances on satisfactory terms.

Collaborative agreements with other biopharmaceutical companies, biotechnology companies and production partners form an integral part of Bavarian Nordic's business. The Group seeks to enhance the possibility of concluding such collaborative agreements by continuously developing its primary technology platform, MVA-BN®, its leading prostate cancer project, PROSTVAC™, and other stand-alone projects.

There is a risk that Bavarian Nordic's collaborative partners do not observe the agreements concluded and/or pass on or otherwise misuse confidential information and data.

Bavarian Nordic's collaborative agreements cover production of clinical trial material, critical raw materials, filling, licensing agreements, quality control, research and development. Accordingly, Bavarian Nordic relies heavily on its collaborative partners. If the Group's collaborative partners fail to meet their obligations under the agreements, Bavarian Nordic may not be able to deliver the products or the research results which the Group or others expect and rely on, and this could have far-reaching adverse consequences. Some of Bavarian Nordic's collaborative agreements involve a significant element of transfer of confidential knowledge and know-how to collaborative partners, and such transfers are always subject to strict confidentiality requirements. However, Bavarian Nordic cannot give any assurance that its collaborative partners will not pass on, intentionally or unintentionally, confidential information and know-how to competitors, or otherwise misuse such know-how.

The filling and packing of IMVAMUNE® is handled by Bavarian Nordic's strategic partner IDT Biologika in Dessau, Germany. IDT Biologika has years of experience in the production of vaccines based on fertilised chicken eggs and owns a modern production facility for filling, inspecting, labelling and packing sterile vaccines. Bavarian and IDT Biologika have signed a contract for the filling and packing of 20 million doses of IMVAMUNE®. If IDT Bi-

ologika is unable to meet its obligations towards Bavarian Nordic in respect of filling and packing of IMVAMUNE®, the effect could be that Bavarian Nordic proves unable to deliver the agreed doses of IMVAMUNE® to the US authorities within the agreed timeframes set out in the RFP-3 contract, and this may have far-reaching adverse consequences.

Bavarian Nordic has also signed an agreement with IDT Biologika and with Bioreliance Corporation, Scotland (Bioreliance) concerning quality tests (QC tests) of IMVAMUNE®.

If IDT Biologika or Bioreliance is unable to meet its obligations towards Bavarian Nordic in respect of performing these QC tests, the effect could be that Bavarian Nordic proves unable to deliver the agreed doses of IMVAMUNE® to the US authorities within the agreed timeframes set out in the contract, and this may have far-reaching and unforeseeable consequences.

There is a risk that the Group may not be able to meet its part of the collaborative agreement with IDT Biologika. If the Group fails to meet its part of the collaborative agreement, there will be a risk that Bavarian Nordic will be ordered to pay certain expenses to IDT Biologika.

In order to ensure that Bavarian Nordic can fulfill its obligations towards the US authorities (HHS/BARDA) with regards to the task of filling the 20 million doses of IMVAMUNE®, IDT Biologika and Bavarian Nordic have entered into a manufacturing subcontract covering the period corresponding to the duration of the RFP-3 contract until 31 December 2012. The parties have agreed to a production plan and reserved capacity for the full length of the subcontract.

In case more filling days are needed compared to what is reserved according to the current production plan, Bavarian Nordic has secured certain flexibility in the form of extra filling days and the possibility of rescheduling planned campaigns. However, in case of rescheduling and need for extra filling days certain payments may have to be made to IDT Biologika. Such possible payments depend to a large extent on the length of prior written notice given to IDT Biologika. Furthermore, if Bavarian Nordic does not use reserved capacity during a calendar year certain payments will have to be made to IDT Biologika for unused days.

There is a risk that the Group may not be able meet its part of the collaborative agreement with the National Cancer Institute, USA (NCI) and the United States Public Health Service (PHS) regarding PROSTVAC™. If the Group fails to meet its part of the collaborative agreement, there will be a risk that the collaborative agreement will be terminated or modified.

The licence agreement between PHS and BN ImmunoTherapeutics Inc. (BNIT) contains a commercial development plan and gives PHS the right to terminate or modify the agreement if BNIT is not executing the commercial development plan.

Partnership agreement in respect of PROSTVAC™

There is a risk that Bavarian Nordic may not be able to enter into a partnership agreement in respect of PROSTVAC™ on satisfactory terms.

Bavarian Nordic expects to initiate confirmatory Phase III studies with the therapeutic vaccine PROSTVAC™ by the end of 2010.

As part of Bavarian Nordic's PROSTVAC™ strategy, the intention is to partner with an international pharmaceutical company that can contribute to the continued development and potential commercialisation of PROSTVAC™ in Phase III clinical development. Bavarian Nordic is currently in dialogue with a number of potential partners.

When entering into a partnership agreement for PROSTVAC™, the intention is for a prospective partner to fully or partly participate in the funding of the costs incurred from Phase III clinical development until a potential commercialisation of the product. In addition, Management expects that Bavarian Nordic will receive advance payments, regular payments and royalties from a potential commercialisation of the product. Moreover, Management expects that PROSTVAC™ will be manufactured by Bavarian Nordic. However, there is a risk that the Group may not be able to enter into a partnership agreement in respect of PROSTVAC™ on satisfactory terms, if at all. If the Group is unable to enter into a partnership agreement in respect of PROSTVAC™, this may cause a delay in the development of the product and any subsequent product launch. Ultimately, Bavarian Nordic may be compelled to surrender the rights to PROSTVAC™ or, in connection with the conclusion of a partnership agreement in respect of PROSTVAC™, to accept less favourable terms than expected by Management at the Prospectus Date.

Clinical development

There is a risk that Bavarian Nordic´s existing vaccine projects may not demonstrate adequate safety and efficacy to form the basis for registration as drugs.

Bavarian Nordic has not yet obtained regulatory approval for the marketing of any product. Several of the Group's vaccine projects are still at an early development stage. Preclinical and clinical trials are associated with significant uncertainty, and there is a risk that the effect and safety profile observed in early trials may not be confirmed in subsequent trials.

There is a risk that the Group's partners may not carry out the development activities as agreed. This may delay the clinical development of the projects.

Outsourcing parts of the clinical development is a key element of Bavarian Nordic's development strategy. Bavarian Nordic intends to enter into partnerships solely with companies and institutions that have extensive experience and expertise within their respective fields.

The Group's development activities largely depend on its development partners' ability to and possibility of enrolling the right patients according to a fixed timeframe. Patient enrolment may be hampered or prevented by factors such as the patients' treatment alternatives, including approved treatments as well as other clinical studies, the inclusion criteria and the general willingness of persons to participate in the trial. As a result, the Group and its collaborative partners may be unable to control how quickly a trial can be conducted, if at all.

There is a risk that the Group may not receive approval from the FDA to initiate Phase III studies for IMVAMUNE® or PROSTVAC™.

Following the completion of the Phase II development of IMVAMUNE®, Bavarian Nordic held an end-of-Phase-II meeting with the FDA with a view to discussing the Phase III development of the vaccine and the subsequent registration of a vaccine under the Animal Rule. This regulatory procedure can be used to demonstrate the efficacy of drugs against diseases such as smallpox by way of a number of suitable experimental models in animals.

The Group has discussed the principal features of efficacy models in animals and the Phase III protocol with the FDA, meaning that the procedure until registration of IMVAMUNE® has been outlined. When all protocols have been finally agreed on with the FDA, an advisory committee will be set up with a view to ratifying the vaccine registration strategy. According to Management's best estimate, this approval procedure will defer the commencement of Phase III studies to the end of 2010.

If FDA approval to initiate the Phase III trials for IMVAMUNE® is delayed, registration of IMVAMUNE® may be delayed accordingly.

Plans for initiating and completing the Phase III trials for PROSTVAC™ are also subject to FDA approval. If the FDA does not approve the strategy for the Phase III trials as presented by the Group, the start-up of the trials may be delayed, which may lead to a delay in a registration of the vaccine.

Dependence on raw material suppliers

Any changes in Bavarian Nordic's suppliers' positions and their ability to supply the raw materials required by Bavarian Nordic may have an impact on Bavarian Nordic's ability to fulfill customer contracts. There is a risk that the Group's raw material suppliers may not always be able to deliver the raw materials used in the Group's planned production.

The pharmaceuticals market is a market subject to substantial regulation, and there can be no assurance that Bavarian Nordic will continue to be able to purchase the products required for its future operations.

A number of raw materials and sterile single-use devices are used to manufacture IMVAMUNE®. Some of the raw materials are generic materials used by other pharmaceutical manufacturers, while others are manufactured specifically for use by Bavarian Nordic, either because of special quality requirements, including in particular the SPF eggs used in production, or the packaging in which they are supplied. The sterile single-use devices are predominantly custom-made for Bavarian Nordic's production of IMVAMUNE®.

To the greatest extent possible, Bavarian Nordic aims to have at least two suppliers of critical raw materials. When this has not been possible, the aim is for the raw materials to be manufactured by an alternative supplier, at some delay, if the primary supplier should fail to deliver. If a primary supplier fails to deliver or delivers less of a critical raw material than agreed, it will typically take three to six months before an alternative supplier will be able to supply raw materials of the same quality. Consequently, supplier failure may cause production delays of three to six months. Where possible, the Group seeks to safeguard against this risk by maintaining fairly large raw material inventories.

There is a risk that the required number of SPF eggs of the required quality may not always be available to complete the scheduled production. Bavarian Nordic has taken many steps to ensure a constant supply of SPF eggs, but in case of more generalised or local infections, the Group cannot guarantee timely shipment of the required volume of eggs to manufacture its vaccine. SPF eggs differ from all other consumables for the IMVAMUNE® vaccine production in that they cannot be stored to any significant extent. Consequently, the SPF eggs are considered the Group's most critical raw material.

Dependence on customers

In the event that Bavarian Nordic does not enter into additional agreements, the Group will not achieve revenue beyond what is expected from already existing agreements.

The degree of market acceptance of Bavarian Nordic's products depends on a number of factors, including demonstration of clinical efficacy and safety, cost-effectiveness, convienience and ease of administration, potential advantage over alternative treatment methods and marketing and distribution support. Bavarian Nordic may be unable to successfully market and sell its products directly or through collaborative partners, which could limit Bavarian Nordic's ability to generate income.

There is a risk that political factors may have a material adverse impact on existing orders and Bavarian Nordic's ability to enter into contracts and on the terms and conditions of such contracts.

Bavarian Nordic's contracting parties in a number of negotiations and agreements concerning the Group's smallpox vaccine programme are and have until now been public authorities. The supply of smallpox vaccines is considered by many governments to be a matter of national interest. As a result, the Group is subject to substantial political risks, partly in respect of the final decision as to the conclusion of agreements and partly in respect of the terms and conditions of such agreements.

Bavarian Nordic seeks to constantly keep in close contact, either through in-house or third-party representatives, with the governments and public authorities with whom negotiations are taking place in order to gain better insight into decision-making patterns. The Group is currently dependent on one single customer, which accounts for a very significant share of the Group's expected future revenue. In addition, the Group has entered into a number of minor agreements with other customers. In the future, the Group will aim to enter into other individual agreements with customers that will be of key importance to the Group.

There is a risk that Bavarian Nordic may, in future, continue to remain dependent on any single customer.

The RFP-3 contract from the US authorities is an example of a customer relationship that is crucial for the Group's earnings.

Liability for damages and product liability

There is a risk that Bavarian Nordic's products may have major side effects that may give rise to substantial liability claims.

As a biopharmaceutical company, Bavarian Nordic operates in a market which is subject to a certain amount of risk. Bavarian Nordic may hence be subject to the risk of receiving liability claims alleging adverse effects from clinical trials and the use of the Group's products. This risk is significantly increased by concluding agreements for the supply of smallpox vaccines that remain to be completed or approved for use in humans.

There is a risk that Bavarian Nordic may not be able to maintain insurance cover, and that such existing or any future insurance policies or the Group's own resources will not sufficiently cover claims for damages that may be received in future.

Bavarian Nordic's business exposes it to potential product liability risks which are inherent in clinical development, manufacturing, marketing and use of human therapeutic products. It is generally necessary for Bavarian Nordic to secure certain levels of insurance as a condition for the conduct of clinical studies and any sale or use of its products. Bavarian Nordic has taken out product liability insurance in respect of all clinical studies performed to date for which Bavarian Nordic was responsible.

Bavarian Nordic intends to expand its insurance coverage to include the sale of commercial products if Bavarian Nordic obtains marketing approval for any of the products that Bavarian Nordic may develop and commercialise itself, including IMVAMUNE®. However, Bavarian Nordic may not be able to obtain or maintain adequate protection against potential liabilities at acceptable cost. If Bavarian Nordic is unable to obtain insurance or other protection against potential product liability claims, Bavarian Nordic could be exposed to significant liabilities, which may materially and adversely affect its business and financial position. These liabilities could prevent or interfere with Bavarian Nordic's product development and commercialisation efforts. If Bavarian Nordic is sued for any injury caused by its products or processes, Bavarian Nordic's liability could exceed its product liability insurance coverage and Bavarian Nordic's own financial resources

If Bavarian Nordic's products supplied under the RFP-1 and RFP-2 contracts with the US authorities are not used solely for clinical research, there is a risk that such use may give rise to significant claims for damages.

IMVAMUNE®, which has been supplied to the US authorities under the RFP-1 and RFP-2 contracts, has been supplied to the US authorities as a product under development. Under the RFP-1 and RFP-2 contracts between Bavarian Nordic and the US authorities, the parties have agreed, for the time being, to solely use IMVAMUNE® for clinical research. However, there is a risk that IMVAMUNE® may in the future be used for purposes other than clinical research.

IMVAMUNE®, to be delivered to the US authorities under the RFP-3 contract, is comprised by a special liability provision in the RFP-3 contract, pursuant to which IMVAMUNE® may only be used for human vaccination if the US health minister issues a declaration, which under special US legislation (PREP Act) grants Bavarian Nordic immunity against litigation as a result of vaccination with IMVAMUNE®. Such a declaration was published in the Federal Register on 17 October 2008. So far, the declaration is valid for the period from 24 January 2008 until 31 December 2015.

There is a risk that Bavarian Nordic may be met with claims for damages in connection with the sale of its products, including in particular the Elstree-BN® and IMVAMUNE® smallpox vaccines.

Bavarian Nordic has sold Elstree-BN® and IMVAMUNE® as products under development to a number of countries and contracting parties. As part of the supply contracts, Bavarian Nordic seeks, to the widest extent possible, to exclude liability in respect of these products.

In addition, Bavarian Nordic may infringe patents and other intellectual property rights held by third parties and may be met with claims for damages.

Employees

Bavarian Nordic may not be able to attract and retain qualified employees.

One of the key resources of Bavarian Nordic is its employees, and it is therefore a key factor in the Group's future success that Bavarian Nordic is able to attract and retain qualified employees.

Bavarian Nordic implemented incentive plans in 2006, 2007, 2008 and 2009 based on warrants to the members of the Board of Directors, Corporate Management and certain employees and a phantom share programme in 2008 for employees in the Company and Bavarian Nordic GmbH intended to motivate and retain the Group's employees and create a workplace that meets the requirements of existing and future employees both in terms of pay and professional challenges.

For a description of Bavarian Nordic's incentive plans, see "Employees – Incentive plans" and "Additional information – Warrants".

Foreign currency risks

Exchange rate fluctuations may have an adverse impact on Bavarian Nordic's results of operations or competitive strength.

A significant share of Bavarian Nordic's costs are settled in EUR, whilst most of the Company's revenue is invoiced in USD, for which reason Bavarian Nordic is exposed to foreign currency risks. The RFP-2 and RFP-3 contracts with the US authorities are settled in USD. Revenues from the RFP-2 contract derive primarily from the reimbursement of costs incurred by Bavarian Nordic in connection with the further development of IMVAMUNE® for the US authorities. Foreign currency risks are hence limited to exchange rate fluctuations from the date of invoice until the date of payment. Income from the RFP-3 contract derives both from the advance payment and the milestone payments when meeting a number of pre-defined targets and requirements from the US authorities, including the build-up of physical safety, IT security, validation of production and test procedures, meeting the conditions for using IMVAMUNE® following a declared emergency (EUA), and progress in clinical studies etc. Bavarian Nordic has already received USD 125 million of the base contract for USD 500 million in the form of advance payments and three milestone payments. Furthermore, Bavarian Nordic incurs a number of costs denominated in USD. The Group has to a small extent hedged the outstanding net exposure under the RFP-3 contract using financial hedging. As large parts of the Group's future income and costs are expected to be denominated in USD, Management believes that the Group is and in the future will be dependent on developments in the USD/DKK exchange rate.

Management evaluates on an ongoing basis the need for additional hedging of foreign currency risks. Contracts denominated in currencies other than EUR and USD are not expected to constitute a major foreign currency risk.

Tax risks

Bavarian Nordic's interpretation of applicable legislation, tax agreements and regulations and/or interpretation of the administrative practice of the relevant authorities may not be correct, and there is a risk that such rules may be subject to change.

Bavarian Nordic operates through companies in a number of countries. The business operations, including intra-group transactions, are conducted in accordance with Bavarian Nordic's interpretation of the tax legislation, tax agreements and regulations in the countries concerned. Bavarian Nordic has obtained advice in these matters from independent tax advisers. However, Bavarian Nordic's interpretation of applicable legislation, tax agreements and regulations or interpretation of the administrative practice of the relevant authorities may not be correct, and there is a risk that such rules may be subject to change, possibly with retroactive effect. Bavarian Nordic's tax situation may change through decisions by relevant tax authorities, which may have an adverse impact on the Group's future performance, results of operations, cash flow and financial position.

The Group's deferred tax asset may not be utilised by set off against future taxable income.

As a result of Bavarian Nordic's operating performance, the Group has a substantial deferred tax asset due to temporary deductible differences and tax loss carry forwards. Management believes that the deferred tax asset can be realised by set off against future taxable income. However, Bavarian Nordic may not generate future taxable income against which the tax asset can be offset, so that the tax asset will instead be written down.

Interest rate risks

Interest rate fluctuations may have an adverse impact on Bavarian Nordic's results of operations or competitive strength.

At 30 November 2009, the Group had net interest-bearing deposits of DKK 115 million, consisting of fixed-rate mortgage loans in the amount of DKK 44 million, finance leases with a floating interest rate ranging from 2.2% to 7.6% p.a. in the amount of DKK 10 million, floating-rate capital loans with a bank in the amount of DKK 63 million (loan of USD 13 million), cash resources of DKK 129 million and securities of DKK 103 million. Adjusted for the net proceeds from the Maximum Offering of DKK 299 million, the Group had a net interest-bearing deposit of DKK 414 million at 30 November 2009.

Risks related to external factors

Competition and prices

There is a risk that competitors may develop products or enter into alliances that may significantly impair Bavarian Nordic's competitive position.

The pharmaceuticals market is highly competitive, although competition in the area of smallpox vaccine sales is limited. There are a number of companies that develop pharmaceuticals targeting the same diseases as Bavarian Nordic and which have much greater financial resources and in some areas are more advanced in their product development than Bavarian Nordic.

There is a risk that Bavarian Nordic may not be able to obtain prices for its products that ensure sufficient earnings to cover Bavarian Nordic's costs.

Pricing in the pharmaceutical market and Bavarian Nordic's ability to negotiate and contract with public authorities will have a crucial effect on Bavarian Nordic's ability to generate profits.

Pandemic outbreaks

There is a risk that any pandemic outbreak such as SARS and Influenza A (H1N1) may make the authorities in the US and other countries revise their resource priorities, for example by postponing the FDA's announcement to Bavarian Nordic in respect of the Group meeting the requirements for use of IMVAMUNE® following a declared emergency (EUA) in connection with the RFP-3 contract.

Management believes that Bavarian Nordic will be able to commence deliveries of the 20 million doses of IMVAMUNE® to the US authorities when the Group meets the requirements for using IMVAMUNE® following a declared emergency (EUA). Until the FDA announcement is received, it is beyond the Group's control whether a large-scale outbreak of disease among the global population, let alone a pandemic, would entail that the FDA, among others, directs all of its resources to such a situation. Such a situation would result in a likely delay of the FDA's announcement about the Group meeting the EUA requirements and thus a delay in the deliveries of the 20 million doses of IMVAMUNE®.

Termination of the Rights Issue Agreement and withdrawal of the Offering

The Rights Issue Agreement and/or the advance commitments made in connection with the Offering may be cancelled. As a result, the Offering may not be completed.

A.J. Aamund A/S is entitled to 1,334,099 Preemptive Rights to subscribe for 667,049 New Shares. A.J. Aamund A/S has agreed with the Joint Lead Managers to participate in the Offering on a cash-neutral basis (after transaction costs) by subscribing for the maximum number of New Shares that it can finance solely through the sale of Preemptive Rights. The proceeds from any Preemptive Rights sold by A.J. Aamund A/S will be used to subscribe for New Shares. The Preemptive Rights will be sold during the trading period for Preemptive Rights by the Joint Lead Managers on behalf of A.J. Aamund A/S, in open market transactions, private placements, block trades or otherwise.

Furthermore, Reiner Laus (CEO of BN ImmunoTherapeutics) has given notice that he expects to sell his Preemptive Rights in connection with the Offering.

Except the above, Bavarian Nordic A/S has not received any indications from other shareholders that they intend to sell their Shares or Preemptive Rights.

The Company has made certain representations and warranties to the Joint Lead Managers. In addition, the Company has undertaken to indemnify the Joint Lead Managers of certain liabilities in connection with the Offering.

The Joint Lead Managers are entitled to terminate the Rights Issue Agreement and the Company is entitled to withdraw the Offering if, before trading in the Preemptive Rights begins on 13 January 2010 at 9.00 a.m. CET, events occur which, in the opinion of the Joint Lead Managers and/or the Company, would make it inadvisable to proceed with the Offering.

The Rights Issue Agreement may be terminated by the Joint Lead Managers during the period from commencement of trading in the Preemptive rights on 13 January 2010 at 9.00 a.m. CET until the New Shares have been registered with the Danish Commerce and Companies Agency, if certain extraordinary and/or unpredictable circumstances occur, including in the event of (i) *force majeure*, (ii) the Group being informed, becoming aware of or having an expectation that the awarded RFP-3 contract will be terminated, or (iii) completely extraordinary adverse developments in the equity market.

If the Offering is not completed, this would have the effect that investors who have acquired shares (with a view to being granted Preemptive Rights), Preemptive Rights or New Shares may suffer a loss. If the Offering is not completed, owners of the New Shares will be entitled to reimbursement of the Offer Price, and their New Shares will be cancelled. The value of allocated or acquired Preemptive Rights will not be reimbursed.

If the Rights Issue Agreement is terminated or the Offering is withdrawn, information thereon will be provided without undue delay in a company announcement to the stock exchange issued by the Company.

Risks related to the market price and market value of the Preemptive Rights

The value of the Shares and the Preemptive Rights may be affected by fluctuations in the equity market, the market for biopharmaceutical shares and/or the market's method of pricing such shares and Preemptive Rights.

The equity market is volatile. Therefore, the price of the Company's shares and the value of the Preemptive Rights may be affected by factors that cannot be attributed solely to the Company's circumstances.

If the Group receives negative clinical data in respect of PROSTVAC™, IMVAMUNE® or if the awarded RFP-3 contract is changed, postponed or terminated during the period from the publication of this Prospectus to the last day of trading in the Preemptive Rights, it may cause substantial price fluctuations that could have a material impact on investor gains/losses from the sale of Existing Shares or Preemptive Rights.

I COMPANY INFORMATION

1. Persons responsible

An overview of the persons responsible for the Prospectus is given in "Persons responsible" herein.

2. Auditor

The Company's auditor is:

Deloitte Statsautoriseret Revisionsaktieselskab
represented by
Carsten Vaarby, State Authorised Public Accountant
Jens Rudkjær, State Authorised Public Accountant
Weidekampsgade 6
DK-2300 Copenhagen S
Denmark

The Company's annual reports for 2007 and 2008 were audited by Deloitte Statsautoriseret Revisionsaktieselskab, represented by Carsten Vaarby, State Authorised Public Accountant and Jens Rudkjær, State Authorised Public Accountant.

The Company's annual report for 2006 was audited by Deloitte Statsautoriseret Revisionsaktieselskab, represented by Jens Rudkjær, State Authorised Public Accountant and Jørgen Holm Andersen, State Authorised Public Accountant.

Jørgen Holm Andersen, State Authorised Public Accountant, has resigned in accordance with the statutory rotation requirements.

Jens Rudkjær, Carsten Vaarby and Jørgen Holm Andersen are all members of the Institute of State Authorised Public Accountants in Denmark (Foreningen af Statsautoriserede Revisorer (FSR)).

In addition, Deloitte has examined the Group's prospective financial information for 2009 and 2010.

Deloitte has issued independent auditors' reports contained in this Prospectus.

3. Selected financial information

The selected financial highlights set out below have been derived from the Group's audited annual reports for the financial years ended 31 December 2008, 2007 and 2006. The audited annual reports for the years ended 31 December 2008, 2007 and 2006 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies. This section also includes selected financial highlights taken from the interim reports for the nine months ended 30 September 2009 and 2008 included elsewhere in this Prospectus, and should be read in conjunction therewith. The interim reports are presented in accordance with IAS 34 "Interim financial reporting" as adopted by the EU and additional Danish disclosure requirements for interim reports of listed companies. The interim report for the nine months ended 30 September 2009 and the interim report for the nine months ended 30 September 2008 are unaudited.

The Earnings per share ratio is calculated in accordance with IAS 33 "Earnings per share". The remaining ratios are calculated in accordance with "Recommendations and Ratios 2005" issued by the Danish Society of Financial Analysts.

Table 1 – Financial highlights and key ratios of Bavarian Nordic

(DKK millions)	**Q1-Q3 2009 (unaudited)**	**Q1-Q3 2008 (unaudited)**	**2008**	**2007**	**2006**
Income statement					
Revenue	53.2	45.0	208.8	332.1	175.3
Production costs	125.6	101.2	196.7	64.5	136.3
Research and development costs	114.3	97.7	129.6	243.6	118.4
Sales costs and administrative expenses	82.8	70.0	92.0	89.1	124.4
Operating profit/(loss) (EBIT)	**(269.6)**	**(223.9)**	**(209.5)**	**(65.0)**	**(203.8)**
Net financials	8.3	28.8	26.2	14.5	(1.0)
Profit/(loss) before tax	(261.3)	(195.1)	(183.3)	(50.5)	(204.8)
Net profit/(loss)	**(212.1)**	**(155.2)**	**(150.4)**	**(63.5)**	**(160.9)**
Balance sheet					
Non-current assets	680.7	582.9	594.2	538.8	568.2
Current assets	638.5	1,067.0	1,100.0	1,193.2	386.2
Total assets	**1,319.2**	**1,649.9**	**1,694.3**	**1,732.1**	**954.4**
Shareholders' equity, end of period	793.2	1,026.8	1,015.1	1,217.7	691.4
Non-current liabilities	91.3	102.3	52.7	134.7	150.6
Current liabilities	434.6	520.8	626.5	379.7	112.4
Cash flow statement					
Net cash including securities	303.5	781.5	795.9	913.6	332.7
Cash flow from operating activities	(416.0)	(66.1)	(22.4)	163.2	(194.5)
Cash flow from investing activities	(0.7)	(55.4)	(81.5)	(16.1)	(192.2)
Investment in tangible assets	15.9	18.9	12.0	5.8	73.9
Cash flow from financing activities	(11.4)	(11.2)	(15.1)	440.4	219.0
Key figures					
Earnings per share					
– basic earnings per share of DKK 10.00	(7.9)	(19.5)	(18.7)	(8.0)	(25.8)
– diluted earnings per share of DKK 10.00	(7.9)	(19.5)	(18.7)	(8.0)	(25.8)
Net asset value per share (DKK)	101.5	130.8	129.9	155.8	108.4
Share price, end of period	233	137	132	293	582
Share price/net asset value	2.3	1.0	1.0	1.9	5.4
Number of outstanding shares, end of period ('000)	7,816	7,816	7,816	7,816	6,376
Equity ratio	60%	62%	60%	70%	72%
Number of employees, end of period	351	285	294	264	233

4. Risk factors

For a description of risk factors for Bavarian Nordic, please see "Risk factors".

5. Information about Bavarian Nordic

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The Company's ISIN code is DK0015998017 (BAVA).

The Company's registered office is situated in the Municipality of Helsingør, Denmark.

The Company's company reg. (CVR) no. is 16 27 11 87.

The Company was incorporated on 1 July 1992. The activities in Bavarian Nordic commenced on 6 October 1994.

The Company is incorporated under and subject to Danish law.

The Company has not registered any secondary names.

Purpose

Pursuant to Article 3 of the articles of association, the objects for which the Company has been established are to carry out research, trade, manufacture and any other related activities, primarily within the pharmaceutical industry.

Financial statements and annual general meeting

The Company's financial year runs from 1 January to 31 December. The Company's latest annual general meeting was held on 27 April 2009. The Company's latest extraordinary general meeting was held on 6 January 2010.

2010 Financial Calendar

Annual accounts for 2009: 9 March 2010
Annual General Meeting: 27 April 2010
First quarterly report (Q1) for the three-month period ended 31 March 2010: 27 April 2010
Half-year report (Q2) for the six-month period ended 30 June 2010: 31 August 2010
Third quarterly report (Q3) for the nine-month period ended 30 September 2010: 9 November 2010

Principal bankers

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History and development

The activities of Bavarian Nordic began in 1994 in connection with a collaborative agreement between an academic research group in Munich, Germany, at the Institute for Molecular Virology – Forschungszentrum für Umwelt und Gesundheit GmbH (GSF) – and a group of Danish scientists and investors. During its first years, Bavarian Nordic conducted research in gene therapy, cell therapy and vaccines. The Company's shares were listed on NASDAQ OMX in 1998.

Bavarian Nordic launched its first MVA-based programme in 1995. In 1999, Bavarian Nordic initiated the development of a standalone MVA-based smallpox vaccine. One year later, the Group started the development of its second-generation smallpox vaccine, Elstree-BN®. By year-end 2000, Bavarian Nordic had established a comprehensive smallpox programme consisting of both Elstree-BN® and its third-generation MVA-BN® vaccine, in addition to a strong research arm designed to position MVA-BN® as the preferred vaccine.

In 2002, Bavarian Nordic refocused its strategy towards the development of vaccines, and the gene therapy and cell therapy activities were discontinued.

Since 2003, Bavarian Nordic has achieved several important milestones. In 2003, the US authorities awarded the Group a milestone-based contract (RFP-1) for the development and testing of the Group's smallpox vaccine (MVA_BN®-based, later called IMVAMUNE®). In 2004, the US authorities awarded the Group another milestone-based contract (RFP-2) comprising production and testing of the then patented third-generation smallpox vaccine IMVAMUNE®. The same year the IMVAMUNE® development programme was granted "fast track" status by the FDA. Also in 2004, Bavarian Nordic received regulatory approval from the FDA and the German health authorities for the clinical testing of a smallpox vaccine in high-risk subjects such as persons with HIV infections and atopic disorders.

In 2004, Bavarian Nordic decided to resume its research and development activities in the field of cancer vaccines based on the

MVA-BN® technology by the establishment of the subsidiary BN ImmunoTherapeutics Inc. (BNIT).

In 2006, Bavarian Nordic achieved substantial progress in terms of production. The Danish Medicines Agency approved the Kvistgaard facility for manufacturing sterile vaccines for use in humans. The authorisation allowed Bavarian Nordic to manufacture, analyse and release sterile vaccines at its Kvistgaard manufacturing facility in accordance with EU GMP requirements.

The most important event for the Group in 2007 was the conclusion of the RFP-3 milestone contract with the US authorities for the production and delivery of 20 million doses of IMVAMUNE® and additional research and development with a view to meeting the requirements for using IMVAMUNE® following a declared emergency (EUA). In addition, the contract comprises non-clinical and clinical studies necessary to register IMVAMUNE® as a safer and effective smallpox vaccine in healthy individuals with the US authorities. The RFP-3 contract also includes an optional part for the delivery of an additional 60 million doses and further clinical studies with a view to achieving registration of the vaccine for use in people infected with HIV, children and the elderly. Having been awarded the contract, in 2007 Bavarian Nordic met a number of key sub-targets in the contract, which triggered a total of USD 100 million of advance and milestone payments during the year.

Given the Group's progress and the fact that it met key sub-targets in 2007, Bavarian Nordic faced a new strategic situation. Against that background, the Group revised its strategy at the beginning of 2008 to dedicate its development programmes to three areas: biodefence, cancer and infectious diseases.

As part of the new strategy, cancer was given much higher priority. Bavarian Nordic formed a scientific partnership with the National Cancer Institute (NCI) in the US concerning the development of new immunotherapies for the treatment of prostate cancer. As part of the agreement, Bavarian Nordic obtained a worldwide, exclusive licence to intellectual property rights covering a new and promising prostate cancer vaccine product candidate, PROSTVAC™.

During 2008, the Group signed its first contracts for IMVAMUNE® outside the US. The Group signed a three-year contract with the government of an undisclosed Asian country for the delivery of a small order of IMVAMUNE® for the country's biodefence programme.

Following a Request for Proposal issued in 2007, the Canadian authorities awarded a contract to Bavarian Nordic for the delivery of 20,000 doses of IMVAMUNE® and an optional purchase of an additional 180,000 doses. In 2008, Bavarian Nordic also entered into a three-year contract with an Asian country. Although these orders are small, the orders are of significant strategic importance, indicating that a number of countries are taking the potential bioterror threat seriously.

In the second half of 2009, Bavarian Nordic signed a contract with the military of an undisclosed EU country for the delivery of a small order of IMVAMUNE®. It marked the first time that Bavarian Nordic entered into a contract with an EU country for the delivery of IMVAMUNE®.

During 2009, Bavarian Nordic presented data from several studies in PROSTVAC™. The data confirmed the excellent safety and efficacy results previously reported. The data also indicated that PROSTVAC™ is universally applicable to a wide range of prostate cancer patients. This confirms PROSTVAC™'s potential to address a significant medical need and market opportunity.

In November 2009, BARDA awarded a contract to Bavarian Nordic 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 manufacturing process and the associated pre-clinical and clinical studies to support the advanced development of a freeze-dried version of IMVAMUNE®. This new project will have no influence on the ongoing RFP-3 contract for the procurement of 20 million doses of IMVAMUNE®, but represents an additional business opportunity.

By the end of 2009, Bavarian Nordic obtained full ownership of the subsidiary BNIT as part of the Group's strategy to strengthen the cancer business area.

The Group expects to commence deliveries of IMVAMUNE® to the US authorities before the end of first half of 2010. Originally, Bavarian Nordic had expected initial deliveries of IMVAMUNE® under RFP-3 to take place during 2009. The published timelines for initiating deliveries of IMVAMUNE® was based on an assumption of the timely review and acceptance of the Group's last summary data submission made to the US authorities in the second half of 2008. However, in the spring of 2009 the US authorities announced that they would perform a GMP inspection of the IMVAMUNE® manufacturing facilities. The inspections resulted in a number of observations that require corrective actions prior to initiation of deliveries to the US authorities.

For at detailed description of Bavarian Nordic's pipeline, see "Business overview"

Investments

Please see "Company information – Operating and financial review" for a description of the Group's investments.

6. Business overview

Introduction

Bavarian Nordic is an industrial biotechnology company developing and producing novel vaccines for the treatment and prevention of life-threatening diseases with a significant unmet medical need. The Group's business strategy is focused in three areas: biodefence, cancer and infectious diseases. Bavarian Nordic's business activities have remained the same in the period 2006 to 2009.

Bavarian Nordic's patented technology, MVA-BN®, is as demonstrated in clinical studies, one of the most safe, multivalent vaccine vectors for the development of vaccines against various infectious diseases such as smallpox, HIV, as well as against breast and prostate cancer.

Bavarian Nordic has ongoing development contracts with the US authorities (awarded in June 2007, September 2004 and February 2003) to develop IMVAMUNE®, which is based upon MVA-BN®, as a safer third-generation smallpox vaccine. Bavarian Nordic's advanced clinical development programme has been further expedited by the US authorities with the FDA's grant of "fast-track" status for IMVAMUNE®.

Bavarian Nordic's activities in the field of cancer immunotherapy are conducted by its US subsidiary, BNIT. The subsidiary was founded based on positive findings from Bavarian Nordic's previous studies with a vaccine candidate targeting melanoma cancer. The Group has three cancer vaccine candidates under development, one against breast cancer (MVA-BN® HER2) and the other two against prostate cancer, PROSTVAC™ and MVA-BN® PRO.

Bavarian Nordic has supplied several governments with smallpox vaccines, and with a global manufacturing capacity consisting of its new state-of-the-art production facility in Denmark and an ongoing partnership with the German vaccine producer, IDT Biologika, Bavarian Nordic has ensured supply of IMVAMUNE® and future vaccines based on the same production technology, including e.g. PROSTVAC™.

Technology

Bavarian Nordic's vaccine technology platform, MVA-BN®

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 100,000 individuals against smallpox in Germany in the 1970s. MVA-BN® is used in most of the Group's development programmes against smallpox, cancer and infectious diseases.

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

MVA-BN® is under clinical evaluation by Bavarian Nordic 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.

MVA-BN® induces a strong cellular as well as humoral (antibody) immune response. MVA-BN® is ideally suited for homologous prime/boost regimens because of its ability to elicit an immune response even in individuals with pre-existing immunity against vaccinia. Such regimes consist of an initial vaccination (prime) followed by another vaccination (boost) using the same vaccine. In contrast to heterologous vaccine regimes, which use different types of vaccine technologies, vaccination with MVA-BN® is simpler and easier to develop and license. MVA-BN® can be applied safely and repeatedly in cases where follow-up vaccinations may be required, such as is the practice with therapeutic vaccines.

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.

Strategy

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 biodefence and cancer. In addition, the Group seeks to create shareholder value by striving for sustained profitable operations, by focusing its development activities and by optimising the resources applied.

The Group's pipeline currently includes a total of seven development programmes in clinical and pre-clinical development focused in three areas: biodefence, cancer and infectious diseases.

All programmes are subjected to an overall pragmatic, data-driven prioritisation strategy so that future favourable or unfavourable data will be decisive factors for the individual programmes.

Biodefence

Strategy: Full value chain

This is the Group'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.

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 delivery of the first 20 million doses of IMVAMUNE® to the US authorities. Therefore, the Group will be investing resources in its production facilities in Kvistgaard, to further optimise production processes and thereby reduce future production costs. The Group currently runs two significant change projects with the objective of optimising production, and is in advanced planning of more than four similarly significant change projects.

It is the Group's intention to build a biodefence portfolio of projects that can complement IMVAMUNE® and ensure the Group a sustained and growing business. Initially, the Group seeks to develop a combined smallpox and anthrax vaccine. Such a vaccine is expected to offer a number of attractive synergies for customers. 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, Management expects that there will be good opportunities for achieving third-party funding for the development of an anthrax vaccine. It is the goal of the Group to receive such funding and initiate Phase I for the anthrax vaccine in 2010.

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 Management's expectations, third-party funding is not available.

It is furthermore the strategy of Bavarian Nordic 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.

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 Group's facilities in Berlin where PROSTVAC™ will be manufactured. The Group will seek partnerships for PROSTVAC™ with one or more pharmaceutical companies in order to contribute to the comprehensive Phase III studies and through product registration and commercialisation.

It is the Group's strategy to expand its cancer portfolio with more late-stage projects through the continuous development of own research projects, scientific partnerships and through acquisitions. As part of this strategy, Bavarian Nordic will explore opportunities for expanding the collaboration with the NCI to vaccines targeting other types of cancer. By combining Bavarian Nordic's expertise in cancer vaccine development and production with one of the world's leading centres of excellence in cancer research, the Group expects that this collaboration will result in new and innovative solutions for a disease area with large unmet medical needs, as well as expand and accelerate Bavarian Nordic's cancer activities. The Group aims to develop and bring the projects forward to end of Phase II, after which it intends to seek partnerships with international pharmaceutical companies.

Infectious diseases

Strategy: Maximise value

The Group 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.

In addition, Bavarian Nordic has two preclinical projects in tropical diseases, Dengue fever and Japanese encephalitis, which are currently not in active development. Further development may be reassumed with a potential external partner.

IP strategy

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.

Short-term goals

In order to succeed with the overall strategy, Bavarian Nordic also 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:

- Start-up of actual delivery of vaccines for the US strategic national stockpile (before the end of first half of 2010)
- Commencement of Phase III studies

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 authorities 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 Kvistgaard facility and IDT Biologika. Both companies hold manufacturing authorisations from the local Danish and German authorities and receive regular inspections from these authorities.

While the US authorities 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 Group has submitted its responses to these observations, and submitted the required documentation of the changes to the US authorities for review and acceptance. On this background the Group expects delivery of IMVAMUNE® to the US authorities to be initiated before the end of first half of 2010.

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 Group 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 Group 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 immuno-compromised population
- Protection of the general population

Although IMVAMUNE® cannot be fully commercialised until the vaccine has been licensed, the Group remains encouraged by the prospects for 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. Given Bavarian Nordic's significant experience managing projects the 'cost plus profit' model secures profitable engagement. Management is confident that additional development contracts will be secured in 2010-11. As with IMVAMUNE® successful development projects 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.

Preparations for the Phase III studies with PROSTVAC™
In line with its strategy, Bavarian Nordic upgraded the cancer business area in 2008. The Group entered into a scientific partnership with the 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 Group is currently in preparations for initiating Phase III studies with PROSTVAC™. As part of these preparations Bavarian Nordic expects that an end of Phase II meeting will be held with the FDA in January 2010 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 Group will continue the transfer of the production technology from the former owner of the PROSTVAC™ vaccine as well as own development of production technology. 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 Group will continue these talks with the goal of signing an attractive licensing agreement with an international pharmaceutical company, 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 Group's own manufacturing facilities.

Clinical pipeline

The Group's pipeline currently includes a total of seven development programmes in clinical and pre-clinical development in three strategic areas: biodefence, cancer and infectious diseases. The Group has two advanced development projects in biodefence and cancer, respectively, and a number of early clinical development projects in all three areas.

The majority of Bavarian Nordic's research programmes, including the Group's third-generation smallpox vaccine, IMVAMUNE®, are based on the Group's patented technology; MVA-BN®.

Table 2 – Development projects

Biodefence

Programme	Status	Next milestone
IMVAMUNE® (smallpox)	Phase II	Await EUA, Initiate Phase III (2010)
Anthrax	Preclinical	Phase I (2010)

Cancer

Programme	Status	Next milestone
PROSTVAC™ (prostate cancer)	Phase II	Phase III (2010)
MVA-BN® HER2 (breast cancer)	Phase I/II	Initiate new Phase I/II study (2010)
MVA-BN® PRO (prostate cancer)	Phase I/II	Phase I/II data update (2010)

Infectious diseases

Programme	Status	Next milestone
MVA-BN® HIV multiantigen	Phase I/II	Identify partner for full Phase II
MVA-BN® Measles/RSV	Phase I	Complete recruitment (Q1 2010)

Biodefence

IMVAMUNE®

Since 2003, Bavarian Nordic has received financial support for the development of IMVAMUNE® as a safer, third-generation, non-replicating MVA-based smallpox vaccine through two contracts (RFP-1 and RFP-2) awarded by the National Institutes of Health (NIH) in the US and since June 2007 a third contract (RFP-3) awarded by the US Department of Health and Human Services (HHS), Biomedical Advanced Research and Development Authority (BARDA). The RFP-3 contract encompasses manufacturing and delivery of 20 million doses of IMVAMUNE® (the base contract) and the licensure of IMVAMUNE® for the general population. The optional part of the contract includes further clinical studies to extend the licence to include people infected with HIV, children and the elderly, as well as procurement of up to an additional 60 million doses of IMVAMUNE®.

For further information on the Group's contracts regarding RFP-2 and RFP-3, see "Material 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 at least 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.

During the last three years, Bavarian Nordic has made significant progress in the IMVAMUNE® development program. The Group has 14 completed or on-going clinical studies and has vaccinated more than 2,800 persons with IMVAMUNE®, which includes a large

proportion of subjects (more than 950) that are immuno-compromised due to underlying conditions like HIV and 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
- IMVAMUNE® is easily administered through standard procedures such as subcutaneous or intramuscular injection
- IMVAMUNE® provides faster protection than conventional first and second-generation vaccines
- IMVAMUNE® has shown full protection in lethal challenge studies in mice and monkeys
- IMVAMUNE® has in animal studies shown protection even when administered after infection

Bavarian Nordic has a number of ongoing clinical studies with regard to IMVAMUNE®. These include:

- A Phase II study of patients diagnosed with AD
- A Phase II study to demonstrate the effect of IMVAMUNE® when administered as a booster dose
- A Phase I study in subjects between 56 and 80 years to generate data on safety and immunogenicity of IMVAMUNE® in an elderly population

In Q1 2009, Bavarian Nordic had an end of Phase II meeting with the FDA to discuss the pivotal animal and clinical studies to support the 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® as a third-generation smallpox vaccine. Once all protocols have been agreed with the US authorities, a Vaccines Related Biological Product Advisory Committee (VRBPAC) will be scheduled to ratify the license strategy. This exceptional review path has pushed the initiation of the Phase III and other pivotal studies into 2010.

Freeze-dried version of IMVAMUNE®
In November 2009 BARDA awarded a contract to Bavarian Nordic for the development of a freeze-dried version of its IMVAMUNE® smallpox vaccine. The contract provides funds to validate the new freeze-dried manufacturing process and the associated pre-clinical and clinical studies to support the advanced development of a freeze-dried version of IMVAMUNE®.

A freeze-dried formulation of IMVAMUNE® offers 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.

This project will have no influence on the ongoing RFP-3 contract for the procurement of 20 million doses of IMVAMUNE® and the licensure of the current liquid-frozen formulation, but Management believes that it represents an additional business opportunity and a gateway towards securing additional contracts for this new freeze-dried version with the US authorities and outside the US as well.

Anthrax
Upon encouragement from the US authorities, Bavarian Nordic initiated an anthrax vaccine program based on MVA-BN® in 2008. 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 scale.

Bavarian Nordic has since developed a number of MVA-BN® anthrax constructs and has generated initial positive results from animal studies with two new candidates for a MVA-BN® based anthrax vaccine.

The animal efficacy studies are ongoing and 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.

Cancer

PROSTVAC™
In August 2008, Bavarian Nordic's US subsidiary, BNIT, entered into a licensing agreement with the United States Public Health Service (PHS) and a Cooperative Research and Development Agreement (CRADA) with the NCI. Through this partnership BNIT has obtained all intellectual property rights covering PROSTVAC™, a therapeutic prostate cancer vaccine candidate in clinical Phase II. PROSTVAC™ was originally developed by the company Therion Biologics Corp. in cooperation with the NCI.

Currently, the only approved treatment that extends survival for metastatic prostate cancer patients, a chemotherapy treatment, extends median overall survival by approximately 2-3 months, and is associated with significant toxicity.

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 the Therion Phase II study, 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 over 500 patients.

There are a number of ongoing clinical studies with regard to PROSTVAC™:

- Phase II study comparing the radioactive drug samarium with or without PROSTVAC™ therapy in men with metastatic prostate cancer
- Phase II study comparing antihormone therapy (flutamide) with or without PROSTVAC™ therapy in men with non-metastatic prostate cancer
- Phase II study investigating PROSTVAC™ in men with PSA progress after local therapy (surgery and/or radiation)
- Phase I dose-escalation, combination study with PROSTVAC™ and MDX-010 (CTL4 antibody) in men with metastatic prostate cancer
- Phase I study investigating PROSTVAC™ by intraprostatic injection in patients with progressive or locally recurrent prostate cancer

In addition to having clinical activity in metastatic disease settings, PROSTVAC™ has proven 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.

The Group has submitted data to a peer-reviewed scientific journal based on the previously mentioned PROSTVAC™ Phase II study with 125 patients. The Group expects the article to be published in first half 2010.

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 the target of the PROSTVAC™ immunotherapy program described above. The concomitant targeting of two prevalent antigens to treat prostate cancer is a distinctive feature of MVA-BN® PRO. The Group 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 expects to 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.

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 authorities and EMEA 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 stud-

ies, 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 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.

Infectious diseases

MVA-BN® HIV multiantigen
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 MVA-BN® HIV multiantigen builds on these positive results 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 for this MVA-BN®-based prophylactic and therapeutic HIV vaccine candidate completed enrolment in 2008. The MVA-BN® HIV multiantigen candidate expresses eight whole or truncated antigens from HIV and was administered to 15 HIV-infected individuals. 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 has been initiated as planned in the second quarter of 2009. Ninety children between the ages on 6 months to 6 years will be vaccinated in this Phase I study performed in South Africa. On the Prospectus Date, more than 50% of the children have already been vaccinated with no serious adverse side effects.

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.

Production facilities

Bavarian Nordic has two high-technology production facilities. One of the facilities, located in Kvistgaard in Denmark, is designed for the commercial production of IMVAMUNE® and MVA-BN® recombinant vaccines. Located in Berlin, Germany, the other facility is designed for the production of recombinant vaccines for clinical research. For additional information see the section "Property, plant and equipment". Bavarian Nordic also has a filling and packing contract with IDT Biologika in Dessau, Germany.

The production facilities in Kvistgaard, Denmark and Berlin, Germany, currently meet the GMP requirements defined by the EU and meet all regulatory guidelines for industrial vaccine production.

In May 2009, the US authorities performed a GMP inspection of the IMVAMUNE® manufacturing facilities. These inspections were performed both at Bavarian Nordic's Kvistgaard manufacturing facility and IDT Biologika. Although the inspections did not give rise to concern in respect of the facilities or the validated production process for IMVAMUNE®, the inspections resulted in a number of observations that require corrective actions. Management believes that the inspections have been successfully completed and that the corrective actions required as a result of the inspections will be fully implemented and approved by the US authorities no later than at the end of first half 2010 and without the need for additional investments. Following satisfactory implementation of the corrections after the inspection, IMVAMUNE® deliveries can commence.

Kvistgaard

Bavarian Nordic took over the Kvistgaard manufacturing facility in Denmark in the spring of 2004. The combined investment in land, buildings and refurbishments amounts to approximately DKK 410 million.

The reconstruction of the manufacturing facility was completed in the spring of 2005. Since then, production equipment has been installed, tested and qualified in accordance with the GMP requirements. The Group's Technical Operations, which houses the process optimisation, production, quality control and quality assurance groups, is fully operational.

In August 2006, the manufacturing facility was approved by the Danish Medicines Agency. The approval applies to the manufacturing, analysis and release of sterile vaccines for use in clinical trials and emergency situations. The authorisation covers Bavarian Nordic's need for manufacturing IMVAMUNE® under the RFP-3 contract with the US authorities and for other markets for emergency use of smallpox vaccines.

The Kvistgaard facility houses the administration, quality control, quality assurance and production functions. The facility is situated on a site of just over 37,400m^2 of land. The buildings total approximately 8,700m^2, of which the production area occupies about 5,870 m^2, which includes approximately 1,200m^2 for clean rooms, and 2,870m^2 for office space and laboratory facilities. The facility is designed, built and qualified to manufacture IMVAMUNE® and MVA-BN® recombinant vaccines for the European and the US markets. IMVAMUNE® is classified as a BioSafety Level-1 (BSL-1) vaccine, but Bavarian Nordic has also implemented additional requirements through the design and layout of the facility so that it meets the more stringent BSL-2 rules.

With the current staffing and yield, production at the Kvistgaard facility is laid out for manufacturing the 20 million doses of IMVAMUNE® related to the RFP-3 contract with the US authorities over a three year period. However, the production capacity is scalable. Output from the Kvistgaard facility could be increased up to a maximum of 40 million doses per year if the requirements for shelf life were reduced significantly, which could be the case under a decision to commence a broad vaccination program or in the case of a declared emergency.

In order to eliminate the risk of adding unwanted microorganisms during the manufacturing process, the Kvistgaard facility to the greatest extent possible uses a production setup in which the parts that come into contact with the product (the vaccine) are single-use, pre-sterilised components.

All of Bavarian Nordic's current and future recombinant vaccines based on the MVA-BN® technology can readily be produced at the facility with limited investments. If the manufacturing facilities are to be re-configured to produce a vaccine that is not based on MVA-BN®, but which can be produced using the same basic production technology as IMVAMUNE® (the "wave bioreactor" technology), Management believes that such a manufacturing reconfiguration would require a DKK 10-25 million investment.

Furthermore, it is possible to manufacture a number of other vaccines at the facility, as well as to establish additional units that can operate with other technologies than those used today. While the Company continues to investigate the production of other vaccines, in the near-term only MVA-BN®-based vaccines will be manufactured at the Kvistgaard facility.

Berlin

The Berlin facility covers an area of 1,580m^2, of which approximately 420m^2 are occupied by clean rooms. In addition to the actual production section, the unit houses a quality control laboratory and an administrative section. The organisation of the unit has been fully developed. On 1 February 2005, the facility was approved by the German authorities for the production of MVA-BN® recombinant vaccines for clinical testing in humans.

The facility is being prepared for the manufacturing of vaccine material for use in the future PROSTVAC™ Phase III studies. The facility is presently also being used to manufacture vaccine material for use in clinical trials with other of Bavarian Nordic's MVA-BN®-based vaccine candidates.

The unit is also fully equipped to manufacture IMVAMUNE® vaccines and regularly performs the full production process from the receipt of fertilised chicken eggs to filling the end-vaccine in vials.

Dessau
Bavarian Nordic has entered into an agreement with Bavarian Nordic's strategic partner, IDT Biologika, Dessau Germany, ensuring access to the fill capacity necessary to meet its delivery obligations under the RFP-3 contract. A significant part of the capacity of the IDT Biologika manufacturing line validated for fill of IMVAMUNE® has been allocated to IMVAMUNE® in 2010-2012 for meeting delivery obligations under the RFP-3 contract.

IDT Biologika has years of experience in the production of vaccines based on fertilised chicken eggs and owns a modern production facility for filling, inspecting, labelling and packing sterile vaccines.

Organisation

During the past couple of years, Bavarian Nordic has gone through a successive transformation from a biotechnology company with preclinical and clinical research and development of vaccines into a fully established international biopharmaceutical company with activities in research and development, production, marketing and the sale of own vaccine products. In connection with this transformation, the Group has increased its focus on expanding the organisation.

Bavarian Nordic's organisation is divided into a research and development arm, a department for financial and commercial aspects and a department for technical operations. The managers responsible for these departments form part of the Executive Management, ensuring joint action plans, understanding of and commitment to the implementation of the Group's strategies throughout the organisation.

Bavarian Nordic's research and development department is project-based and includes primarily preclinical and clinical research in the Group's pipeline products, vaccine development and regulatory affairs. With the exception of the research activities in cancer immunotherapy, the R&D department is located in Munich, Germany. The Group's cancer immunotherapy activities are conducted by a subsidiary in Mountain View, California, US. Management expects to enlarge the R&D department in line with the expansion of the Group's product pipeline and its advancement.

The department for financial and commercial affairs is mainly involved in sales and marketing of the Group's vaccine products, business development activities, strategy, financial management and investor relations.

The department for technical operations focuses on the production of IMVAMUNE®, including the design and reconstruction of the Kvistgaard and Berlin production facilities (including production of PROSTVAC™ for Phase III), as well as quality control of the Group's projects and products. In addition, the department is responsible for procurement of materials used in production as well as logistics in connection with the supply of products to Group customers.

Moreover, Bavarian Nordic has set up an independent quality organisation reporting directly to the Corporate Management as well as enhanced the Group's quality assurance expertise.

In addition to the departments described above, Bavarian Nordic has a number of staff functions primarily involved with the Group's administrative functions.

Sales and distribution

IMVAMUNE®
The selling and distribution of IMVAMUNE® requires a different type of contact and experience than what is required for selling traditional pharmaceuticals as the main customers are governments. The selling and distribution of IMVAMUNE® will therefore be carried out by the Group's own sales organisation combined with local and regional agents/distributors with experience in contracts with public authorities.

Bavarian Nordic's sales organisation consists of ten persons as at 30 November 2009, all of whom are involved in the sales processes, allowing them to draw on the experience gained from the considerations and questions the Group encounters in the decision-making processes of the various countries.

Since 2006, Bavarian Nordic has been represented through a regional office in Singapore in order to optimise the market potential in Asia. The office is run by employees who have many years experience in running a commercial organisation in the region.

Management believes that Bavarian Nordic has a diversified network of agents and distributors. As long as IMVAMUNE® remains an unapproved vaccine, the sales processes extend over long periods because of the need to provide extensive documentation and long approval procedures. Consequently, it is crucial for the Group to have local partners with the right networks. Bavarian Nordic has built a network of national and regional collaborative partners who are familiar with the decision-making processes of a number of relevant countries. This allows the Group to target the sales process and make it as short as possible.

Public prioritisation of emergency preparedness in case of a smallpox outbreak depends on factors such as national decision makers and expert know-how about the side effects of IMVAMUNE® compared with first and second-generation small-pox vaccines. The Group's current sales and distribution efforts are primarily directed at ministries of defence and health who are prepared to update their emergency vaccine stocks.

In addition to specific countries, Bavarian Nordic has presented IMVAMUNE® and the Group's qualifications to experts and decision makers in international organisations such as the WHO, the EU, NATO and ASEAN.

Cancer
Unlike IMVAMUNE®, where Bavarian Nordic can manage sales and already have a valuable dialogue with a number of governments

around the world, the commercialisation of PROSTVAC™ and other cancer vaccines will require a much larger commercial infrastructure.

As a result, Bavarian Nordic is looking to partner with an international pharmaceutical company for the continued development and commercialisation of PROSTVAC™. In order to maximise the value of the clinical projects, Bavarian Nordic will consider mutually beneficial partnering options with major companies that have established global or regional specialist sales and marketing capabilities as well as the relevant research and development capabilities.

Customers

Biodefence
IMVAMUNE® is in Phase II clinical studies, and initiation of Phase III studies are expected to be initiated during 2010. As products under development, IMVAMUNE® vaccines have not been approved for sales and marketing. IMVAMUNE® has been met with interest from public authorities of a number of countries because there are no approved third-generation smallpox vaccines on the market.

IMVAMUNE® has been sold to governments as vaccines under development. Historically, Bavarian Nordic has sold Elstree-BN® as vaccines under development to a number of countries and authorities. During recent years Bavarian Nordic's revenue has mainly come from the US authorities.

In June 2007, BARDA awarded Bavarian Nordic a contract (RFP-3) regarding manufacturing and delivery of 20 million doses of IMVAMUNE® and the licensure for the general population. The contract includes an option on further clinical studies to extend the licence to include people infected with HIV, children and the elderly, as well as procurement of up to an additional 60 million doses of IMVAMUNE®.

Following a Request for Proposal issued in 2007, Public Works and Government Services Canada, on behalf of the Canadian Department of National Defence awarded, in December 2008, a contract to Bavarian Nordic for the delivery of 20,000 doses of IMVAMUNE® and an optional purchase of an additional 180,000 doses. Delivery of the first 20,000 doses was completed in 2009.

In addition, Bavarian Nordic entered into a three-year contract with an undisclosed Asian country's armed forces, in March 2008, and in September 2009 with an undisclosed EU country for the delivery of a small number of doses of IMVAMUNE®.

These international IMVAMUNE® orders are small in quantity but nevertheless profitable for the Group. Also, the orders are of significant strategic importance, indicating that a number of countries are taking the potential bioterror threat seriously.

Cancer
PROSTVAC™ is in Phase II clinical studies and initiation of Phase III studies are expected to be initiated by the end of 2010. As a product under development, PROSTVAC™ has not been approved for sales and marketing. The commercialisation of PROSTVAC™ and other cancer vaccines will require a much larger commercial infrastructure. As a result, Bavarian Nordic is looking to partner with an international pharmaceutical company for the continued development and commercialisation of PROSTVAC™. Primary customers are expected to be private and public hospitals.

Suppliers

Raw material suppliers
A number of raw materials and sterile single-use devices are used to manufacture IMVAMUNE®. Some of the raw materials are generic materials that are also used by other pharmaceutical manufacturers, while others are manufactured specifically for use by Bavarian Nordic, either due to special quality requirements or to the packaging in which they are supplied. The sterile single-use devices are predominantly custom-made for Bavarian Nordic's production of IMVAMUNE®.

To the greatest extent possible, Bavarian Nordic aims to have at least two suppliers of critical raw materials. When this is not possible, the aim is for the raw materials to be manufactured by an alternative supplier, at some delay, if the primary supplier should fail to deliver. If a primary supplier fails to deliver or delivers less of a critical raw material than agreed, it will typically take three to six months before an alternative supplier will be able to supply raw materials of the same quality. Consequently, supplier failure may cause production delays of three to six months. Where possible, the Group seeks to safeguard against this risk by maintaining fairly large raw material inventories.

The most critical generic raw material is SPF eggs, which are laid by selected chicken strains that are kept disease-free and unvaccinated. The chicken flock is regularly examined for a number of micro-biological diseases that may be caused by virus, virus bacteria or other microorganisms. The manufacture, shipment, receipt and examination of such SPF eggs is subject to European pharmaceutical legislation. On a global basis, very few egg producers comply with the special SPF requirements. Bavarian Nordic uses three suppliers, two of which are part of the same corporation, which operates chicken farms both in the US and Europe. The third supplier is an European egg producer. Bavarian Nordic has verified that eggs from all three suppliers are fully useable for manufacturing the IMVAMUNE® vaccine. In order to further reduce the risk of production delays or stops in case of infections in its stock of chicken, Bavarian Nordic uses eggs from a number of different chicken flocks from two of the three suppliers. The Group uses eggs from different flocks from one production day to the next in order to reduce the risk of losing a product in case of infection in a given flock.

Bavarian Nordic's need for SPF eggs is moderately relative to the global production capacity. However, for the individual producer it is in many cases not possible at short notice to deliver more SPF eggs, while on longer term the producer may increase its capacity.

There can be no assurance that the required number of SPF eggs will always be available to complete the scheduled production. Bavarian Nordic has taken many steps to ensure a constant supply of SPF eggs, but in case of more generalised or local infections, the Group cannot guarantee timely shipment of the required volume of eggs to manufacture its vaccine. SPF eggs differ from all other consumables for the IMVAMUNE® vaccine production in that they cannot be stored to any significant extent. Consequently the SPF eggs are considered the Group's most critical raw material.

Business partners
The filling and packing of IMVAMUNE® is handled by Bavarian Nordic's strategic partner IDT Biologika in Dessau, Germany. IDT Biologika has years of experience in the production of vaccines based on fertilised chicken eggs and owns a modern production facility for filling, inspecting, labelling and packing sterile vaccines. Bavarian and IDT Biologika have signed a contract for the filling and packing of 20 million doses of IMVAMUNE®. Bavarian Nordic has also signed an agreement with IDT Biologika and with Bioreliance concerning QC tests of IMVAMUNE®. Both companies have years of experience in performing such analyses.

If IDT Biologika or Bioreliance is unable to meet its obligations towards Bavarian Nordic in respect of filling IMVAMUNE® and/or performing these QC tests, the effect could be that Bavarian Nordic proves unable to deliver the agreed doses of IMVAMUNE® to the US authorities within the agreed timeframes as set out in the contract, and this may have far-reaching adverse consequences.

In addition, Bavarian Nordic works closely with a number of Clinical Research Organizations (CROs). These are businesses that assist Bavarian Nordic in the practical completion of clinical studies in respect of Bavarian Nordic's research projects, including for IMVAMUNE®, and they are therefore of great importance for the quality of the studies performed. The selected business partners are all well-reputated organisations with many years of experience in performing clinical studies.

Insurance

The Company handles and takes out all material insurance for the Group via insurance brokers, who obtain offers for renewal and extensions of the Group's insurance portfolio and provide advice to Bavarian Nordic on insurance matters and requirements. Certain insurance for foreign subsidiaries is handled locally.

Bavarian Nordic has taken out combined business and product liability insurance including general coverage for Phase I/II and Phase II clinical trials. This insurance covers all countries, with the exception of clinical trials in the US and other countries where local legislation requires a separate policy. At the moment, separate insurance cover has been taken out for trials in Germany, the US, South Africa and Mexico. The insurance sum amounts to EUR 50 million for trials in Germany, USD 10 million for trials in the US, ZAR 30 million for trials in South Africa, and USD 1 million for trials in Mexico. The policies have standard terms and conditions, containing the usual provisions on deductible.

Furthermore, Bavarian Nordic has taken out insurance for real and personal property in Denmark on "All Risk" terms and conditions, with additional coverage for the loss of profits from contractors and inventories located at sub-contractors.

In addition, the Company has taken out liability insurance for the Board of Directors and Corporate Management of the Company and for the management of all subsidiaries on standard business terms.

Finally, the Company maintains various standard insurance for business travel, company cars, etc. in Bavarian Nordic and compulsory coverage concerning employees.

In the German subsidiary, independent policies have been taken out for personal property and compulsory employee coverage. For the subsidiary in California, independent policies have also been taken out for real property, personal property, motorcars and liability.

The insurance companies used by the Company are officially rated and carry at least an A-rating from the A.M. Best Company Inc. or Standard & Poor's, with the exception of a clinical trial insurance with Grupo Mexicano de Seguros S.A. in Mexico that is rated mxBBB+.

Management believes that Bavarian Nordic maintains the necessary insurance coverage, and the Group's insurance broker believes that the Group's most common risks are adequately covered and that the Group maintains compulsory insurance coverage.

Segment information

The Group operates in the field of research, development, production and sale of vaccines.

In accordance with the internal management reporting, on the basis of which Management estimates and allocates resources, the Group operates exclusively in the vaccine business segment. The Group's revenue comes mainly from the US authorities in the US market and the majority of long term assets are located in Northern Europe. In Bavarian Nordic, the internal management reporting follows the Group's accounting policies.

Legal and arbitration proceedings

Patent infringement case against Oxford BioMedica
Bavarian Nordic owns several US patents relating to an attenuated virus strain of the Company's core technology, MVA-BN®, which forms the basis of the Company's innovative smallpox vaccine, IMVAMUNE®. MVA-BN® also holds promise as a vector for delivering recombinant vaccines. The legal action, which concerns four US patents, has been instigated by Bavarian Nordic claiming that Oxford BioMedica has infringed Bavarian Nordic's patents by commercialising the patented technology, which has resulted in large payments from Sanofi-Aventis as part of an agreement on development and commercialisation of TroVax®.

The patent infringement claim was made against Oxford BioMedica in the US in 2008. Instead of denying infringement, Oxford BioMedica made an attempt to have the case dismissed, arguing that it was premature because TroVax® was still in clinical development. In May 2009, the court ruled against Oxford BioMedica, and the case will thus continue, based on the substance of the patents. Oxford BioMedica made yet another attempt to dismiss the case, but the court rejected this in a new ruling made in June 2009.

Opposition proceedings in Europe
Furthermore, 7 companies have opposed to the granting of Bavarian Nordic's MVA-BN® technology patents at the European Patent Office, EPO, in Munich. Six companies are still pursuing the oppositions.

Arbitration request from Helmholtz Zentrum München, Deutsches Forschungszentrum für Gesundheit und Umwelt (GmbH) (Helmholtz Zentrum) (formerly: GSF – Forschungszentrum für Umwelt und Gesundheit, GmbH)
Bavarian Nordic was in August 2009 notified by the ICC International Court of Arbitration (ICC) that a request for arbitration had been received from Helmholtz Zentrum (GSF).

The arbitration request is based on two agreements with Bavarian Nordic from 1994 and 1997 regarding a collaboration on certain recombinant vaccines, which was formally terminated in 2001.

Helmholtz Zentrum claims rights to royalties on all sales of Bavarian Nordic's MVA-BN® based vaccines, including IMVAMUNE®.

Bavarian Nordic has for some years encouraged Helmholtz Zentrum to document and specify any claim they believe to have against Bavarian Nordic. However, Helmholtz Zentrum has for long periods remained silent and so far provided no specific documentation or evidence for the claims made. According to Management the agreements with Helmholtz Zentrum do not encompass the MVA-BN® patents but merely provide Bavarian Nordic with exclusive royalty bearing licence to specific patents on recombinant vaccines and include clauses dealing with transfer of know how pertaining thereto. Helmholtz Zentrum has in their first request for arbitration stated that further details on the merits of the case will be provided with a subsequent submission in the course of the arbitration. Bavarian Nordic has filed its first response denying all claims raised by Helmholtz Zentrum and is awaiting further details from Helmholtz Zentrum on the merits of the case. Having received no specific documentation or evidence for the claims made Management views the claims as being baseless and without merit.

Governmental proceedings
Bavarian Nordic is not involved in any governmental proceedings.

Dividend

The Company has never paid dividends. The timing and size of any future dividend is recommended by the Board of Directors and will depend on the Company's earnings, cash flows, working capital requirement, investments and other relevant factors.

Pursuant to the Danish Public Companies Act, the shareholders authorise the distribution of dividends at the annual general meeting on the recommendation of the board of directors of the company and on the basis of the most recently adopted annual report. Interim dividends may be distributed on the basis of an authorisation by the shareholders in general meeting and declarations drafted by the company's board of directors and independent auditors. No such authorisation has been given to the Company's Board of Directors.

7. Market and diseases

Unless otherwise indicated, the information in this section is derived primarily from the World Health Organisation (WHO), Center for Disease Control (CDC), American Cancer Society and the NIH websites and relevant links. Management believes that the market and disease description in this section is accurate. However, there can be no assurance that other sources may not have different opinions of the market in which Bavarian Nordic operates. Nor can there be any assurance that the contents of the websites referred to will not be changed after the release of this Prospectus.

The Group continually assesses the market potential and the competition for the disease areas in which it conducts research and development projects. These disease areas and their market potential are described in more detail below.

Biodefence

Smallpox

History and background
Smallpox, caused by variola virus, was once worldwide in scope, and before vaccination was practiced, resulted in more deaths than any other infectious disease. In the 20th century alone, more than 1 billion people were infected, of which 300 million died, far out-numbering the combined casualties from armed conflict.

Smallpox is transmitted from one person to another primarily through prolonged face-to-face contact with an infected person, usually within a distance of 6 feet, but can also be spread through direct contact with infected bodily fluids or contaminated objects (fomites) such as bedding or clothing.

The incubation period ranges from 7 to 17 days. The majority of smallpox cases presents with a characteristic rash through stages of vesicles, pustules, and scabs. The virus can be transmitted throughout the course of the illness, but transmission is most frequent during the first week of the rash.

Smallpox carries a considerable mortality (approximately 30%) leaving survivors scarred for life. Effective therapy is not available and patients die from severe universal organ failure and internal bleeding. The only effective countermeasure is pre-emptive pre-event vaccination in combination with timely post-exposure vaccination.

A global campaign, initiated in 1967 under the aegis of the WHO, succeeded in eradicating naturally occurring smallpox in 1977. Routine vaccination against smallpox among the general public was discontinued, while remaining virus samples were supposedly destroyed or transferred to one of two official WHO repositories.

However, the advances in synthetic biology in combination with increases in terrorist activity and the discovery of state sponsored weapons programs utilising smallpox, increase the likelihood and concern that the variola virus might be used as an agent of bioterrorism.

Biological weapons
Smallpox possesses the ideal characteristics of a biological weapon targeting humans: high infectivity, covert usage, delayed action, high potency and non-availability of vaccines. Biological weapons are potentially widely accessible to a range of offensive actors including not only state-sponsored programs, but also transnational and sub-national terrorist groups, and lone perpetrators. By the same token, unclassified information indicates an increased awareness and interest among selected groups, in utilizing this class of unconventional weapons against military and civilian targets.

In addition, the advancements and globalisation of the life sciences and technology have created new risks of misuse by states and terrorists. Consequently, biological activities, equipment, and technology can be used legitimately as well as for nefarious purposes, and biological weapons-related activities are exceedingly difficult to detect, rendering traditional verification measures ineffective.

Weaponisation and current risk
A number of state-sponsored biological weapons programs were active up to the early 1970s when the UN Biological Weapons Convention went into force, thus banning the development, testing and stockpiling of these weapons. Evidence has since pointed to the fact that at least the Soviet Union, through a program called Biopreparat continued weaponising and stockpiling a range of sophisticated biological weapons. A key aspect of the program involved smallpox, which utilised a special weapons strain termed India 1. Unlike the chemical weapons, destruction of the biological stocks has not been verified, and the involved scientists cannot be accounted for. Open source intelligence suggests that the Russians retain a stand-by capability that potentially enables renewed production of weaponised smallpox.

The latest evaluation by the Bipartisan Partnership for a Secure America on US policies to reduce global bio-threats advocates to maintain a sense of urgency, focus the resources and ensure the attention of Government on biological terror prevention. This was echoed by US president Barack Obama and the recent WMD Commission report, both acknowledging biological weapons as a serious and increasing national security risk, in which the central concern involves bio-weapons becoming ever more globally available through acceleration of science.

Although smallpox is officially eradicated, the risk of recurrence is real. Natural sources include WHO repositories, archived laboratory specimens, mutation of a related poxvirus or resurrection of virus outside labs. Intentional release might result from unauthorised acquisition from WHO repositories, offensive state programs or de-novo synthesis.

An outbreak involving smallpox, whether by accidental release or deliberate attack, constitutes a major security threat on a national level and may easily become a transnational and thus global challenge. Accordingly, experiences from a number of international high-profile exercises on bioterrorism have served to highlight the monumental challenges involved in dealing with a terrorist attack using a highly virulent and contagious agent, epitomised by smallpox.

First and second-generation smallpox vaccines
Traditional smallpox vaccines (first and second-generation vaccines) are effective, but considered unsafe due to high rates of serious adverse events; including death and severe disability. First and second-generation smallpox vaccination is based on an infection with a live replicating (reproducing) vaccinia virus which elicits an immune response in the body 10-14 days after vaccination.

Second-generation smallpox vaccines are produced using different vaccinia strains in qualified cell cultures. However, these vaccines are documented with causing complications and not suitable for immuno-compromised individuals (people with HIV, undergoing cancer treatment or organ transplantation, with eczema or psoriasis, the very young and old, or who are pregnant).

First-generation smallpox vaccines are those harvested directly from animals. However, they often contain impurities and bacteria that greatly increase the chance of reaction and/or complications. Also, they have a similar side effect profile to second-generation vaccines. For approximately 25% of the general population, post-vaccination complications caused by first and second-generation smallpox vaccines can be serious (encephalitis, eczema vaccinatum and generalised vaccinia) and in some cases, life-threatening.

Individuals who have any of the following conditions should not be vaccinated with first and second-generation smallpox vaccines:

- Eczema or atopic dermatitis (even if the condition is not currently active, mild or experienced as a child)
- Skin conditions such as burns, chickenpox, shingles, impetigo, herpes, severe acne, or psoriasis
- Individuals who are pregnant or plan to become pregnant within one month of vaccination
- Immuno-compromised individuals

The reason why infections with live replicating organisms are dangerous for persons who are immuno-compromised is that they cannot generate an adequate immune response and control the infection. Therefore a smallpox vaccine based on a live replicating virus is contra-indicated in this population.

More recently, unexplained cases of heart complications (myopericarditis) were reported in young healthy males in the US military after vaccination with a second-generation vaccine. One in 145 subjects developed myopericarditis. Even more alarming is that these complications were seen even though all vaccinees were carefully screened and high-risk (immuno-compromised) individuals were excluded from the vaccination programme.

Stockpiling vaccines after eradication of Smallpox
During 1999-2002, a number of countries (US, UK, Germany and the Netherlands) started to stockpile traditional first and second-generation smallpox vaccines as strategic countermeasures. A number of factors drove this initiative;

- In the early 1990s it became clear that a variola virus had been weaponised and stockpiled by the Union of Soviet Socialist Republics, USSR
- Furthermore, volumes of manufactured human smallpox virus could not be accounted for
- It also became evident that only very few people were still protected against smallpox infection
- New gene technologies could be applied to alter different animal pox viruses with the purpose of manufacturing synthetic viruses that would potentially act like human smallpox. This is even more evident today

However, the US was well aware of the side effect profile of the old vaccines and commissioned Bavarian Nordic via development contacts RFP-1 and RFP-2 to develop a new safer vaccine.

IMVAMUNE® a new, safer smallpox vaccine
The side effects of the traditional vaccinia vaccines were already recognised as a serious problem long before the smallpox disease was eradicated. As early as around 1950, several initiatives were implemented to develop safer smallpox vaccines. This led to the development of MVA. MVA was developed by the German Professor Anton Mayr in Munich as an attenuated vaccinia virus through repeated serial passages in chicken embryofibroblast cells. After 516 passages, the CVA (Chorioallantois Vaccinia Ankara), which had now been attenuated, was named MVA (Modified Vaccinia Ankara). Further passages led to MVA passage 571.

MVA 571 formed the basis of the vaccine approved in Germany in 1976 and used for pre-vaccination of adults and children with high risk of developing complications from the traditional smallpox vaccine. More than 100,000 people were pre-vaccinated with this MVA vaccine in order to reduce the side-effects of the traditional vaccines. All tolerated the regime, proving MVA to be effective and safer than existing smallpox vaccines.

Bavarian Nordic's MVA-BN® based smallpox vaccine, IMVAMUNE®, is an advancement of the original MVA 571 vaccine. IMVAMUNE® is the only smallpox vaccine characterised by the fact that it is unable to replicate in human cells and therefore cannot cause a progressive infection. IMVAMUNE® is a safer and more effective vaccine without the complications associated with traditional smallpox vaccines.

Market and competition
The public debate on smallpox has quietened down in recent years, with focus being redirected onto SARS, bird flu and influenza A (H1N1). However, the authorities responsible for preventing and fighting a possible smallpox outbreak retain their focus on the threat. There is a distinct concern in the international community that smallpox may be used as a biological weapon

in warfare or in acts of terror, or that smallpox-like infection may re-occur by the spreading of other orthopox viruses from animals to humans. Several governments, including the US, the UK, Germany and the Netherlands have established stockpiles for their entire population, and a number of other countries have stockpiled large or small contingency stocks of smallpox vaccines. In addition, many international organisations are debating contingency strategies concerning the international stockpiling of vaccines. These organisations include the European Commission, WHO and the G7 countries. The US authorities have classified Variola or human smallpox virus, together with anthrax bacteria and select few other microorganisms, as a Class A pathogen, which is deemed to represent one of the greatest threats to US citizens.

With its third-generation smallpox vaccine IMVAMUNE®, Bavarian Nordic is at the forefront of setting new standards for smallpox vaccines. In June 2007, the HHS, BARDA awarded Bavarian Nordic a contract (RFP-3) regarding manufacturing and delivery of 20 million doses of IMVAMUNE® for the protection of persons considered to be at risk for smallpox. The contract includes an option on further clinical studies to extend the licence to include people infected with HIV, children and the elderly, as well as procurement of up to an additional 60 million doses of IMVAMUNE®.

In addition, Bavarian Nordic entered into a three-year contract with an undisclosed Asian country's armed forces, in March 2008, and in September 2009 with an undisclosed EU country for the delivery of a small order of IMVAMUNE®.

Following a Request for Proposal issued in 2007, Public Works and Government Services Canada, on behalf of the Canadian Department of National Defence, in December 2008 awarded a contract to Bavarian Nordic for the delivery of 20,000 doses of IMVAMUNE® and an optional purchase of an additional 180,000 doses. Delivery of the first 20,000 doses has been completed in 2009.

Management believes that it will be a natural step for a number of governments to establish smallpox vaccination to secure first line responders, i.e. healthcare staff, police officers, military personnel, infrastructure employees as well as political decision-makers, and to renew their vaccine contingencies, including emergency vaccine stocks that would have to be replaced every three to five years.

The table below shows the estimated distribution of the world's existing first and second-generation smallpox vaccines at the beginning of 2005. Bavarian Nordic is not aware of any material changes to these figures since 2005.

Table 3 – National stocks of first and second-generation smallpox vaccines (start of 2005)

Country	No. of doses (million)	% of the population covered
United States	300	100
Germany	100	100
United Kingdom	80	100
France	60	100
The Netherlands	20	100
Czech Republic	10	100
Israel	7	100
Denmark	6	100
Singapore	4	100
South Africa	30	70
Malaysia	15	65
Austria	3	40
Switzerland	3	40
Japan	31	25
South Korea	10	20
Canada	6	20
Greece	2	20
Spain	6	15
Ireland	<1	15
Norway	<1	15
Italy	5	10
Belgium	1	10
Hungary	1	10
Sweden	1	10
Iran	2	5
Australia	<1	5
Poland	<1	5
India	6	1
Croatia	<1	1
Slovakia	<1	1
Turkey	<1	1
WHO	2.5	NA
Total	**Approx. 720**	**10**

Source: Biosecurity and Bioterrorism: Biodefence Strategy, Practice and Science, volume 3, number 3, 2005.

As can be seen, only few countries have existing stocks sufficient to cover the entire population or a large part thereof, and many heavily populated countries have insufficient stocks to effectively handle a smallpox outbreak. To this should be added the fact that first and second-generation vaccines are associated with major side effects and are unsuitable for vaccination of certain population groups. Therefore, the combined market potential for Bavarian Nordic's smallpox vaccine, when approved, is substantial.

Bavarian Nordic is not aware of another company that has developed or is capable of manufacturing third-generation non-replicating smallpox vaccines that are comparable to IMVAMUNE®.

Anthrax

Anthrax is caused by the gram-positive, spore-forming bacterium Bacillus anthracis and is primarily a disease of domestic herbivores, but it also occurs in humans as an infrequent zoonosis, typically acquired from contact with contaminated wool, hides, or meat. The three major forms of the human disease – cutaneous,

inhalational, and gastrointestinal – reflect the route of entry of spores through intradermal inoculation, inhalation, or ingestion.

Anthrax has been a focus of offensive and defensive biological warfare research programs for approximately 60 years. The WHO has estimated that 50 kg. of B. anthracis released upwind of a population centre of 500,000 could result in 95,000 deaths and 125,000 hospitalisations. Today, B. anthracis is considered one of the most likely biological warfare agents, because of its characteristics and thus offensive attractiveness. Features include availability of spores that are extremely resistant to heat and pressure and can easily be distributed by aerosols. In the lung the germinating bacteria release highly effective toxins leading to death in a high proportion of infected people.

The US authorities are investing significant funds in stockpiling the only commercially available and licensed first-generation anthrax vaccine, but, due to the adverse events associated with this first-generation vaccine, they are also investing significant funds in the development of a second-generation anthrax vaccine and therapeutics.

Besides adverse events, there are a number of other issues associated with the first-generation anthrax vaccine:

- Low immunogenicity requiring 4-6 immunisations
- The memory is very short and requires boosting every year

Currently, only the broad based antibiotic ciprofloxacin can be used with some effect in the treatment of anthrax infections after anthrax toxins have been released into the body and severe disease symptoms have appeared.

A number of biotech companies are actively pursuing the next generation anthrax vaccine and anthrax therapeutic. The majority of these initiatives are co- or entirely funded by US authorities and have yielded clinical drug candidates of varying quality. The focus is on recombinant protective antigen, however, monoclonal antibody and globulin solutions are also developed.

As part of building up Bavarian Nordic's biodefence portfolio, a preclinical programme for an anthrax vaccine, based upon the MVA-BN® technology, has been initiated. The Group sees a number of synergies – both in the development and in market approach which support the development of such a vaccine.

It is expected that an MVA-BN® anthrax vaccine would 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 vaccinations (for anthrax)
- Validated manufacturing process for MVA-BN® lot consistency (no complicated formulation with alum)
- Improved stability as a freeze-dried formulation

Cancer

The most recent drugs for the treatment of cancer diseases are based on immunotherapy. Several new drugs based on passive immunotherapy (antibody therapy) have reached the market. Passive immunotherapy is based on recombinant antibodies such as HER2/Neu antibody (Herceptin) for the treatment of breast cancer and Rituxan for the treatment of B-cell lymphoma. The drawback of passive immunotherapy is that it uses only one arm of the immune system based on antibodies. Research has shown that controlling cancer will largely depend on a T-cell response (the other arm of the immune system), as is the case with chronic infectious diseases.

Management believes that vaccination based on active immunotherapy, activating both a humoral (antibody) and a cellular (T-cell) immune response, could potentially offer improved cancer therapy. Even though some vaccines have been approved for the treatment of cancer, no vaccines have yet been approved for the treatment of cancer in any major territory. Research is being conducted in pulsation of dendritic cells with DNA-based antigens, either directly with the antigen or with virus vectors expressing the antigen. These methods are based on ex-vivo techniques in which dendritic cells are extracted from the patient, enriched and treated with the antigen, after which the cells are reinserted into the patient. Management believes that it will be complicated to commercialise such methods and that any commercialisation effort would involve very expensive treatment regimes.

Management finds that direct vaccination will be preferable. Research in the field encompasses several technologies for the delivery of cancer antigens, including with DNA-based vaccine, protein-based vaccines and viral vector-based vaccines. Historically, killed cancer cells have also been tested as vaccines.

DNA is not suitable for inducing a humoral immune response, and the cellular immune response observed with DNA vaccines is very weak. Protein-based vaccines will primarily induce a humoral immune response and are thus comparable with antibodies. Unlike the above-mentioned technologies, viral vector-based vaccines, like MVA-BN® offer the advantage that the virus will induce both a strong humoral and a cellular immune response. The pharmaceutical industry focuses on adenoviruses and smallpox-based viruses. In the field of smallpox-based viruses, focus is centred on canary pox virus, fowl pox virus and Vaccinia virus, with particular attention to MVA-based vaccines.

Prostate cancer

History and background

Recent estimates show that prostate cancer has the highest incidence rate of any cancer in the US with approximately 200,000 new cases diagnosed each year and more than 780,000 new cases are diagnosed each year worldwide. Globally, more than 250,000 men die from the condition each year, and it is the most common cause of male cancer death after lung and colon cancer.

The age-adjusted death rates for prostate cancer have doubled since 1930. Among other leading malignant diseases, only lung can-

cer has shown a worse development during the 20th century. These tendencies have developed even though the five-year survival rates for localised prostate cancer have been continuously improved.

While early detection and early stage treatment options have improved considerably over the years, there is still a significant need for treatment options in the advanced disease stage. The only product approved in the metastatic setting with a survival benefit is chemotherapy with significant quality of life issues and only proving a survival benefit of 2-3 months.

Prostate cancer treatment options
Early detection of prostate cancer leaves several treatment options. Approximately 50% of diagnosed men elect to have surgery with or without external beam radiation, and the other half elect to have seed therapy (brachytherapy) with or without external beam radiation. Approximately 30% of patients fail primary therapy over a 5-year period and subsequently receive hormone therapy. Hormone therapy (chemical castration) slows the tumour growth by stopping or blocking testosterone from entering the cancer cells. Prostate cancer cells are typically dependent on testosterone or other androgens as growth factors.

Hormonal therapy can be effective for long periods of time, reducing tumour progression and relieving pain as well as other symptoms. However, all men will eventually progress into later stage disease as the cancer becomes castration-resistant.

Rising PSA blood levels while on hormonal therapy identifies the next stage of prostate cancer called castration-resistant prostate cancer. Some men move into this stage with identified metastatic lesions either in the bone or in lymph nodes, while the majority of men have only rising PSA blood values.

Chemotherapy is mainly used to treat advanced prostate cancer that is no longer being controlled by hormonal therapy. It is used in an attempt to shrink and control the cancer and relieve symptoms with the aim of prolonging life. Chemotherapy for the treatment of metastatic prostate cancer is very limited; only one product, with a survival benefit of approximately 2-3 months is approved, and treatment is complicated by toxic side effects.

Despite chemotherapy forming current standard first-line regimen for castration-resistant prostate cancer, this therapy is not appropriate for at least 25% of patients for various reasons, including old age, poor performance status, or toxicity concerns. This indicates a potential opportunity for drug developers, as there is a high unmet need for a more tolerable agent in patients who may be too ill to undergo chemotherapy or unwilling to put up with the severe side effects.

The market for prostate vaccines
The 2007 market for prostate cancer therapies (not including primary therapy such as surgery or radiotherapy) in the US, Japan, and major EU countries (France, Germany, Italy, Spain, and the United Kingdom) was estimated at USD 3.3 billion and is forecasted to grow to USD 4.5 billion by 2017 (Source: Decision Resources, 2008).

It is expected, by Decision Resources, that prostate cancer vaccines will gain a significant part of the total market for prostate cancer therapies.

There is not yet any prostate cancer vaccine on the market. Besides PROSTVAC™ from Bavarian Nordic, there are few other immunotherapy product candidates in clinical development and one late stage product from the company Dendreon.

Because there is such a high, unmet need for therapies for late-stage prostate cancer patients, there are a number of products (that are not vaccines) currently in late stage development. Despite the possibility that one or even several of the products in advanced development might be approved for the US or the global market, the potential for a treatment like PROSTVAC™ to gain strong market acceptance is according to Management significant. It is a rare exception when one product dominates the market for any specific cancer indication. Cancer regimens typically include a combination of drugs.

Breast cancer
Across the seven major markets (US, Japan, UK, Germany, Italy, France, Spain), approximately 455,000 women are estimated to develop breast cancer, with more than 115,000 dying from the disease per year. It is the leading cause of cancer-related death among women, yet relative to other cancers features one of the lowest mortality rates across the seven major pharmaceutical markets

Bavarian Nordic's first cancer vaccine candidate, MVA-BN® HER2, targets breast cancer based on the HER2-Neu antigen. Bavarian Nordic has the IP rights to a HER2- Neu antigen. HER2 positive breast cancer represents approximately one fourth of cases, and is a distinctly different disease subtype. HER2 is a transmembrane growth factor receptor, important for the growth of breast cancer cells.

The typical treatment for metastatic cancer is chemotherapy. Many drugs have activity in breast cancer, achieving response rates of 30-50%, however, response durations are generally short and on the order of months. Combination regimens and high dose chemotherapy have been tried, but with little additional benefit for most patients.

HER2 positive breast cancer used to have a worse prognosis, but with advent of Herceptin supplemented treatment, it now has a better prognosis than the common forms of breast cancer. Herceptin is used in combination with most chemotherapeutics, and has boosted response rates to 50-70%. However, most patients will relapse. Herceptin (trastuzumab) is a monoclonal antibody designed to target and block the function of the HER2 receptor, which is positively correlated to tumour growth. Herceptin generated world-wide sales of approximately USD 5 billion in 2008.

Management believes that MVA-BN® HER2, if approved, could be a valuable supplement to existing therapies (chemotherapy, Herceptin) in the treatment of HER2 breast cancer patients.

Infectious diseases

HIV
HIV is the etiologic agent that causes acquired immunodeficiency syndrome (AIDS). AIDS is the last stage of HIV infection.

HIV infects and eventually destroys cells of the immune system so that the body is susceptible and/or unable to fight against other viruses, bacteria, parasites, fungi and diseases. AIDS is the resulting syndrome where the body is depleted of its ability to defend against these secondary or "opportunistic" infections. If left untreated, these secondary illnesses are usually the cause of death for people living with HIV/AIDS.

Today HIV/AIDS is the leading cause of death in sub-Saharan Africa and the fourth largest cause of death in the world. An estimated 14,000 people/day (5 million persons/year, including 600,000 children less than 15 years of age) become infected with HIV, with more than 95% of them living in underdeveloped regions of the world. At the end of 2007, the global number of adults and children living with HIV/AIDS was estimated by WHO/UNAIDS to have reached approximately 33 million with an estimated 1.8 to 2.3 million HIV-infected persons (adults and children) dying every year from the disease.

Antiretroviral therapy (ART) has been effective at controlling HIV disease but is not curative and has to be taken life-long. It requires continuous compliance and is expensive (approximately USD 20,000 per year). There are material problems with the occurrence of drug-resistant HIV strains and toxic side effects. The introduction of new drugs and classes with decreased toxicity has led to significant decreases in HIV-related morbidity and mortality in areas where ART is available. However, if the WHO criteria for initiation of ART are utilised, there are over 11.7 million people world-wide that are not receiving ART when it is indicated. There are currently a number of new anti-HIV drugs in clinical development.

Although it has been 25 years since HIV was identified, there are currently no registered HIV vaccines or other treatments that can cure HIV or AIDS. However, progress has been made in developing therapies to slow the progression of the disease in the form of HAART therapy. The purpose of this therapy is to prevent the growth of HIV by reducing the virus concentration to a very low or non-measurable level. HAART is an effective treatment regime, but an increasing number of patients develop resistance to one or more of the substances included in HAART. In addition, HAART cannot completely eradicate HIV from the body and is associated with many serious side effects.

Management believes that Bavarian Nordic's MVA-based vaccine project is among the most promising known HIV vaccine projects worldwide. The vaccine may have both a prophylactic and therapeutic potential in either protecting from infection or controlling HIV replication in the combination with HAART. If Bavarian Nordic's vaccine demonstrates superior efficacy and a continuing good safety profile, Management expects that it will enjoy a favourable competitive position.

Management also believes that Bavarian Nordic is one of few companies offering a vaccine based on more than three HIV proteins in development. Bavarian Nordic's prophylactic vaccine candidate is based on eight HIV antigens and could potentially induce a very broad immune response.

Childhood vaccines
The majority of all deaths from infectious disease occur in children, notably the very young (<12 months). Vaccines for this susceptible population must meet the highest safety standards and their efficacy depends on the induction of a strong long lasting immunity. The induction of strong immune responses remains a challenge, because the immune system of a newborn is immature and takes until the age of 5 years until it is considered as mature as that of an adult's immune system.

In the US, currently 7 vaccines are routinely administered to children younger than 1 year of age. All these vaccines require 2-4 booster immunisations to achieve adequate levels of protective immunity, many after 12 months of age or older when the immune system is more robust or mature. Therefore, any vaccine or vaccine platform that can induce a strong immune response in children under the age of 1 year would constitute a major advance for world health.

Measles
Live attenuated measles vaccines have successfully been used since 1963. They have contributed to a significant reduction in global cases of measles and have greatly diminished measles morbidity in certain parts of the world. Global measles mortality decreased by 60% from 873,000 to 345,000 deaths between 1999 and 2005. The largest gains have occurred in Africa, where measles cases and deaths decreased by nearly 75%. Nevertheless, the mortality figures remain high and the disease is far from being eradicated. Although measles is now rare in industrialised countries, it remains a common illness in other parts of the world. More than 20 million people are affected each year. In 2005, an estimated 345,000 individuals died from measles globally, the majority of them children younger than 5 years. Such an unmet medical need allowed the expedited testing of a recombinant MVA-BN®-based measles vaccine in the target paediatric population.

RSV
RSV is the most prevalent cause of bronchiolitis and pneumonia and is often the causative agent when children below the age of 1 are hospitalised. RSV has also been mentioned as a possible factor in connection with sudden infant death syndrome and asthma in children, while RSV infections in elderly people may cause severe cases of pneumonia. An effective treatment would reduce the current approximately 64 million RSV infections every year, causing approximately 160,000 deaths (Source: WHO). Earlier attempts to develop an RSV vaccine based on a formalin fixed (FI) RSV vaccine actually led to an enhanced disease (inflammation of the lungs) and death in some infants.

8. Legal structure of the Group

Bavarian Nordic has subsidiaries in Germany and the US. The Group's German subsidiary, Bavarian Nordic GmbH, has its registered office in Munich and a department in Berlin. The Berlin premises primarily house production facilities, which have been used mainly for the production of recombinant MVA-BN® vaccines for clinical testing, while the activities in Munich primarily consist of preclinical and clinical research.

In May 2003, Bavarian Nordic acquired Schering AG's wholly owned subsidiary GTB GenTherapeutika Berlin-Buch GmbH in Berlin, which later merged with Bavarian Nordic GmbH in Munich, Germany. In 2004, the Group's Berlin facility implemented the MVA-BN® technology in its manufacturing processes and has subsequently obtained permission to manufacture large volumes of clinical material for the Group's global development programmes. Going forward, the manufacturing facilities in Berlin will be used especially for producing vaccines for clinical testing of PROSTVAC™.

At the end of 2004, Bavarian Nordic established two companies (Bavarian Nordic Holding Inc. and BN ImmunoTherapeutics Inc.) in the US, and another one (Bavarian Nordic Inc) in 2006. All of the companies were established in Delaware. The sole purpose of Bavarian Nordic Holding Inc. was to act as a holding company for the Company's other companies in the US.

In December 2009, Bavarian Nordic A/S obtained full ownership of the subsidiary BNIT by purchasing shares in BNIT 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. 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 BNIT, 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.

Effective as of middle of December 2009 BN ImmunoTherapeutics Inc. merged with Bavarian Nordic Holding Inc. as the continuing company. Bavarian Nordic Holding Inc. subsequently changed its name to BN ImmunoTherapeutics Inc. (BNIT).

BNIT is a research and development company with activities in cancer immunotherapy. BNIT is located in California in order for the company to build close collaborations with nearby universities. These universities are leaders in the field of cancer immunology. In addition, BNIT relies on the Group's expertise in Europe in the fields of virology, clinical batch production and quality management support.

Established in June 2006, Bavarian Nordic Inc. is located in Washington D.C. The primary objective of the company is to ensure effective communication with and servicing of the US authorities and other collaborative partners and to develop the US market for the Group's products and research activities.

Bavarian Nordic has a representative office in Singapore which was set up to strengthen the Group's marketing activities in Southeast Asia. To head the Singapore office, Bavarian Nordic has recruited two persons with many years of sales and marketing experience from the pharmaceutical industry in Southeast Asia.

Table 4 – Group structure

Group structure	Country	Ownership interest	Voting interest	Number of employees at 30 November 2009
Bavarian Nordic A/S	Denmark			187
Subsidiaries				
Bavarian Nordic GmbH	Germany	100%	100%	138
BN ImmunoTherapeutics Inc. (BNIT)	United States	100%	100%	35
Bavarian Nordic Inc.	United States	100%	100%	5
Representative office				
Bavarian Nordic A/S	Singapore			2
Total				**367**

9. Property, plant and equipment

Bavarian Nordic's headquarters and administrative functions are located in Kvistgaard, Denmark, where the Company has 5,870 m^2 of production facilities and 2,870 m^2 of office space and laboratory facilities. The 37,400 m^2 of land is owned by Bavarian Nordic and 6,827 m^2 of the land is built up. In addition, Bavarian Nordic has laboratory and office facilities in Munich, Germany, totalling 4,180 m^2 and laboratory, production and office facilities in Berlin, Germany, covering 1,580 m^2. Bavarian Nordic has additional laboratory, production and office space in Mountain View, California, US, covering 1,272 m^2, office space in Washington D.C. covering 203 m^2 and office facilities in Singapore covering approximately 78 m^2 in a business centre.

The Kvistgaard production facilities are used for the production of IMVAMUNE®, while the laboratory facilities in Kvistgaard are used primarily for quality control and quality assurance in connection with production at the Kvistgaard site. For a description of Bavarian Nordic's production facilities, see "Business overview – Production facilities".

The facilities in Munich hold R&D laboratories for MVA-BN® and certain administrative functions. The Berlin premises are used primarily for the production of recombinant MVA-BN® vaccines for clinical trials. The office and laboratory facilities in California are used primarily for cancer research, including the Group's prostate cancer vaccine candidate PROSTVAC™, and the office in Washington D.C. is used for administrative purposes.

Bavarian Nordic's headquarters, which include the Group's administrative functions, are located together with the Group's production facilities in Kvistgaard, Denmark.

The first part of the lease in Munich for the 4,180 m^2 of office and laboratory facilities expires on 31 May 2010. The annual rent is expected to be approximately DKK 7.4 million in 2009. The annual rent is adjusted according to the Germany consumer price index and is expected to be approximately DKK 7.6 million in 2010.

The lease in Berlin concerning the approximately 1,580 m^2 of office and laboratory facilities cannot be terminated until 31 March 2024. The annual rent is expected to be approximately DKK 2.1 million in 2009. The annual rent is expected to remain unchanged in 2010.

The lease in Mountain View, California, US, concerning laboratory, production and office facilities covering 1,272 m^2 cannot be terminated until 31 January 2012. The annual rent is expected to be approximately DKK 3.7 million in 2009. The rent is adjusted by 3.25% annually and is expected to be approximately DKK 3.8 million in 2010.

The lease in Washington D.C. concerning office space of 203 m^2 was signed in May 2009. The annual rent is expected to be approximately DKK 0.3 million in 2009 and 2010.

The lease in Singapore concerning office space of 78 m^2 in a business centre is restricted to a period of one year at a time. The total rent for 2009 is expected to be approximately DKK 153,000 and for 2010 approximately DKK 156,000.

Investments
See "Company information – Operating and financial review" for a description of the Group's planned investments in property, plant and equipment.

Environmental issues
In its design and planning of the Kvistgaard manufacturing facility, Bavarian Nordic has implemented cleaner technology through development and adjustment of the technology used. Ongoing efforts include a focus on reducing the environmental impact from production by reducing energy consumption as well as the use of subsidiary materials.

The Group consistently seeks to reduce environmental impacts from operations and to promote environmentally conscious behaviour and prevent pollution.

Management believes that the Group has all the permissions required to use its properties. In addition, Management is not aware of any environmental factors that may affect the Group's use of its properties.

10. Operating and financial review

Financial highlights and key ratios

The selected financial highlights set out below have been derived from the Group's audited annual reports for the financial years ended 31 December 2008, 2007 and 2006. The audited annual reports for the years ended 31 December 2008, 2007 and 2006 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies. This section also includes selected financial highlights taken from the interim reports for the nine months ended 30 September 2009 and 2008 included elsewhere in this Prospectus, and should be read in conjunction therewith. The interim reports are presented in accordance with IAS 34 "Interim financial reporting" as adopted by the EU and additional Danish disclosure requirements for interim reports of listed companies. The interim report for the nine months ended 30 September 2009 and the interim report for the nine months ended 30 September 2008 are unaudited.

The Earnings per share ratio is calculated in accordance with IAS 33 "Earnings per share". The remaining ratios are calculated in accordance with "Recommendations and Ratios 2005" issued by the Danish Association of Financial Analysts.

Table 5 – Financial highlights and key ratios of Bavarian Nordic

(DKK millions)	Q1-Q3 2009 (unaudited)	Q1-Q3 2008 (unaudited)	2008	2007	2006
Income statement					
Revenue	53.2	45.0	208.8	332.1	175.3
Production costs	125.6	101.2	196.7	64.5	136.3
Research and development costs	114.3	97.7	129.6	243.6	118.4
Sales costs and administrative expenses	82.8	70.0	92.0	89.1	124.4
Operating profit/(loss) (EBIT)	**(269.6)**	**(223.9)**	**(209.5)**	**(65.0)**	**(203.8)**
Net financials	8.3	28.8	26.2	14.5	(1.0)
Profit/(loss) before tax	(261.3)	(195.1)	(183.3)	(50.5)	(204.8)
Net profit/(loss)	**(212.1)**	**(155.2)**	**(150.4)**	**(63.5)**	**(160.9)**
Balance sheet					
Non-current assets	680.7	582.9	594.2	538.8	568.2
Current assets	638.5	1,067.0	1,100.0	1,193.2	386.2
Total assets	**1,319.2**	**1,649.9**	**1,694.3**	**1,732.1**	**954.4**
Shareholders' equity, end of period	793.2	1,026.8	1,015.1	1,217.7	691.4
Non-current liabilities	91.3	102.3	52.7	134.7	150.6
Current liabilities	434.6	520.8	626.5	379.7	112.4
Cash flow statement					
Net cash including securities	303.5	781.5	795.9	913.6	332.7
Cash flow from operating activities	(416.0)	(66.1)	(22.4)	163.2	(194.5)
Cash flow from investing activities	(0.7)	(55.4)	(81.5)	(16.1)	(192.2)
Investment in tangible assets	15.9	18.9	12.0	5.8	73.9
Cash flow from financing activities	(11.4)	(11.2)	(15.1)	440.4	219.0
Key figures					
Earnings per share					
– basic earnings per share of DKK 10.00	(7.9)	(19.5)	(18.7)	(8.0)	(25.8)
– diluted earnings per share of DKK 10.00	(7.9)	(19.5)	(18.7)	(8.0)	(25.8)
Net asset value per share (DKK)	101.5	130.8	129.9	155.8	108.4
Share price, end of period	233	137	132	293	582
Share price/net asset value	2.3	1.0	1.0	1.9	5.4
Number of outstanding shares, end of period ('000)	7,816	7,816	7,816	7,816	6,376
Equity ratio	60%	62%	60%	70%	72%
Number of employees, end of period	351	285	294	264	233

Operating and financial review

The following discussion and analysis should be read in conjunction with the Group's financial statements and the notes to the financial statements appearing elsewhere in this Prospectus. The audited financial statements for 2008, 2007 and 2006 are included on pages F-14 – F-53. The unaudited interim financial report for the nine months ended 30 September 2009, with unaudited comparative figures for 2008, are included on pages F-4 – F-11.

Significant accounting estimates, assumptions and uncertainties
In connection with the preparation of the consolidated financial statements, Management has made a number of estimates and assumptions affecting assets, liabilities, income and expenses. Management has made the below mentioned accounting judgements and estimates which significantly affect the amounts recognised in the annual reports.

Management reviews the estimates on an ongoing basis based on historical experience and on various other assumptions that Management believes to be reasonable under the circumstances, however, actual results may differ significantly from these estimates. Management believes that the accounting policies relating to revenue recognition, development projects, impairment tests, deferred tax assets and hedge accounting could materially affect Bavarian Nordic's reported financial position and results of operations. No material changes to estimates and judgements have been made during the period covered by financial information in the Prospectus.

Revenue recognition
Bavarian Nordic has entered into contracts with the US authorities on research and development. These contracts will among other form the basis of meeting the requirements for using IMVAMUNE® in a declared emergency and for the production and delivery of doses of IMVAMUNE®. Recognition of revenue from those contracts is based on judgement of the elements of the contracts, which among other factors include an assessment of whether services and goods have been delivered to the customer and have value to the customer on a standalone basis, whether the contract value can be allocated to the elements on a reasonable basis and whether Bavarian Nordic has further obligations in relation to the delivered element of the contract and it is likely that the economic benefits associated with the element will flow to the Company. Up-front payments and milestone payments allocated to the specific element of the contract are recognised as revenue when the recognition criteria are met. Payments that can not be allocated on a reasonable basis are recognised as revenue over the term of the contract.

Revenue from milestone payments is 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 is recognised in line with the execution and delivery of the work. Research and development grants without a profit element are offset against the costs of research and development at the time when a final and binding right to the grant has been obtained.

Capitalisation of development costs and impairment
Management has assessed that development costs relating to the registration of IMVAMUNE® under the RFP-3 contract with the US authorities continue to meet the conditions for capitalisation, i.e. no impairment charges has been recognised. Due to the general risk relating to the development of pharmaceutical products, other development costs are expensed (see also "Impairment of non-current assets" below).

Share based compensation
The Company has granted share-based incentive plans to its employees. The fair value of the granted plans is recognised in the income statement over the period to the final vesting based on the number of instruments that are expected to vest. The fair value at the grant date is determined using the Black-Scholes model. Calculating the fair value using the Black-Scholes model requires a number of parameters some of which are based on Management's best estimate. Parametres that require Management's estimates are in particular the expected life of the instrument, the volatility rate and risk-free interest rate.

Useful lives of property, plant and equipment and impairment
Management reviews the estimated useful lives and indication of impairment of property, plant and equipment at the end of each financial year. Management's review of useful lives did not give rise to any changes and no indication of impairment was identified during the period covered by financial information in the Prospectus (see also "Impairment of non-current assets" below).

Production overheads and impairment of inventory
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, where 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 to 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 material to the financial reporting are made in the determination of the quantity and any impairment of inventories as a result of technical obsolescence as well as expiry date of the products.

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.

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.

Significant accounting policies
Below are listed significant accounting policies for Bavarian Nordic. Further details are described on pages F-23 – F-28.

Recognition and measurement
Income is recognised in the income statement when earned. 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 in the accounting policies section on pages F-23 – F-28.

Consolidation
The consolidated financial statements include the Company and the subsidiaries in which the Group holds more than 50% of the voting rights or otherwise exercises control.

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

Intra-group income and expenses and intra-group profits, receivables and payables are eliminated on consolidation. In the preparation of the consolidated financial statements, the carrying amount 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 as of the date of acquisition, and any excess of the cost of the acquired companies over the market value is recognised as goodwill.

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 transaction date and the exchange rate at the date of payment or the balance sheet date, respectively, are recognised in the income statement under financial items. Tangible and intangible assets, inventories and other non-monetary 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 functional currencies 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 companies' 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 taken directly to equity. Similarly, exchange differences arising as a result of changes made directly in the equity of the foreign company are also taken directly to equity.

Foreign exchange adjustments of receivables from or debt to subsidiaries which are considered part of the parent company's overall investment in the subsidiary in question are also taken directly to equity 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 fair value at 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 through profit or loss. 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 directly in equity. 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, fair value adjustments are recognised in the income statement under financial items as they occur.

Share-based payment
Share-based incentive plans under which employees can only opt to buy shares in the parent company (equity-based plans) are measured at the fair value of the equity instruments at the grant date and recognised in the income statement as staff costs under the respective functions over the vesting period. The balancing item is recognised directly in equity. The fair value at the grant date is determined using the Black-Scholes model. Cash-settled incentive plans, under 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 grant date and recognised in the income statement as staff costs over the period to the final vesting of the cash settlement right. Vested rights are subsequently remeasured at each balance sheet date and at the final settlement date with any changes in the fair value of the programmes recognised in the income statement under financial items. The balancing item is recognised under liabilities. The fair value of the cash-settled incentive plans is determined using the Black-Scholes model.

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 significant risks and rewards of ownership of the goods or right to the services are transferred

and the Company no longer retains managerial responsibility for, or control of, the goods sold.

Income in the form of milestone payments is recognised when all obligations in relation to the payment have been fulfilled and there is reasonable assurance that no claim for refund will be made. Income from development contracts are recognised as the work is performed and delivered. Research and development grants without a profit element are set off against the Company's research and development costs at the time when a final and binding right to the grant has been obtained.

Production costs
Production costs consist of costs incurred to generate the revenue for the year. Production costs comprise consumables, factory administration costs, transport insurance and freight costs, salaries, depreciation, costs of securing production processes such as maintenance, etc., excess capacity and external costs incurred 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 activities, 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 incurred to generate the revenue is recognised under production costs.

Research costs are generally written off in the year in which they are incurred.

Where there is sufficient assurance that the Company's future earnings will cover not only production and directly attributable sales costs and administrative expenses but also the development costs themselves, the development costs that cover the costs incurred on the clinical programme after the date of regulatory approval of the 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 there is not sufficient assurance of this, the development costs are expensed.

Sales costs and administrative expenses
Sales costs and administrative expenses include costs of Company's management, staff functions, administrative and commercial personnel, office costs, rent, leasing and depreciation not specifically attributable to production or research and development activities.

Financial items
Interest income and expenses are recognised in the income statement at the amounts relating to the financial year. Financial items further comprise financing costs in relation to finance leases as well as value adjustment of financial instruments, securities, items denominated in foreign currency and fees.

Tax
Income tax for the year comprises current 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 directly in equity.

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

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, unless the parent company is able to control 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 according to the balance-sheet liability method on all temporary differences between carrying amounts and tax bases. 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 at 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 at the balance sheet date.

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

Earnings per share
Earnings per share is calculated as the profit or loss for the year compared to the weighted average of 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 effect of warrants.

Intangible assets
Intangible assets are measured at historic cost less accumulated amortisation.

Development projects that meet the requirements for recognition as assets are measured at direct cost incurred relating to

the development projects. 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, a maximum of 15 years
Software, 3 years

Acquired intellectual property rights are written down to their recoverable amount where this is lower than the carrying amount.

Property, plant and equipment
Property, plant and equipment includes land and buildings, production equipment, leasehold improvements, office and IT equipment and laboratory equipment and is measured at cost less accumulated depreciation and impairment losses. Cost includes the costs directly attributable to the purchase of the asset, until the asset is ready for use. For assets 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 using the straight-line method over their estimated useful lives as follows:

Buildings 20 years
Fixtures and fittings 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.

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 FIFO 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.

Nine months ended 30 September 2009 compared to nine months ended 30 September 2008

Result of operations
The Group reported a loss after tax of DKK 212.1 million for the first three quarters of 2009 and of DKK 155.2 million in the same period of 2008. The decline from 2008 to 2009 was mainly due to an increase in non capitalised production costs as a result of higher production activity and an increase in research and development costs related to the development in the PROSTVAC™ program, as outlined below.

Revenue
Revenue in the first three quarters of 2009 was DKK 53.2 million compared with DKK 45.0 million in 2008. The 2009 revenue derives primarily from the RFP-2 contract with the US authorities. The RFP-2 contract is a cost plus contract where Bavarian Nordic can invoice specified direct and indirect costs and charge a profit element on top of the direct and indirect costs related to the contract when expensed. The increase in revenue is a result of higher RFP-2 activities in 2009. The revenue as of 30 September 2009 does not include any dose-deliveries to the US authorities or milestone payments under the RFP-3 contract.

Production costs
Production costs in the first three quarters of 2009 were DKK 125.6 million compared with DKK 101.2 million in 2008. The increase from 2008 to 2009 consists mainly of non capitalised production costs due to higher batch production related to preparation of the RFP-3 contract production at the Kvistgaard facility, write downs on inventories and a higher activity level in the cost compensation as part of the RFP-2 contract.

Research and development costs
Research and development costs in the first three quarters of 2009 were DKK 114.3 million compared with DKK 97.7 million in 2008. The increase in research and development costs is primarily due to increased activities in the cancer business area including preparation to be able to produce PROSTVAC™, and clinical trials to be used in Phase III. 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 and the increase in studies in general. Development costs related to the RFP-3 contract totalled DKK 33 million in 2009, of which DKK 24 million were capitalised as intangible assets under construction. In 2008 RFP-3 contract related cost totalled DKK 47 million, of which all were capitalised.

Sales costs and administrative expenses
Sales costs and administrative expenses in the first three quarters of 2009 were DKK 82.8 million compared with DKK 70.0 million in 2008. The increase from 2008 to 2009 is partly due to the implementation of new IT systems, where only external consultancy costs were capitalised, partly to personnel costs related to an increase in the number of employees and partly to legal fees related to the acquisition of the minoritiy shares in BNIT and the Oxford Biomedica case.

Financial income and expences
Financial income and expenses in the first three quarters of 2009 were DKK 8.3 million compared with DKK 28.8 million in 2008. The reduction in net financial income was mainly due to the reduction in net free liquidity during the year and the lower interest rate level in general.

Balance sheet development
Non-current assets
Non-current assets at 30 September 2009 amounted to DKK 680.7 million compared to DKK 582.9 million at 30 September 2008. The increase in non-current assets in the period mainly relates to the development in the following balance sheet items.

Intangible assets
Intangible assets at 30 September 2009 amounted to DKK 117.5 million compared to DKK 57.8 million at 30 September 2008. The increase in intangible assets mainly consists of capitalisation of research and development costs related to the registration of IMVAMUNE® under the RFP-3 contract and acquisition of a new IT system and related consultancy costs.

Tangible assets
Tangible assets at 30 September 2009 amounted to DKK 346.3 million compared to DKK 365.7 million at 30 September 2008. The decrease is mainly due to depreciation.

Financial assets
Financial assets at 30 September 2009 amounted to DKK 216.9 million compared to DKK 159.4 million at 30 September 2008. The increase in financial assets mainly relates to the increase in the tax asset as a result of the loss in the period.

Current assets
Current assets including cash and cash equivalents at 30 September 2009 amounted to DKK 638.5 million compared to DKK 1,067.0 million at 30 September 2008. The decrease in current assets in the period mainly relates to the development in the following balance sheet items.

Inventories
Inventories at 30 September 2009 amounted to DKK 183.4 million compared to DKK 63.0 million at 30 September 2008. The increase in inventories is a result of the higher production activities in preparation for the deliveries under the RFP-3 contract.

Receivables
Receivables at 30 September 2009 amounted to DKK 151.7 million compared to DKK 222.5 million at 30 September 2008. The reduction in receivables mainly relates to a decrease in the fair value of the entered derivatives with a positive value.

Current liabilities
Current liabilities at 30 September 2009 amounted to DKK 434.6 million compared to DKK 520.8 million at 30 September 2008. The reduction in the current liabilities mainly relates to the development in the fair value of the entered derivatives with a negative value.

Cash and cash equivalents and cash preparedness
Bavarian Nordic mainly generates cash flow from partnership agreements, which takes the form of up-front and milestone payments and compensation for research and development costs and in the future from production and delivery of doses. As a result, Bavarian Nordic's cash flow fluctuates significantly from period to period, depending in particular on the timing of milestone payments and activities which are compensated under existing and new partnership agreements.

Further, Bavarian Nordic partly finances its operations through the issuance of shares. To a lesser extent, additional sources of liquidity include interest earned on investments.

Table 6 – Cash flow for the nine months ended 30 September 2008 and 2009 of Bavarian Nordic

(DKK million)	Nine months ended 2009	2008
Cash and Cash equivalents at 1 January	569.8	688.8
Cash flow from operating activities	(416.0)	(66.1)
Cash flow from investment activities	(0.7)	(55.4)
Cash flow from financing activities	(11.4)	(11.2)
Net cash flow	(428.1)	(132.7)
Cash and Cash equivalents at 30 September	141.7	556.1
Securities – highly liquid bonds	161.8	225.4
Credit lines	20.0	20.0
Cash preparedness	323.5	801.5

Cash flow from operating activities
Net cash flow used in operations was DKK 416.0 million in the first three quarters of 2009 compared to net cash used in operations of DKK 66.1 million in the first three quarters of 2008. The increase in the cash flow used in operations is mainly due to additional funds tied up in inventory and the receipt of milestone payments in 2008 recognised as revenue in 2007 and an increase in total operating expenses.

Cash flow from investment activities
Cash flow used on investment activities was DKK 0.7 million in the first three quarters of 2009 compared to net cash flow used in investment activities of DKK 55.4 million in the first three quarters of 2008. Bavarian Nordic invests in securities and draws on them when needed to fund its operations. As a result holdings of securities vary from period to period. During the periods presented, the net change in securities was a reduction of DKK 64.4 million.

Cash flow from investment activity is further discussed in the section "Investment activity 2006-2010".

Cash flow from financing activities
Cash flow from financing activities was negative DKK 11.4 million in the first three quarters of 2009 compared to negative DKK 11.2 million in the first three quarters of 2008. Financing activities consist mainly of payment on leasing debt.

Financial years ended 31 December 2008, 2007 and 2006

Result of operations
The Group reported a loss of DKK 150.4 million in 2008, a loss of DKK 63.5 million in 2007 and a loss of DKK 160.9 million in 2006.

The improvement in the result from 2006 to 2007 was mainly due to the increase in revenue as a result of the achievement of milestone payments under the RFP-3 contract, which compensated the increase in research and development costs due to costs incurred for the development of processes. The decline in the result from 2007 to 2008 was mainly due to a decrease in revenue, in form of milestone payments, and increased production costs mainly related to the preparation of the RFP-3 contract production as outlined below.

Revenue
Revenue was DKK 208.8 million in 2008, DKK 332.1 million in 2007 and DKK 175.3 million in 2006. The increase from 2006 to 2007 was primarily attributable to the achievement of two milestone payments under the RFP-3 contract which compensated for the reduction in revenue from the existing RFP-1 and RFP-2 contracts as these were almost completed. The drop in revenue from 2007 to 2008 was mainly due to the Group achieving only one milestone payment in 2008 against two in 2007 under the RFP-3 contract. Revenue from contract work mainly included revenue under the extended RFP-2 contract which slightly increased compared to 2007.

Production costs
Production costs amounted to DKK 196.7 million in 2008, DKK 64.5 million in 2007 and DKK 136.3 million in 2006. Production costs comprise costs incurred in generating the recognised revenue and include costs of external suppliers, salaries and depreciation of the production facilities. The decline in production costs from 2006 to 2007 is mainly a result of the completion of the existing RFP-1 and RFP-2 contracts. The increase in production costs from 2007 to 2008 was mainly due to increased activities for preparation of deliveries under the RFP-3 contract. Write-downs of IMVAMUNE® inventories amounted to DKK 43 million in 2008.

Research and development costs
Research and developments costs (excluding capitalised costs) were DKK 129.6 million in 2008, DKK 243.6 million in 2007 and DKK 118.4 million in 2006. The increase in costs from 2006 to 2007 was primarily the result of costs incurred for the development of processes at the Kvistgaard production facility to be able to meet the demands from the US authorities. In 2007 Bavarian Nordic initiated Phase I/II clinical studies with the Group's breast cancer vaccine candidate. The decline in costs from 2007 to 2008 was primarily due to the fact that the development of production processes at the facility in Kvistgaard was completed in 2007.

Sales costs and administrative expenses
Sales costs and administrative expenses were DKK 92.0 million in 2008, DKK 89.1 million in 2007 and DKK 124.4 million in 2006. The decline in costs from 2006 to 2007 was primarily due to the completion of the lawsuits with Acambis with a settlement. The cost level was largely unchanged from 2007 to 2008.

Net financial income and expenses
Financial income was DKK 26.2 million in 2008, DKK 14.5 million in 2007 and an expense of DKK 1.0 million in 2006. The increased net financial income in 2007 relative to 2006 is explained by the Group's improved liquidity. Similarly, the increased net financial income in 2008 relative to 2007 was mainly explained by the improved average liquidity and higher interest rates on bank deposits.

Tax
Deferred tax adjustments represented an income of DKK 33 million in 2008, an expense of DKK 13 million in 2007 due to the lowered corporate tax rate which reduced the tax assets, and an income of DKK 44 million in 2006.

Balance sheet development
Non-current assets
Non-current assets amounted to DKK 594.2 million in 2008, DKK 538.8 million in 2007 and DKK 568.2 million in 2006. The increase in non-current assets over the years mainly relates to the development in the following balance sheet items.

Intangible assets
Intangible assets amounted to DKK 87.2 million in 2008, DKK 24.4 million in 2007 and DKK 13.0 million in 2006. The increase in intangible assets from 2006 to 2007 and also from 2007 to 2008 mainly consists of capitalisation of research and development costs related to the registration of IMVAMUNE® under the RFP-3 contract.

Tangible assets
Tangible assets amounted to DKK 348.2 million in 2008, DKK 379.2 million in 2007 and DKK 408.1 million in 2006. The decrease in tangible assets is due to depreciation.

Current assets
Current assets including cash and cash equivalents amounted to DKK 1,100.0 million in 2008, DKK 1,193.2 million in 2007 and DKK 386.2 million in 2006. The increase in current assets over the years mainly relates to the development in the following balance sheet items.

Inventories
Inventories amounted to DKK 62.2 million in 2008, DKK 11.6 million in 2007 and DKK 12.9 million in 2006. The increase in inventories is a result of the higher production activitiy in preparation for the deliveries under the RFP-3 contract.

Receivables
Receivables amounted to DKK 241.9 million in 2008, DKK 268.0 million in 2007 and DKK 40.6 million in 2006. The increase in receivables from 2006 to 2007 relates to the development in the fair value of the entered derivatives with a positive value and the invoicing of milestone payments related to the RFP-3 contract with payment date in 2008. In 2008 the fair value of the derivatives increased further although partly offset against receipt of milestone payments.

Equity
Equity amounted to DKK 1,015.1 million in 2008, DKK 1,217.7 million in 2007 and DKK 691.4 million in 2006. The increase in equity in 2007 was mainly due to the capital injection of DKK 465.5 million (before related expenses) and exercise of warrants of DKK 47.8 million.

Non-current liabilities
Non-current liabilities amounted to DKK 52.7 million in 2008, DKK 134.7 million in 2007 and DKK 150.6 million in 2006. The decrease in non-current liabilities from 2006 to 2007 mainly consists of payments on leasing debt. In 2007 the construction loan of DKK 35 million was repaid using proceeds from a capital increase. The decrease from 2007 to 2008 is mainly caused by the change in status of the construction loan amounting to DKK 68 million to current liabilities.

Current liabilities
Current liabilities amounted to DKK 626.5 million in 2008, DKK 379.7 million in 2007 and DKK 112.4 million in 2006. The increase in current liabilities from 2006 to 2007 is mainly due to the receipt of prepayments of DKK 276.6 million from the RFP-3 contract. The increase from 2007 to 2008 is mainly due to the increase in the fair value of the entered derivatives with a negative value and by the change in status of the construction loan amounting to DKK 68 million.

Cash and cash equivalents and cash preparedness
Bavarian Nordic's cash flow for each of the years ended 31 December 2006, 2007 and 2008 are set forth in the table below.

Table 7 – Cash flow 2006, 2007 and 2008 of Bavarian Nordic

(DKK million)	**2008**	**2007**	**2006**
Cash and Cash equivalents at 1 January	688.8	101.4	269.0
Cash flow from operating activities	(22.4)	163.2	(194.5)
Cash flow from investment activities	(81.5)	(16.1)	(192.2)
Cash flow from financing activities	(15.1)	440.4	219.0
Net cash flow	(119.0)	587.4	(167.6)
Cash and Cash equivalents at 31 December	569.8	688.8	101.4
Securities – highly liquid bonds	226.2	224.8	231.3
Trusted / Pledged funds		(80.0)	(115.0)
Credit lines	20.0	20.0	20.0
Cash preparedness	816.0	853.6	237.7

Cash flow from operating activities
Net cash flow used in operations was DKK 22.4 million in 2008, an inflow of DKK 163.2 million in 2007 and a use of DKK 194.5 million in 2006.

In 2007 the Group reported a loss, but a positive cash flow from operations. The positive cash flow from operations in 2007 was mainly due to an inflow of cash through the receipt of a prepayments in the amount of DKK 276.6 million from the RFP-3 contract. Conversely, one milestone under the RFP-3 contract recognised as revenue in 2007 did not impact the cash flow in 2007 as the payment of this milestone took place in 2008. In 2008 the cash flow from operations is mainly impacted by funds tied up in inventories and the receipt of the milestone payment recognised as revenue in 2007.

Cash flow from investment activities
Net cash flow used in investment activities was DKK 81.5 million in 2008, DKK 16.1 million in 2007 and DKK 192.2 million in 2006.

Bavarian Nordic invests its liquidity in excess in securities and draws on them when needed to fund its operations. As a result holdings of securities vary from period to period. In 2006 the net change in securities was an increase of DKK 117.8 million due to investment of proceeds from issue of new shares in securities. Net change in securities in 2007 and 2008 were limited.

Cash flow from investment activity is further discussed in the section "Investment activity 2006-2010".

Cash flow from financing activities
Net cash used in financing activities was DKK 15.1 million in 2008, an inflow of DKK 440.4 million in 2007 and an inflow of DKK 219.0 million in 2006.

Among other sources of financing, Bavarian Nordic finances its operations by issuing new shares in connection with equity offerings. Cash flow from financing activities in 2006 consists of a net capital injection of DKK 230.2 million. In 2007 Bavarian Nordic completed a capital increase with a net cash inflow of DKK 443.6 million. In 2007 warrants were exercised with a net cash inflow of DKK 47.7 million and repayment of bank debt of DKK 35 million.

Investment activity 2006-2010
The Group's investment activity in 2006 mainly related to the construction of the Kvistgaard facility in Denmark. In 2006, investing activities totalled DKK 74 million. The overall investment related to the construction of the Kvistgaard facility totalled approximately DKK 410 million. Of the investment in the Kvistgaard facility, DKK 190 million were invested in 2004, DKK 144 million were invested in 2005 and DKK 72 million were invested in 2006. In 2007 and 2008 investments in plant and equipment were minor. However, in 2007 and 2008 the Group invested in intangible assets in progress to The Group's investment activity in 2006 mainly related to the construction of the Kvistgaard facility in Denmark. In 2006, investing activities totalled DKK 74 million. The overall investment related to the construction of the Kvistgaard facility totalled approximately DKK 410 million. Of the investment in the Kvistgaard facility, DKK 190 million were invested in 2004, DKK 144 million were invested in 2005 and DKK 72 million were invested in 2006. In 2007 and 2008 investments in plant and equipment were minor. However, in 2007 and 2008 the Group invested in intangible assets in progress to the amount of DKK 17 million and DKK 67 million, respectively, mainly relating to the development of IMVAMUNE®. In 2009 investments in plant and equipment totalled DKK 50 million of which approximately half is related to a new laboratory facility. Investments in intangible assets in 2009 consisted of development of IMVAMUNE® and IT and amounted to DKK 59 million.

These investments were primarily funded by internal funds. However, mortgage loans for DKK 49 million were obtained, and leases in the amount of DKK 60 million were made to acquire equipment. Moreover, loans for DKK 103 million were obtained. At 31 December 2008 the mortgage loans amounted to DKK 45 million, the leasing obligations to DKK 22 million and the construction loan DKK 68 million. A loan has been extended upon maturity in July 2009 with a new maturity date in July 2013.

During the period 2006 – 2008, no major investments were made outside Denmark. However for 2010 investments will be made in Berlin and California.

The only significant ongoing investments are the development of IMVAMUNE® and the finalisation of a new laboratory facility located in Kvistgaard. The majority of the new laboratory facility investment was completed in 2009. The 2009 investments are financed internally by using net free liquidity.

During 2010 the investments will amount to DKK 89 million of which approximately DKK 41 million is related to new equipment in Kvistgaard. Approximately DKK 36 million is related to intangible assets regarding development of IMVAMUNE® and IT. The remaining DKK 12 million is primarily related to refurbishment of the pilot plant in Berlin. The investments are expected to be financed internally and by obtaining a credit facility.

Table 8 – Investments

(DKK million)	**Financial year**	**Investment**
Investments in 2006 – Q3 – 2009		
Property, production facility and intangible assets	2006	80
Property, production facility and intangible assets	2007	23
Property, production facility and intangible assets	2008	80
Property, production facility and intangible assets	Q1-Q3 – 2009	65
Expected investments in Q4 – 2009-2010		
Property, production facility and intangible assets	Q4 – 2009	44
Property, production facility and intangible assets	2010	89

External relations

Bavarian Nordic's contracting partners in a number of negotiations and agreements concerning the Group's smallpox vaccine programme are and have been public authorities. The supply of smallpox vaccines is considered by many governments to be a matter of national interest. As a result, the Group is subject to substantial political risks, partly in respect of the final decision as to the conclusion of agreements and partly in respect of the terms and conditions of such agreements. Bavarian Nordic seeks to constantly keep in close contact, either through in-house or third-party representatives, with the governments and public authorities with whom negotiations are taking place in order to gain better insight into decision-making patterns. The Group is currently dependent on a single customer, and will in future probably enter into other individual agreements with customers that will be of key importance to the Group.

A significant share of Bavarian Nordic's costs are settled in euros, whilst most of the Company's revenue is invoiced in US dollars and other currencies, for which reason Bavarian Nordic is exposed to foreign currency risks. The RFP-2 and RFP-3 contracts with the US authorities are settled in US dollars. Revenues from the RFP-2 contract derive primarily from the reimbursement of costs incurred by Bavarian Nordic in connection with the further development of IMVAMUNE® for the US authorities. Foreign currency risks are hence limited to exchange rate fluctuations from the date of invoice until the date of payment. Income from the RFP-3 contract derives both from the advance payment and the milestone payments when meeting a number of pre-defined targets and requirements from the US authorities, including the build-up of physical safety, IT security, validation of production and test procedures, meeting the conditions for using IMVAMUNE® in an emergency (EUA), and progress in clinical studies etc. Bavarian Nordic has already received USD 125 million of the base contract for USD 500 million in the form of the advance payment and milestone payments. The Group has to a small extent hedged the outstanding exposure under the RFP-3 contract using financial hedging.

Contractual commitments

For additional information please see section "Material contracts – Contractual commitments".

Significant changes since the latest financial reporting
Since the publication of the Group's consolidated interim report dated 11 November 2009 no material changes have occurred except for changes related to BNIT, the warrant program for 2009 and the Group's guidance for 2009 and 2010.

The changes related to BNIT can be found in section: "Information about Bavarian Nordic" and section "Legal structure of the Group", changes related the warrant program can be found in section "Remuneration and benefits", section "Employees" and section "Additional information" and changes related to the Group's guidance for 2009 and 2010 can be found in section "Prospective financial information".

11. Cash preparedness

The table below shows the Group's cash preparedness at 30 November 2009, including as adjusted for the Net Maximum Proceeds of approximately DKK 299.0 million from the Offering and subscription of New Shares in connection with the Offering. For comparison, the figures from 2008 are shown.

Table 9 – Cash preparedness

(DKK million)	**As at 31 December 2008**	**As at 30 November 2009 (unaudited)**	**As at 30 November 2009 (Adjusted for the Net Maximum Proceeds) (unaudited)**
Cash and cash equivalents	569.8	128.6	427.6
Securities	226.2	103.2	103.2
Credit facilities	20.0	20.0	20.0
Total cash preparedness	**816.0**	**251.8**	**550.8**

With net proceeds from the Offering of DKK 299.0 million (the Net Maximum Proceeds) combined with expected payments from RFP contracts and expected payments from deliveries of IMVAMUNE® to the US authorities, the obtaining of a credit facility in the amount of DKK 150 to 200 million and the Group's current cash preparedness, Management expects that the cash preparedness will be sufficient to support the planned future operations, including preparations for Phase III for PROSTVAC™. In this case the Group's cash preparedness will be sufficient to cover its capital requirements until the end of 2012, where upon the Group expects its cash preparedness to cover the operational needs for an order producing company.

In case the gross proceeds from the Offering are DKK 0 million combined with expected payments from RFP contracts and expected payments from deliveries of IMVAMUNE® to the US authorities, the obtaining of a credit facility in the amount of DKK 150 to 200 million and the Group's current cash preparedness, Bavarian Nordic will be in a situation where the Group's cash preparedness will not be sufficient to support the planned future operations and thus the Group would not initiate new projects and would cancel existing research and development programmes and, if required, delay the up-scaling of production as well as would rely on additional financing in first quarter of 2010 in order to continue operations. In case sufficient additional financing is not obtained, Bavarian Nordic will, among other things, be in breach of its funding agreement with Nordea Bank Danmark A/S pursuant to which Bavarian Nordic has undertaken to maintain a cash preparedness of a minimum of DKK 150 million.

In case the gross proceeds from the Offering are DKK 0 million and Bavarian Nordic only receives the delivery allowance from the US authorities to deliver IMVAMUNE® in late 2010 instead of in the first half of 2010, the Group must align its strategy including an action plan containing both delay or closing of clinical projects, delay of the preparations for Phase III for PROSTVAC™, downscaling of production, restructuring of commercial and administrative activities and establish an alternative financing structure in order to secure continued operations. In case sufficient additional financing is not obtained, Bavarian Nordic will, among other things, be in breach of its funding agreement with Nordea Bank Danmark A/S pursuant to which Bavarian Nordic has undertaken to maintain a cash preparedness of a minimum of DKK 150 million.

In case the Offering is fully subscribed, but Bavarian Nordic only receives the delivery allowance from the US authorities to deliver IMVAMUNE® in late 2010 instead of in the first half 2010, 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 rely on additional financing by the end of first half of 2010. In case sufficient additional financing is not obtained, Bavarian Nordic may, among other things, be in breach of its funding agreement with Nordea Bank Danmark A/S pursuant to which Bavarian Nordic has undertaken to maintain a cash preparedness of a minimum of DKK 150 million.

See "Company information – Operating and financial review" for a description of the Group's cash flows.

12. Research and development, patents and licences

Research and development

See "Business overview – Clinical pipeline" for a review of the Group's research and development activities.

Bavarian Nordic is a research and development company and the amount that the Group has expensed on research and development activities is shown below.

Table 10 – Bavarian Nordic's research and development activities

(DKK million)	Q1-Q3 2009 (unaudited)	2008	2007	2006
Research and development costs	114.3	129.6	243.6	118.4

Patents and licences

Introduction

Bavarian Nordic's Intellectual Property Rights (IPR) primarily include patents (and patent applications), trademarks and trade secrets. It is Bavarian Nordic's continuous objective to manage the Group's IPR in line with the Company's overall strategy, which has resulted in a significant patent portfolio directed at the various technologies and products Bavarian Nordic has developed. As Bavarian Nordic's business and technology has matured, the internal organisation, with the support of experienced external professionals, has endeavoured to focus the patent portfolio so that it reflects the Group's commercial endeavours.

Patents policy and strategy

Bavarian Nordic's IPR policy targets the protection of new technologies and products by filing relevant patent applications and by prosecuting these to obtain patent protection in all countries considered major or key markets for the corresponding technology or relevant products. The goal of obtaining and maintaining a commercially strong patent portfolio must be weighted against the, often significant, expenses involved in obtaining and maintaining patents. Factors influencing the patent filing decisions include

- relevant commercial markets and value of the technology and/or products;
- manufacturing possibilities; and
- markets where the technology and/or products are likely to be infringed.

Patent applications prosecuted by Bavarian Nordic covering primary technologies and products are therefore filed in most markets. Defensive patenting and applications covering add-on protection to the core patents are usually filed in selective markets only, which are selected based on the relevance of protection in the individual market to Bavarian Nordic's overall business. As part of the strategic considerations, Bavarian Nordic weighs the benefits of seeking patent protection against the benefits of protecting new technologies as trade secrets (know-how), based on the circumstances.

Bavarian Nordic has successfully built its patent portfolio on and around its core technology; MVA-BN®. In addition, in August 2008, Bavarian Nordic's US subsidiary, BNIT, acquired exclusive rights to material IPR covering PROSTVAC™. Besides its core IPR, Bavarian Nordic has obtained protection for, and continues to file further applications to protect relevant supporting technologies.

Bavarian Nordic's patent portfolio directed to aspects of Modified Vaccinia Ankara (MVA) consists of 34 patent families. Each of these patent families consists of numerous corresponding issued/granted foreign patents, pending applications, continuations and divisional applications. The patent portfolio comprises more than 350 pending patent applications and more than 630 granted/issued patents. Besides its core IPR, Bavarian Nordic has obtained protection for, and continues to file further applications to protect relevant supporting technologies. Bavarian Nordic has also acquired exclusive rights to non-MVA technologies, including other viruses and production processes from other patent holders.

The lifespan of a patent once granted/issued is 20 years from the date of filing. Bavarian Nordic's core patents are relatively young. The MVA-BN®-specific patents and applications all date back to 2000 or later. The patents targeting the germane MVA genome sites for incorporating foreign genes to create recombinant MVA-based vaccines date back to 1995 and onwards. Bavarian Nordic expects to apply for Supplementary Protection Certificates (SPCs) for the products, when applicable, extending the patent protection for up to five years to compensate for the years lost in the regulatory process associated with application for marketing authorisation.

MVA-BN® patent portfolio

Bavarian Nordic's competitive IP protection gives exclusive rights to manufacture, sell and market its MVA-based technology globally. Bavarian Nordic's exclusive rights cover certain aspects of recombinant MVA vaccines for cancer, HIV and other infectious indications created by inserting foreign genes into the MVA genome. In addition, Bavarian Nordic has acquired exclusive rights to non-MVA technologies, including other viruses and production processes.

Bavarian Nordic's most important patents and patent applications, comprising Bavarian Nordic's MVA-BN® vector technology and other MVA-based products, are described below.

Patent protection for MVA virus variant covering IMVAMUNE® smallpox vaccine and MVA-BN® vector technology
Over the past four years, seven patents have been issued/granted to Bavarian Nordic within the patent family covering an MVA virus variant referred to as MVA-BN® exhibiting an improved safety profile compared to other MVA viruses. These patents are:

- US Patent No. 6,761,893, issued July 2004
- US Patent No. 6,913,752, issued July 2005
- European Patent 1 335 987, granted December 2005
- US Patent No. 7,189,536, issued March 2007
- US Patent No. 7,335,364, issued February 2008
- US Patent No. 7,384,644, issued June 2008
- US Patent No. 7,459,270, issued December 2008

US Patent No. 6,761,893 covers the MVA-BN® virus and derivatives thereof, IMVAMUNE® (Bavarian Nordic's smallpox vaccine), and the use as a vector technology for recombinant MVA-based vaccines. The patent recognises the novelty and utility of the MVA-BN® technology and other viruses with similar characteristics. Together with US Patent No. 6,913,752, the patent portfolio also covers the use of the MVA-BN® technology in generating immunity in healthy and immuno-compromised individuals and priming and boosting vaccination regimes. Patents have been issued subsequent to Bavarian Nordic's voluntary submission to the US Patent Office of the allegedly challenging arguments and reports previously raised in litigation by opposing party. Patent No. 7,189,536 relates to prime-boost methods and the use of the virus as an adjuvant composition, US Patent No. 7,335,364 specifies the biological characteristics of the MVA-BN® technology, whereas US Patent No. 7,384,644 relate to the virus and pharmaceutical compositions, and methods for the induction of protective immunity against a lethal vaccinia virus infection. The most recently issued patent, US Patent No. 7,459,270 includes claims to methods of generating the MVA-BN® virus, to the virus itself and to kits comprising the virus.

Finally, Bavarian Nordic has been granted a European patent (EP 1 335 987), which belongs to the same family as the above-mentioned US patents. This patent gives Bavarian Nordic the sole right to manufacture, market and sell MVA-BN®, and derivatives thereof with the same biological characteristics and safety profile as well as recombinant viruses thereof, in Europe.

Patent protection for the vaccination of infants
US Patent No. 7,097,842 discloses and covers the use of MVA derived vaccinia viruses for inducing a general immune stimulation, including the use of MVA-BN® for protection against smallpox in neonates, i.e. young children with an immature immune system. Bavarian Nordic has also been granted a European patent (EP 1 420 822) on this technology, which belongs to the same patent family.

Patent application for rapid immune response
In February 2005, Bavarian Nordic filed an additional priority application with the European Patent Office (EPO) relating to the use of MVA-BN® and derivatives thereof to induce a rapid immune response.

Patent protection for recombinant MVA-based vaccines
Two additional patent families cover germane MVA genome sites for inserting foreign genes into the MVA genome to create recombinant MVA-based vaccines. These sites of the MVA genome are used to create recombinant MVA vaccines by cloning of foreign genes into the genome. These two patent families indirectly cover all MVA-based recombinant vaccines utilising any part of the MVA genome except for deletion site 3 (which belongs to prior art), including MVA-based cancer vaccines, HIV vaccines, measles, RSV, etc.

The first patent family is related to the insertion of foreign genes into five of the six recognised deletion sites of the MVA genome. Five patents have been issued/granted in the US and in Europe, which have been exclusively licensed to Bavarian Nordic covering deletion sites 1, 2, 4, 5, and 6 of the MVA genome, and further patents have been granted in other jurisdictions. These five patents are:

- US Patent No. 6,440,422, issued August 2002
- US Patent No. 7,198,934, issued April 2007
- European Patent 0 836 648, granted May 2003
- European Patent 1 312 678, granted September 2005
- European Patent 1 312 679, granted September 2005

The second patent family covers the insertion of foreign genes into intergenic regions and patents have been granted in Europe and further applications are pending in other jurisdictions, including the US.

- European Patent 1 407 033, granted January 2006

Patent protection for MVA-based dengue fever vaccines
Two patent families cover recombinant MVA-based viruses for dengue fever vaccines. One patent has been issued in the US (US Patent No. 6,869,793) and further applications are pending in other jurisdictions, including in Europe.

Patent protection for promoter technologies
The expression of foreign genes in recombinant MVA viruses by using different promoter technologies is covered by three Patent Cooperation Treaty (PCT) applications. A European patent (EP 1 536 015) was granted in October 2007.

Patent protection for manufacturing process
Different aspects of the production of smallpox and other MVA-based vaccines are covered by four patent families. All applications have been filed as PCT applications and have entered the national Phase in a number of countries. European patent (EP 1 434 858) was granted relating to methods for the cultivation of primary cells and for the amplification of viruses under serum free conditions. A patent on this technology has subsequently been issued in the US (US Patent No. 7,445,924) as well.

The current manufacturing process used for Bavarian Nordic's MVA-based vaccines, including the smallpox vaccine production, is primarily protected as a trade secret and is therefore not disclosed to competitors.

Acquisition of patents to secure freedom to operate for MVA-BN®-based vaccines
To strengthen its patent portfolio in the cancer therapy field and to secure freedom to operate for its MVA-BN®-HER2-Neu vaccine candidate, Bavarian Nordic has recently acquired the previously in-licensed patented technology from Pharmexa in the field of cancer vaccines, covering the HER2-Neu DNA AutoVac™ construct and related technology (PCT/DK99/00525; PCT/DK94/00318; and PCT/DK04/00451).

To ensure freedom to operate for its MVA prime and MVA boost vaccination regimes, Bavarian Nordic has entered into a cross-licence agreement with Oxxon Therapeutics (now acquired by Oxford Biomedica) whereby Bavarian Nordic secures rights to use homologous Prime Boost regimens for MVA (WO98/56919 and WO02/24224). Oxxon, on the other hand, received certain rights to commercialise a specific recombinant vaccine based on the MVA-575 virus (WO97/02355).

Opposition proceedings in Europe
After the nine month opposition period in which any third party can file an opposition against any patent granted in a European jurisdiction, seven companies opposed European Patent 1 335 987 covering the MVA-BN® technology, which was granted in December 2005. It is not unusual that an opposition is filed against patents of commercial value, and a seasoned European Patent Attorney has been retained to represent Bavarian Nordic in this general European proceeding. Acambis plc and Acambis Inc. have, however, subsequently withdrawn their oppositions. Two companies have recently filed oppositions against European Patent 1 420 822 related to the use of MVA for the protection of neonates. Oppositions have also been filed against European Patent 1 434 858 relating to methods for the cultivation of primary cells and for the amplification of viruses under serum free conditions.

PROSTVAC™ patent portfolio

Bavarian Nordic's subsidiary BNIT has in-licensed a number of patents and patent applications pertaining to PROSTVAC™ owned by the United States Public Health Service (PHS) as well as being granted access to relevant PROSTVAC™ data from the National Cancer Institute (NCI). The patent portfolio licensed to BNIT by PHS/NCI was formerly out-licensed to the company Therion, which previously developed PROSTVAC™ in collaboration with NCI. Based on a settlement agreement between PHS/NCI and Therion, in the context of insolvency and subsequent liquidation of Therion, that licence was terminated. Following this development, PHS/NCI licensed the patent portfolio to BNIT to further advance the development, sale and marketing of PROSTVAC™. The licensed territory is world wide and the licensed patents are being prosecuted by PHS in relevant major markets.

The licence agreement with the PHS divides the licensed patent portfolio into (1) exclusively and (2) non-exclusively licensed patents and patent applications. The licence agreement requires BNIT to contribute to prosecution costs, and the percentage accountability for the cost depends on which type of licence is involved. BNIT will file additional patent applications during the future development cycle when appropriate, which will be owned solely by BNIT or co-owned with PHS depending on the circumstances of the particular development efforts.

The clear objective to obtain and maintain a commercially strong patent portfolio for PROSTVAC™ will be balanced against the often significant expenses involved in obtaining and maintaining patents. In addition to the general strategic considerations, key factors influencing additional patent filing decisions for this portfolio include (1) the potential of additional inventions, in view of the existing portfolio, to strengthen and prolong protection for the product, (2) particular manufacturing considerations, and (3) possible infringement scenarios.

The core Prostate Specific Antigen (PSA) patents expire during the years of 2015-2023, and all of the in-licensed patents could potentially have their terms extended in the US to compensate for PTO and/or FDA regulatory delay (according to provision of 35 U.S.C. 156). When applicable, Supplementary Protection Certificates (SPCs) is expected to be applied for the products in Europe, extending patent protection for up to five years to compensate for the years lost in the regulatory process associated with application for marketing authorisation. New patent applications will be filed in relevant markets when appropriate to cover further development of PROSTVAC™.

The in-licensed patent portfolio strategically positions Bavarian Nordic well for the exploitation of PROSTVAC™ in the relatively crowded field of recombinant vaccine patents and their uses. As a relevant example of the crowded field of recombinant vaccine patents and their uses it should be mentioned that, third party patents exist with regard to heterologous prime/boost regimens. However, the in-licensed patent portfolio includes earlier

patents and applications that directly disclose and claim the use of vaccinia and fowlpox in the prime/boost regime employed to administer PROSTVAC™.

The agreement with PHS also provides access to critical know-how relating to all aspects of this particular prostate cancer vaccine. In addition, the internal know-how and trade secrets belonging to Bavarian Nordic for pox virus manufacturing and its capability to scale up production for commercial purposes, should also be taken into account when assessing the intellectual property contributing to ensuring the success of PROSTVAC™.

Exclusive patent protection for PSA and recombinant vaccines thereof

The core patents that are exclusively in-licensed for PROSTVAC™ provide BNIT with exclusive rights covering claims issued to the relevant PSA, PSA oligo-epitope peptides and analogs thereof used in PROSTVAC™, including various immunogenic compositions comprising the relevant PSA's and pox virus vectors expressing peptide agonists of PSA. In addition, BNIT has non-exclusive rights to related technologies relevant for this project. Core patents include:

- US Patent No. 6,946,133, issued September 2005
- US Patent Application Serial No. 11/606,929
- US Patent No. 6,165,460, issued December 2000
- US Patent No. 7,598,225, issued October 2009
- US Patent No. 7,247,615, issued July 2007
- European Patent 1 162 272, granted November 2008

US Patent No. 6,946,133 relates to PSA oligo-epitope peptides that are structurally claimed. The invention relates to the generation of cellular and humoral immune responses to a mammalian PSA. More specifically, the invention relates to a PSA oligo-epitope peptide useful in generating PSA specific T lymphocytes for prevention or treatment of prostate cancer. The patent discloses the use of vaccinia and fowlpox in a prime/boost regime, which is claimed in a so called continuation application. The expiration date of the issued patent, not counting potential patent term extensions, is 20 March 2016.

The pending patent application, Ser. No. 11/606,929, relating to a PSA oligo-epitope peptide and its analogs, comprises a PSA epitope peptide, which conforms to one or more human HLA class I motifs. The PSA oligo-epitope peptide, in combination with various HLA-class I molecules or through interactions with various T-cell receptors, elicits PSA specific cellular immune responses. The PSA oligo-epitope peptide is useful as an immunogen in the prevention or treatment of prostatic cancer, in the inhibition of prostatic cancer cells and in the establishment and characterisation of PSA-specific cytotoxic T-cell lines. Once issued, this application could have a later expiration date if it is subject to patent term extension based on PTO delay.

US Patent No. 6,165,460 relates to the generation of immune responses to PSA having method claims to that effect. The invention is described as using a recombinant viral vector, preferably a pox virus vector having at least one insertion site containing a DNA segment encoding PSA or a cytotoxic T-cell eliciting epitope thereof, operably linked to a promoter capable of expression in the host, to generate a specific humoral and cellular immune response to PSA. The method preferably comprises the introduction of a sufficient amount of the recombinant pox virus vector into a host to stimulate the immune response, and contacting the host with additional PSA at periodic intervals thereafter. The expiration date not counting potential patent term extensions is 10 July 2015.

US Patent No. 7,598,225 relates to the generation of immune responses to PSA using a prime/boost regime of first administering a first pox virus vector followed by a second pox virus vector in a formulation that, among other things, includes a co-stimulatory molecule, and further methods based thereon.

US Patent No. 7,247,615 relates to peptide agonists of PSA and uses thereof. In various aspects, the invention relates to peptides comprising agonist epitopes of the PSA-3 cytotoxic T lymphocyte epitope, and nucleic acids encoding peptides that comprise PSA-3 agonist epitopes. The patent also relates to probes, primers and vectors comprising these nucleic acids, as well as host cells comprising these vectors and antibodies that bind to the PSA-3 agonist peptides. The patent further describes diagnostic tests, as well as methods of treatment or prevention of prostate cancer employing such compositions, for example, for peptide-mediated, cell-mediated, and vector-mediated immunotherapies. This patent issued from application 10/497,003) expires on 11 October 2023 (having 319 days of patent term extension).

European Patent 1 162 272 relates to the generation of immune responses to PSA and includes claim to uses of the vaccination regimen using a prime/boost regime of first administering a first pox virus vector followed by a second pox virus vector in a formulation that, among other things, includes a co-stimulatory molecule. An opposition proceeding has recently been initiated by a third party at the European Patent Office against this granted patent.

Non-exclusive licence to recombinant vectors expressing multiple co-stimulatory molecules

PROSTVAC™ makes use of co-stimulatory molecules to enhance the immune response elicited by its vaccines. Core patents include:

- US Patent No. 6,969,609, issued November 2005
- US Patent Application No. 11/321,868
- US Patent No. 6,893,869, issued May 2005
- US Patent No. 6,548,068, issued April 2003
- US Patent No. 6,045,802, issued April 2000

US Patent No. 6,969,609 relates to various recombinant vectors expressing multiple co-stimulatory molecules and uses thereof, having claims relating to host cells and methods to enhance immune responses. More specifically, the invention relates to recom-

binant poxviruses comprising foreign genes encoding at least the co-stimulatory molecules: one molecule from the B7 family, LFA-3 and ICAM-1 and optionally a foreign gene encoding at least one target antigen or immunological epitope thereof, and uses thereof as immunogens and vaccines.

The pending application, Ser. No. 11/321,868, relates to carcinoembryonic antigen (CEA) peptides containing a modified epitope therein, vectors etc. used to generate CEA-specific immune responses and/or in the treatment of cancers. The present invention further relates to the foregoing combined with one or more co-stimulatory molecules.

US Patents Nos. 6,893,869, 6,548,068, and 6,045,802 relate to a composition of a recombinant virus expressing the antigen of the disease causing agent and a recombinant virus expressing an immunostimulatory molecule(s) such as, for example B7.1, B7.2, IL-2 or GM-CSF for the purpose of generating an enhanced immune response to the disease causing agent. Claims relating to methods of treatment of diseases such as cancer and diseases caused by pathogenic microorganisms are also provided using the composition.

Additional non-exclusively licensed patents and patent applications
The portfolio also consists of several additional non-exclusively licensed patents and patent applications, including the following.

- US Patent Application No. 60/448,591
- US Patent Application No.10/543,944
- US Patent No. 6,699,475, issued March 2004
- US Patent No. 5,093,258, issued March 1992
- US Patent No. 7,410,644, issued August 2008

Patent applications 60/448,591 and 10/543,944 relate to novel insertion sites for introducing DNA into pox vectors, specifically a recombinant poxvirus containing and capable of expressing at least one foreign gene inserted at an insertion site within the poxvirus genome, including orthopox. The insertion site described in these applications is located at an intergenic region between two naturally occurring, adjacent, open reading frames of the poxvirus genome. Further, insertion of the foreign gene at the insertion site does not effect translation of the two adjacent open reading frames.

US Patent No. 6,699,475 relates to recombinant pox viruses for immunisation against tumour-associated antigens such as those encoded by the neu gene, the ros gene, the trk gene, the kit gene or an immunogenic portion thereof, and to vectors. Recombinant poxviruses capable of expressing cell-encoded, tumour-associated antigens are disclosed. The recombinant viruses are useful for evoking an immune response against the antigen being expressed.

US Patent No. 5.093,258 relates to recombinant fowl pox viruses (FPV) capable of expressing immunogenic proteins of fowl pathogens. The FPV express DNA of the pathogen under the direction of FPV promoters. The recombinant FPV provides live vaccines for poultry and other animals.

US Patent No. 7,410,644 relates to certain prime/boost regimes using a first pox virus vector followed by a second pox virus vector of a different genus than the first vector for immunization against tumour-associated antigens.

Main trademarks

Bavarian Nordic's strategy is to tailor trademarks for its technology, including current products and the future pipeline. Among Bavarian Nordic's main trademarks, IMVAMUNE® is the trade name for Bavarian Nordic's smallpox vaccine product. PROSTVAC™ is the present trade name for Bavarian Nordic's prostate cancer vaccine product. This trade name was not part of the agreements with PHS/NCI, but Bavarian Nordic has filed a trademark application for the PROSTVAC™ trademark and this application process is currently ongoing. It is at this stage unknown whether Bavarian Nordic will be able to obtain final registration of the PROSTVAC™ trademark.

Bavarian Nordic's trademark policy targets the protection of new technologies and products. Trademark applications are prosecuted to obtain protection in all countries that are considered major or key markets for the corresponding technology or products. The goal of obtaining and maintaining a commercially valuable trademark portfolio must be weighted against the often considerable expenses involved in obtaining trademark protection. Factors influencing the trademark filing decisions include:

- relevant commercial markets,
- business value of defining relevant technologies and products, and
- markets where similar technologies and products are likely to be marketed and sold by competitors

Enforcement of intellectual property rights

Bavarian Nordic enforced certain intellectual property rights against Acambis in 2005, and on 25 July 2007 the two companies reached a global settlement, ending the legal disputes between the two companies on matters relating to smallpox vaccines based on the Modified Vaccinia Ankara (MVA) virus. The settlement involved patent disputes at the US International Trade Commission (ITC) and the Commercial Court in Vienna, Austria, as well as the conversion, unfair trade acts and unfair competition action at the US Federal District Court of the District of Delaware. Under the agreement, Bavarian Nordic granted a licence to some of its MVA patents in return for Acambis making an undisclosed upfront payment. Acambis will also make royalty

and milestones payments should it develop or commercialise certain MVA products in the future.

Bavarian Nordic has filed a patent infringement suit against Oxford BioMedica plc, Biomedica, Inc., and Oxford BioMedica Ltd., in the United States District Court of the Southern District of California, which has entered the discovery phase of the proceedings. Bavarian Nordic owns several US patents relating to an attenuated strain of the Company's core technology, MVA-BN®, which is the basis for its innovative smallpox vaccine, IMVAMUNE®. MVA-BN® also holds promise as a vector for delivering recombinant vaccines. Bavarian Nordic asserts four patents as a basis for its infringement action (US Patents Nos. 6,761,893; 6,913,752, 7,335,364 and 7,459,270). The claim in this case is that the defendants have infringed Bavarian Nordic's patents by commercialising the patented technology in ways that have yielded large payments from Sanofi-Aventis under the agreement between them for the development and commercialisation of TroVax®.

13. Trend information

General trends in the pharmaceuticals market have no material impact on the Group's financial performance at the present time. If one or several of Bavarian Nordic's products are approved, the overall demand, competition and pricing in the relevant disease area could have a major impact on the potential sales of the Group's products. Management believes that there will be an attractive market for the Group's products, if and when they are approved.

There is a continuous focus on reducing the rate of increase in health care costs, which has resulted in price pressure in recent years within certain areas of the pharmaceuticals market. Management expects this trend to remain unchanged in the years ahead. However, Management believes that demographic developments, increased penetration and better diagnostic tools will result in continuing strong growth in global drug sales.

14. Prospective financial information

Statement by the Board of Directors and Corporate Management

The Corporate Management and Board of Directors have presented their financial expectations for 2009 and 2010 below in "Prospective financial information – Prospective financial information for 2009 and 2010". The prospective financial information was prepared for use herein. The Corporate Management and the Board of Directors believe that the prospective financial information has been prepared on the basis of the significant assumptions set out in "Prospective financial information – Methodology and assumptions" and the accounting policies described on pages F-23 – F-28. The assumptions have been consistently applied in the preparation of the prospective financial information.

The prospective financial information is based on a number of assumptions, some of which are within the control of the Company, whilst others are beyond the Company's control. The methods used in the preparation of the prospective financial information and the underlying assumptions on which the information is based are also stated in "Prospective financial information – Methodology and assumptions" below.

The prospective financial information for 2009 and 2010 represents the Corporate Management's and the Board of Directors' best estimate. The prospective information contains statements that are subject to considerable uncertainty. The actual results may differ materially from those contained in such statements. In addition to the risks addressed in "Prospective financial information – Prospective financial information for 2009 and 2010", potential risks and uncertainties comprise, without limitation, those referred to in "Risk factors" herein.

Kvistgaard, 8 January 2010

Bavarian Nordic A/S

Board of Directors

Asger Aamund, Chairman | Claus Bræstrup | Erling Johansen | Gerard van Odijk | Flemming Pedersen

Corporate Management

Anders Hedegaard
President and CEO

Independent auditor's report on examination of prospective financial information for Bavarian Nordic A/S for 2009 and 2010

To the readers of this Prospectus
We have examined the estimate for 2009 and the forecast for 2010 of Bavarian Nordic A/S, from which expectations for 2009 and 2010 and the assumptions underlying such expectations, as described in "Prospective financial information – Prospective financial information for 2009 and 2010", have been extracted.

Our report on the estimate and the forecast dated 8 January 2010 is represented below:

"Independent auditor's report on the forecast

To the Board of Directors of Bavarian Nordic A/S
As agreed, we have examined the estimate for 2009 and the forecast for 2010 for Bavarian Nordic A/S, which comprises the operating, the balance sheet and the cash flow forecast as well as forecast assumptions and other explanatory notes. The estimate for 2009 and the forecast for 2010 have been prepared on the basis of the accounting policies as applied by Bavarian Nordic A/S for the financial year 2008.

Management is responsible for the estimate and the forecast, including the assumptions on which the estimate and the forecast is based. Our responsibility is to express a conclusion on the estimate and the forecast based on our examination.

Scope of examination
We conducted our examinations in accordance with the Danish Standard on Auditing RS 3400, "Examination of Prospective Financial Information". This Standard requires that we plan and perform our examination to obtain limited assurance that the forecast assumptions applied are valid and free from material misstatement and to obtain reasonable assurance that the estimate and the forecast have been prepared on the basis of such assumptions.

Our examination comprised a review of the estimate and the forecast with a view to assessing whether the forecast assumptions defined by Management are documented, valid and complete. Further, we tested whether the estimate and the forecast were properly prepared in accordance with such forecast assumptions as well as the consistency of the figures in the estimate and the forecast.

We believe that our examination provides a reasonable basis for our conclusion.

Conclusion
Based on our examination of the evidence supporting the assumptions, nothing has come to our attention which causes us to conclude that these assumptions do not provide a reasonable basis for the estimate and the forecast. Furthermore, in our conclusion, the estimate and the forecast have been prepared on the basis of the assumptions defined and presented in accordance with the accounting policies applied for Bavarian Nordic A/S for the financial year 2008.

The estimate and the forecast represent a prospective analysis, and it cannot be anticipated that all assumptions will be met, just as unforeseen contingencies may occur. The results may therefore deviate from the estimated and the budgeted result and the variations may be material."

We have checked that the expectations for 2009 and 2010 and the assumptions underlying such expectations, as described in "Prospective financial information – Prospective financial information for 2009 and 2010", have been correctly extracted and summarised from the estimate for 2009 and the forecast for 2010 for Bavarian Nordic A/S, as examined by us.

The Company's Management is responsible for the presentation of the expectations for 2009 and 2010 as well as the assumptions underlying such expectations. Our responsibility is to express a conclusion on the extraction and summary of expectations for 2009 and 2010 and the assumptions underlying such expectations from the forecast examined by us.

Scope of examination
We planned and performed our work in accordance with the Danish Standard on Auditing RS 3000, "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" to obtain reasonable assurance that the expectations for 2009 and 2010 as well as the assumptions underlying such expectations were correctly extracted and summarised from the estimate and the forecast, as examined by us.

Conclusion
In our opinion, the expectations for 2009 and 2010 as well as the assumptions underlying such expectations have, in all material respects, been correctly extracted and summarised from the estimate for 2009 and the forecast for 2010, as examined by us.

Copenhagen, 8 January 2010

Deloitte
Statsautoriseret Revisionsaktieselskab

Carsten Vaarby	Jens Rudkjær
State Authorised	State Authorised
Public Accountant	Public Accountant

Prospective financial information for 2009 and 2010

Introduction
The prospective financial information has been prepared using the Company's accounting policies, which are described on pages F-23 – F-28. The prospective financial information for 2009 and 2010 is inherently based on a number of assumptions and estimates which, while presented with numerical specificity and considered reasonable by Management, are inherently subject to significant business, operational and economic uncertainties, many of which are beyond the Group's control, and upon assumptions with respect to future business decisions that are subject to change. The most important of these assumptions are described in "Methodology and assumptions" below.

Methodology and assumptions
The prospective financial information for 2009 and 2010 reflects Management's estimates and assumptions. The prospective financial information has been prepared in accordance with the Group's normal budgeting procedures, in which the focus is on the income statement and the Group's expected cash flow performance. For 2009, the estimates also include actual figures as of 30 September 2009.

Estimates concerning research and development costs are based on the expected activities involved in the further development of the Group's pipeline.

The forecasts are based on the assumption that the Group's strategy is implemented as planned. The realisation of this strategy is subject to uncertainties and contingencies, and the strategy may change as Management becomes aware of new circumstances. The prospective financial information may deviate materially from the actual results.

In particular, the following factors in respect of the prospective financial information for 2010 are assumed:

- The Offering is fully subscribed
- The delivery allowance for IMVAMUNE® to US authorities is obtained no later than Q2 2010 enabling the Group to commence delivery of the 20 million doses under the RFP-3 contract
- The already produced doses of IMVAMUNE® will be accepted for delivery to SNS
- The Group will deliver 4-5 million doses of IMVAMUNE® in 2010 to SNS
- The RFP-2 contract and the RFP contract for freeze dried IMVAMUNE® will meet the milestones set for 2010
- The upscaling of IMVAMUNE® production will follow the delivery plan
- The Group's preclinical and clinical trials proceed as planned
- The exchange rates (especially USD/DKK and EUR/DKK) do not change significantly compared to the exchange rates ruling on 1 September 2009. For the Budget 2010 are used USD/DKK 5.20 and EUR/DKK 7.45.
- The sub-contractors are able to live up to the assumptions made by the Group
- The obtaining of a credit facility in the amount of DKK 150 million to finance working capital

Furthermore the costs for preparing PROSTVAC™ for Phase III are included. No sales to markets outside the USA of IMVAMUNE® are included.

Prospective financial information for 2009 and 2010
For 2009, Management expects revenue at the level of DKK 75 million, and a pre-tax loss at the level of DKK 325 million. The net free liquidity at year-end is expected to be around DKK 175 million.

For 2010, Management expects to deliver and invoice 4-5 million doses of IMVAMUNE®. The remaining doses of the 20 million are expected to be evenly delivered in 2011 and 2012. 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 PROSTVAC™ 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 Kvistgaard 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 budget 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 to 200 million to finance working capital is obtained, Management expects cash preparedness in the range of DKK 225 to 275 million by the end of 2010.

Provided that the Offering is completed with the Maximum Proceeds, and 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 "Cash preparedness" for information regarding cash preparedness if the assumptions above do not materialise in full.

15. Board of Directors, Corporate Management and Executive Management

Management of the Group

The Board of Directors and the Corporate Management manage Bavarian Nordic's affairs. The Board of Directors is responsible for the overall management of the Group, including appointing the Corporate Management, ensuring responsible organisation of the Group's business, establishing the corporate strategy and evaluating the applicability of the Group's financing situation. The Corporate Management is responsible for the day-to-day operations of the Group, observing the guidelines and recommendations issued by the Board of Directors.

The business address of the Board of Directors and the Corporate Management is c/o Bavarian Nordic, Hejreskovvej 10A, DK-3490 Kvistgaard, Denmark.

According to the articles of association of the Company, the Board of Directors must – not including any representatives elected by the employees pursuant to statutory provisions – consist of between not less than three and not more than six members elected by the shareholders in general meeting. The members of the Board of Directors retire each year at the annual general meeting and are eligible for re-election. The Board of Directors currently consists of five external members elected by the shareholders in general meeting. The Board of Directors elects a chairman and may elect a vice chairman from among its members. The Board of Directors holds meetings at regular intervals and when necessary. The Corporate Management is not a member of the Board of Directors. Asger Aamund, co-founder of the Group, is chairman of the Board of Directors. Through A.J. Aamund A/S, Asger Aamund owns 16.78% of the total share capital of the Company.

Table 11 – The terms of the Board of Directors and the Corporate Management

Name	Office	Commencement	Expiration of term	Severance payment
Board of Directors				
Asger Aamund	Chairman of the Board of Directors	September 1994	AGM 2010	None
Claus Bræstrup	Member of the Board of Directors	April 2008	AGM 2010	None
Erling Johansen	Member of the Board of Directors	May 2000	AGM 2010	None
Gerard van Odijk	Member of the Board of Directors	April 2008	AGM 2010	None
Flemming Pedersen	Member of the Board of Directors	April 2006	AGM 2010	None
Corporate Management				
Anders Hedegaard	President & CEO	August 2007	None	See below

The Executive Management of Bavarian Nordic usually attends the board meetings. The Board of Directors receives regular reports from the Corporate Management on the status of the operations and business of the Group.

The Corporate Management consists of one member, i.e. Anders Hedegaard, who is registered with the Danish Commerce and Companies Agency as CEO of the Company. Moreover, there are six Executive Vice Presidents, who assist the Corporate Management in the day-to-day management of the Group. The Executive Management consists of the Corporate Management and the six Executive Vice Presidents.

One or more members of the Corporate Management, Executive Vice Presidents or senior employees of the Group are represented on the board of directors of the Company's subsidiaries.

The Corporate Management holds fortnightly meetings with the Executive Vice Presidents in order to coordinate the day-to-day management activities.

Board of Directors

Asger Aamund, Chairman
A.J. Aamund A/S
Fruebjergvej 3, P.O. Box 45
DK-2100 Copenhagen K
Denmark

Born in 1940

Joined the Board of Directors in 1994

President & CEO of A.J. Aamund A/S

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

Managerial positions
Member of the corporate management of A. J. Aamund A/S

Chairman within the past five years (positions no longer held)
NeuroSearch A/S
Neurotech A/S

Member within the past five years (positions no longer held)
Nowaco Group A/S
Bergsøe 4 A/S (now Aktieselskabet af 29. april 2009 under konkurs (in bankruptcy))

Claus Bræstrup
Kastanievej 7,
DK-1876 Frederiksberg C
Denmark

Born in 1945

Joined the Board of Directors in 2008

President & CEO

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

Managerial positions
Member of the corporate management of Kastan ApS

Chairman within the past five years (positions no longer held)
LifeCycle Pharma A/S
Lundbeck Cognitive Therapeutics A/S

Member within the past five years (positions no longer held)
Arpida A/S
Symbion A/S
Cognitive Therapeutics Inc.
Højteknologifonden
Lundbeck International Neuroscience Foundation
Profound Invest A/S (dissolved)

Managerial positions within the past five years (positions no longer held)
President & CEO of H. Lundbeck A/S

Erling Johansen
Poppel Allé 65
Hareskovby
DK-3500 Værløse
Denmark

Born in 1944

Joined the Board of Directors in 2000

President & CEO

Member of a board of directors within the past five years (positions no longer held)
Cyncron A/S

Managerial positions within the past five years (positions no longer held)
President & CEO of BASF Health and Nutrition A/S

Gerard van Odijk
Teva Pharmaceuticals Europe B.V.
c/o Computerweg 10,
NL-3542 DR Utrecht
The Netherlands

Born in 1957

Joined the Board of Directors in 2008

President & CEO of Teva Pharmaceuticals Europe B.V.

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.

Member within the past five years (positions no longer held)
Syntarga B.V.
Neurosearch A/S

Managerial positions within the past five years (positions no longer held)
CEO of Teva Pharmaceuticals B.V.

Flemming Pedersen
Pergolavej 9
DK-2830 Virum
Denmark

Born in 1965

Joined the Board of Directors in 2006

President & CEO of NeuroSearch A/S

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

Chairman within the past five years (positions no longer held)
Zgene A/S

Member within the past five years (positions no longer held)
Astion Development A/S
Astion Dermatology A/S
Neurodan A/S
Astion Pharma A/S
Neurocon ApS (dissolved by merger)

Corporate Management

Anders Hedegaard
President & CEO
Hejreskovvej 10A
DK-3490 Kvistgaard
Denmark

Born in 1960

Employed since 2007

Joined the Corporate Management in 2007

Chairman within the past five years (positions no longer held)
ALK Sverige AB
ALK-Abelló Ltd
ALK-Abelló BV
ALK-Abelló S.p.A.
ALK-Abelló, Inc.
Allerbio SA
ALK-Abelló S.A

Member within the past five years (positions no longer held)
ALK-Scherax GmbH

Managerial positions within the past five years (positions no longer held)
ALK-Abelló A/S
ALK-Abelló GmbH

Other members of Executive Management

In addition to the Board of Directors and the Corporate Management, the Group's general management team consists of six Executive Vice Presidents, who are responsible for finance, research and development, commercial affairs, legal and intellectual property rights, technical operations, production and BNIT. The six Executive Vice Presidents are:

Ole Larsen
Executive Vice President, CFO

Born in 1965

Employed since 2008

Joined the Executive Management in 2008

Chairman within the past five years (positions no longer held)
Euro Broadcast Hire A/S
Victoria Film Rights A/S
Electronic Invest i Stockholm AB
Nordisk Film Post Production A/S
Columbia TriStar Nordisk Film Distribution A/S
Nordisk Film Distribution A/S
Nordisk Film Production A/S

Member within the past five years (positions no longer held)
Nordisk Film Biografer A/S
Locomotion A/S
Oy Nordisk Film Ab
Victoria Film AB
Nordisk Film TV-Produktion AB
Nordisk Film Production Sverige AB
Nordisk Film & TV Oy
Nordisk Film AS
Nordisk Film AB
Nordisk Film Post Production AB
Nordisk Special Marketing A/S
Nordisk Film Produksjon AS
A.Film A/S
Maipo AS
Fine & Mellow Productions A/S
SS Fladen AB
Søndagsavisen A/S
Fine & Mellow A/S
Nordisk Film TV A/S
Zentropa Folket ApS

Managerial positions within the past five years (positions no longer held)
Nordisk Film A/S
Vild med Underholdning A/S

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

Born in 1967

Employed since 1999

Joined the Executive Management in 2000

Steen Vangsgaard
Executive Vice President, Commercial Affairs

Born in 1966

Employed since 2009

Joined the Executive Management in 2009

Directorships
Member of the corporate management of SOC Consulting ApS
Member of the corporate management of SV1 Holding ApS

Member within the past five years (positions no longer held)
Minapharm Pharmaceuticals SAE
Actavis Italy Spa
Actavis Spain SA

Managerial positions within the past five years (positions no longer held)
Actavis Inc.
Alpharma Inc.
Vangsgaard Consulting

Morten Max Rasmussen
Executive Vice President, Transactions, Legal and IPR

Born in 1963

Employed since 2001

Joined the Executive Management in 2005

Anders Gram
Executive Vice President, Technical Operations, CTO

Born in 1960

Employed since 2008

Joined the Executive Management in 2008

Managerial positions within the past five years (positions no longer held)
Novozymes Ltd.

Reiner Laus
Executive Vice President, President & CEO of BN ImmunoTherapeutics Inc.

Born in 1960

Employed since 2007

Joined the Executive Management in 2008

Member of the board of directors
CG Therapeutics Inc.

Managerial positions within the past five years (positions no longer held)
Dendreon Corporation

Previous activities

During the past five years, none of the members of the Board of Directors, Corporate Management or the Executive Vice Presidents have (i) been convicted of fraudulent offences or (ii) been the object of public prosecution or sanctions by supervisory authorities or been disqualified from acting as a member of an issuer's corporate management, board of directors or supervisory body or being in charge of an issuer's management or other affairs.

With the exception of the persons mentioned below, during the past five years, none of the members of the Board of Directors, Corporate Management or the Executive Vice Presidents have been members of the corporate management, board of directors, been founders or senior employees in companies which have commenced insolvency proceedings or other forms of receivership, entered into a composition with creditors which is not binding on individual creditors, or entered into solvent liquidation, although Morten Max Rasmussen was General Manager of Austrian Nordic Biotherapeutics AG (wholly-owned subsidiary), which was wound up in a solvent liquidation on 27 September 2006.

Conflicts of interest

No actual or potential conflicts of interest exist between any of the duties of the members of the Board of Directors, Corporate Management or the Executive Vice Presidents of the Company and their private interests or other activities. There are no family relations among the members of the Board of Directors, Corporate Management or the Executive Vice Presidents of the Company.

The Company is not aware of any members of the Board of Directors, Corporate Management or the Executive Vice Presidents having been appointed pursuant to an agreement or understanding with the Company's major shareholders, customers, suppliers or other parties.

A full description of the lock-up agreements made by the Company, the Board of Directors and the Corporate Management is provided in "The Offering – Management and lock up agreements".

Restrictions on securities trading

In December 2009 Bavarian Nordic A/S obtained full ownership of the subsidiary BNIT by purchasing shares in BNIT from the President and CEO of BNIT and Executive Vice President of Bavarian Nordic, Reiner Laus, and two former employees in the subsidiary. In connection with the transaction Reiner Laus received 136,000 shares in Bavarian Nordic A/S. Reiner Laus has undertaken not to sell the 136,000 shares in Bavarian Nordic A/S until after 360 days counted from the completion of Bavarian Nordic A/S' purchase of the remaining shares in BNIT.

Apart from the above no restrictions have been imposed on any members of the Board of Directors, Corporate Management or the Executive Vice Presidents' trading in the Company's shares except as provided by law, the rules of procedure for the Board of Directors and the guidelines set out in the Company's internal rules.

16. Remuneration and benefits

The shareholders approve the remuneration of the Board of Directors at the general meeting, and the Board of Directors determines the remuneration of the Corporate Management and, in consultation with the Corporate Management, the remuneration of the Executive Vice Presidents. Information about the remuneration of the Board of Directors, the Corporate Management and the Executive Vice Presidents as well as any warrants granted is included in the notes to the Annual Report and below.

Board of Directors

The total remuneration to the Company's board members amounted to DKK 1.2 million in 2008. Moreover, the present five members of the Board of Directors have 75,837 warrants as at the Prospectus Date, see table 15. The Board of Directors is not comprised by any bonus schemes.

The Company has not granted any loans, issued any guarantees or undertaken any other obligations to do so on behalf of the Board of Directors.

No member of the Board of Directors is entitled to any kind of remuneration on retirement from his or her position as member of the Board of Directors. The Company has not allocated funds for any pension benefits, severance schemes or similar measures or undertaken any other obligations to do so on behalf of the Board of Directors and has no obligation to do so.

Corporate and Executive Management

The remuneration, including pension contributions, to the Corporate Management amounted to DKK 5.0 million in 2008. The Corporate Management does not receive remuneration from subsidiaries of the Group. Moreover, the Corporate Management has 70.000 warrants in the Company as at the Prospectus Date, see table 15, as well as 39 phantom shares as at 30 November 2009, see table 16.

The total remuneration, including pension contributions, to the Executive Vice Presidents amounted to DKK 17.5 million in 2008. Executive Vice Presidents employed by the Company do not receive remuneration from subsidiaries of the Group. The two Executive Vice Presidents employed in the United States and Germany, respectively, receive remuneration from the local subsidiaries. Moreover, the Executive Vice Presidents have 217.515 warrants in the Company as at the Prospectus Date, see table 15, as well as 171 phantom shares as at 30 November 2009, see table 16.

In FY 2008, the remuneration to the Executive Management consisted of a base salary including standard benefits, such as a company car and a company-paid telephone line etc. in addition to the possibility of receiving bonus and share options. The Executive Management has a bonus scheme relating to the achievement of particular bonus targets. The bonus cannot exceed 50% of the Executive Management's gross salary. In addition, the Executive Management is covered by the Company's share option scheme.

The Corporate Management can terminate his employment by giving six months' notice, and the Company can terminate the employment by giving 12 months' notice. The Executive Vice Presidents can terminate their employment by giving between three and six months' notice, and the Company can terminate their employment by giving between eight and twelve months' notice.

In the event that 1) a controlling interest in the Company is transferred, 2) the Company ceases to exist by merger or 3) the Company is liquidated upon divestment of all or significant parts of the Company's activities, the Company's Corporate Management and a majority of the Executive Vice Presidents will be entitled to receive a transaction bonus corresponding to 12 months' remuneration. Further, the notice of termination on the part of the Company will be extended to 24 months if the Corporate Management is dismissed in the first 12 months after the relevant event and to between 18 and 24 months of the relevant Executive Vice President is dismissed in the first 12 months after the relevant event.

The Corporate Management and a majority of the Executive Vice Presidents are subject to non-competition clauses.

Other than as set out above, the members of the Executive Management are not entitled to any kind of remuneration on retirement from their executive positions other than salary during the notice period and death in service benefit to a member's dependants in the event of his or her death, compensation for a non-competition clause and possible transaction bonus as described above. Except for an allocation of amounts for payments under non-competition clauses with the Corporate Management, the Company has not allocated funds for any pension benefits, severance schemes or similar measures or undertaken any other obligations to or on behalf of the Corporate or Executive Management and is under no obligation to do so.

The Company has not granted any loans, issued any guarantees or undertaken any other obligations to do so on behalf of the Executive Management.

For further details on the terms and conditions of the warrants, see "Additional information – Warrants". See also "Staff – Incentive schemes" for a description of the phantom share scheme introduced by the Company.

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.

Further, as part of an agreement entered into between the Company and Reiner Laus regarding the Company's purchase of shares in BNIT in December 2009, Reiner Laus is entitled to receive a consideration triggered upon successful achievement of certain predefined milestones. The total remaining consideration amounts to a maximum of DKK 34 million (risk-adjusted net present value of DKK 10 million). In addition thereto a separate agreement regarding cancellation of certain contractual rights regarding BNIT entitles Reiner Laus to a maximum consideration of DKK 26 million (risk-adjusted net present value of DKK 3 million) upon successful achievement of certain pre-defined milestones.

Other than as set out above, no exceptional or extraordinary agreements, including agreements regarding bonus schemes, except ordinary incentive schemes and remuneration of the Board of Directors, the Corporate Management and the Executive Vice Presidents implying financial obligations for the Group, have been concluded between the Company and members of the Board of Directors, the Corporate Management or the Executive Vice Presidents. The Board of Directors has adopted a set of overall guidelines for incentive remuneration of the Board of Directors, Corporate Management and Executive Vice Presidents, which was approved by the shareholders at a general meeting of the Company on 29 April 2009. No member of the Board of Directors, the Corporate Management or any Executive Vice President has received or will receive separate remuneration in connection with the Offering.

17. Board practices

Board practices

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 2008, seven board meetings were held, and in 2009, seven board meetings were held. As at the Prospectus Date, one Board meeting has been held in 2010.

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

See the section "Board of Directors, Corporate Management and Executive Management" for more information about the members of the Board of Directors, the Corporate Management and the Executive Management and their terms.

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.

Employment contracts with the Executive Management

For a description of the employment contracts of the Executive Management, see "Remuneration and Benefits".

Audit and remuneration committees

Listed companies are required to set up an audit committee. Such committee must have at least one independent member with accounting and/or auditing qualifications, unless none of the members of the Board of Directors are also members of the Corporate Management.

Bavarian Nordic has set up an audit committee consisting of the Company's board members and chaired by Flemming Pedersen.

The audit committee reviews and discusses the accounting, audit and the regulatory control 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 has no remuneration committee.

Bavarian Nordic's principles for good 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 Group.

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 Group is operated in compliance with guidelines and recommendations that support the Group'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.

To the widest possible extent, the Group complies with the recommendations about information to be provided with the exceptions stated below. Below are also explanations of areas in which the Group has decided to deviate from the recommendations. For more information, please see supplementary disclosures on our Group website.

The Group has given the following considerations to and made the following decisions in relation to the recommendations on corporate governance, including that a few recommendations are not complied with:

The Committee recommends that the supervisory board consider to what extent generally accepted accounting standards other than those required, such as US-GAAP, should be applied as a supplement to the annual report if trade conditions or other circumstances make this relevant in relation to the information needs of the recipients, including the need for comparability.

The Company's annual report is presented in accordance with the International Financial Reporting Standards (IFRS) and other Dan-

ish requirements to the presentation of financial statements by listed companies. The Company's annual report does not include any supplementary information about additional accounting standards or non-financial information, but the Board of Directors regularly evaluates the need therefor.

In connection with the preparation of the annual report, the Committee recommends that the supervisory board decide whether it is expedient that the company publishes details of a non-financial nature, even in instances where this is not required by any applicable legislation or standards.

The Board of Directors regularly considers whether it would be expedient to include non-financial information in the annual report, for instance information on the Group's knowledge management (the development and maintenance of internal knowledge resources).

It is recommended that the supervisory board regularly evaluates which competencies it must hold to carry out the tasks imposed on it in the best possible manner and that it evaluates the composition of the supervisory board in light thereof. In the evaluation, it is recommended that the supervisory board should factor in gender, age and the like.

The Board of Directors endeavours to ensure that the Board is composed in such a way that the members of the Board of Directors hold the professional competencies and business background necessary to handle the tasks imposed on it. New members are recruited on the basis of the criteria set out above and not on the basis of a formally fixed process. The members of the Board of Directors are elected by the shareholders. The Board of Directors does not deem it necessary to define a formal process regarding the composition of the Board in which diversity, including in relation to gender and age, is a separate parameter.

It is recommended that the Company fixes an age limit for board members.

The Company has not fixed an age limit for members of its Board of Directors: the Board of Directors is composed of competent and experienced persons who each contribute to the Group's growth and management. The members of the Board of Directors are elected by the Company's shareholders, and re-election by the shareholders confirms the confidence in the individual Board members, irrespective of their age.

This issue is evaluated regularly as part of the overall assessment of the work of the Board of Directors and Management.

The Committee recommends that the supervisory board consider and decide whether to establish committees, including nomination, remuneration and audit committees.

The Board of Directors' rules of procedure allow for the potential establishment of sub-committees. The Company has an audit committee the functions of which are handled by the entire Board of Directors. This is made possible by the fact that at least one of the board members is both independent of the Group and has qualifications within accounting and auditing, as required pursuant to the Danish Act on State Authorised and Registered Public Accountants. The Company has no other sub-committees.

The Committee recommends that the supervisory board adopt a remuneration policy and that the company disclose the contents of such policy in its annual report and on the company's website.

The Company does not have an overall formalised remuneration policy since it is not deemed to be expedient. The shareholders approve the remuneration of the Board of Directors at the general meeting, and the Board of Directors determines the remuneration of the Corporate Management and, in consultation with the Corporate Management, the remuneration of the Executive Vice Presidents. In determining the remuneration, the Company has regard to the interests of the Company and the shareholders and ensures that the remuneration is reasonable relative to the tasks and responsibility undertaken. The Company has approved guidelines for incentive remuneration to the Board of Directors and the Corporate Management, including detailed instructions as to the Company's application of this type of remuneration.

The Group does not merely make use of warrants in the remuneration of the Corporate Management, but also in the remuneration of the Board of Directors. This is due to the fact that Management believes that warrants ensure a close correlation between the structure of the Board remuneration and the interests of the shareholders.

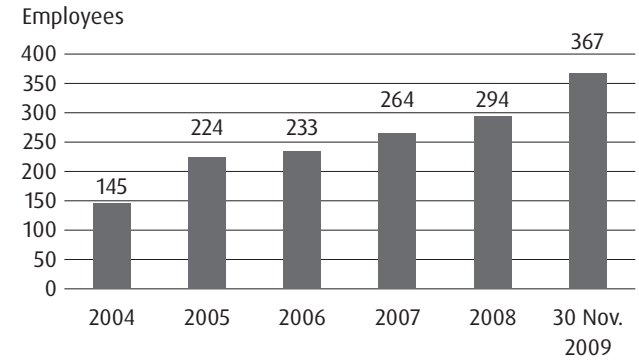
18. Employees

Number of employees

Bavarian Nordic's employees are one of the Group's most important resources and the key to Bavarian Nordic's future success. Employee efforts and abilities give the Group its dynamics and growth. Bavarian Nordic must be able to attract the very best people in the industry. The Group will only succeed in these endeavours by offering challenging working conditions and an international atmosphere. Bavarian Nordic has an international corporate culture with employees from many different countries.

Bavarian Nordic had a total of 362 employees as at Prospectus Date. Trends in the Group's number of full-time employees are illustrated below.

Figure 1 – Number of employees



The increase in activity, including the awarded RFP-3 contract from the US authorities in June 2007 combined with the transition from being a biotech company to being a biopharmaceutical company with in-house production facilities, has resulted in growth in the number of employees in the Group in recent years. The number of employees with Bavarian Nordic increased by approximately 25% from 31 December 2008 to 30 November 2009 to the effect that the number of employees totalled 367 as at 30 November 2009.

A breakdown of Group full-time employees by function is set out in the table below.

Table 12 – Breakdown of employees by function

	30 November 2009	2008	2007	2006
Executive Management and staff functions	50	34	36	39
Research & development	163	142	134	118
Sales and business development	10	10	4	2
Technical operations	144	108	90	74
Total	**367**	**294**	**264**	**233**

A breakdown of Group employees by geography is set out in the table below.

Table 13 – Breakdown of employees by geography

	30 November 2009	2008	2007	2006
Denmark	187	147	119	105
Germany	139	114	121	107
United States	39	31	23	20
Singapore	2	2	1	1
Total	**367**	**294**	**264**	**233**

Shareholdings and warrants

The table below shows the number of shares and warrants held by members of the Board of Directors, Corporate Management and Executive Vice Presidents in the Company as at the Prospectus Date. In the tables below, holdings and exercise prices have not been adjusted to reflect the Offering.

Table 14 – Shareholding of the Board of Directors, Corporate Management and Executive Vice Presidents

Shareholder	Number of shares of DKK 10 each	Ownership interest
Asger Aamund	1,334,099	16.78%
Claus Bræstrup	1,500	0.02%
Erling Johansen	3,146	0.04%
Gerard van Odijk	0	0.0%
Flemming Pedersen	0	0.0%
Anders Hedegaard	0	0.0%
Ole Larsen	800	0.01%
Paul Chaplin	0	0.0%
Steen Vangsgaard	0	0.0%
Morten Max Rasmussen	0	0.0%
Anders Gram	0	0.0%
Reiner Laus	136,000	1.71%
Total	**1,475,545**	**18,56%**

Table 15 – Warrants held by the Board of Directors, Corporate Management and Executive Vice Presidents

Person	Programme	Exercise price (DKK)	Exercise period	Number of warrants granted
Board of Directors				
Asger Aamund, Chairman	August 2006	542	2 weeks after publication of the Annual Report for 2009	5,279
	August 2007	549	2 weeks after publication of Q3 2010 Report and/or 2 weeks after publication of the Annual Report for 2010	5,000
	October 2008	156	2 weeks after publication of Q2 2011 Report and/or 2 weeks after publication of the Annual Report for 2011 and/or 2 weeks after the publication of Q2 2012 Report and/or 2 weeks after the Annual Report for 2012	4,000
	December 2009	184	2 weeks after publication of Q3 2012 Report and/or 2 weeks after publication of Q1 2013 Report and/or 2 weeks after publication of Q3 2013 Report and/or 2 weeks after publication of Q1 2014 Report	5,000
Claus Bræstrup	October 2008	156	2 weeks after publication of Q2 2011 Report and/or 2 weeks after publication of the Annual Report for 2011 and/or 2 weeks after the publication of Q2 2012 Report and/or 2 weeks after the Annual Report for 2012	4,000
	December 2009	184	2 weeks after publication of Q3 2012 Report and/or 2 weeks after publication of Q1 2013 Report and/or 2 weeks after publication of Q3 2013 Report and/or 2 weeks after publication of Q1 2014 Report	5,000

Table 15 – Warrants held by the Board of Directors, Corporate Management and Executive Vice Presidents – continued

Person	Programme	Exercise price (DKK)	Exercise period	Number of warrants granted
Board of Directors				
Erling Johansen	August 2006	542	2 weeks after publication of the Annual Report for 2009	5,279
	August 2007	549	2 weeks after publication of Q3 2010 Report and/or 2 weeks after publication of the Annual Report for 2010	5,000
	October 2008	156	2 weeks after publication of Q2 2011 Report and/or 2 weeks after publication of the Annual Report for 2011 and/or 2 weeks after the publication of Q2 2012 Report and/or 2 weeks after the Annual Report for 2012	4,000
	December 2009	184	2 weeks after publication of Q3 2012 Report and/or 2 weeks after publication of Q1 2013 Report and/or 2 weeks after publication of Q3 2013 Report and/or 2 weeks after publication of Q1 2014 Report	5,000
Gerard van Odijk	October 2008	156	2 weeks after publication of Q2 2011 Report and/or 2 weeks after publication of the Annual Report for 2011 and/or 2 weeks after the publication of Q2 2012 Report and/or 2 weeks after the Annual Report for 2012	4,000
	December 2009	184	2 weeks after publication of Q3 2012 Report and/or 2 weeks after publication of Q1 2013 Report and/or 2 weeks after publication of Q3 2013 Report and/or 2 weeks after publication of Q1 2014 Report	5,000
Flemming Pedersen	August 2006	542	2 weeks after publication of the Annual Report for 2009	5,279
	August 2007	549	2 weeks after publication of Q3 2010 Report and/or 2 weeks after publication of the Annual Report for 2010	5,000
	October 2008	156	2 weeks after publication of Q2 2011 Report and/or 2 weeks after publication of the Annual Report for 2011 and/or 2 weeks after the publication of Q2 2012 Report and/or 2 weeks after the Annual Report for 2012	4,000
	December 2009	184	2 weeks after publication of Q3 2012 Report and/or 2 weeks after publication of Q1 2013 Report and/or 2 weeks after publication of Q3 2013 Report and/or 2 weeks after publication of Q1 2014 Report	5,000
Corporate Management				
Anders Hedegaard	August 2007	549	2 weeks after publication of Q3 2010 Report and/or 2 weeks after publication of the Annual Report for 2010 2 weeks in Q4 2010 and/or Q2 2011	30,000
	October 2008	156	2 weeks after publication of Q2 2011 Report and/or 2 weeks after publication of the Annual Report for 2011 and/or 2 weeks after the publication of Q2 2012 Report and/or 2 weeks after the Annual Report for 2012	20,000
	December 2009	184	2 weeks after publication of Q3 2012 Report and/or 2 weeks after publication of Q1 2013 Report and/or 2 weeks after publication of Q3 2013 Report and/or 2 weeks after publication of Q1 2014 Report	20,000

Table 15 – Warrants held by the Board of Directors, Corporate Management and Executive Vice Presidents – continued

Person	Programme	Exercise price (DKK)	Exercise period	Number of warrants granted
Executive Vice Presidents				
Ole Larsen	October 2008	156	2 weeks after publication of Q2 2011 Report and/or 2 weeks after publication of the Annual Report for 2011 and/or 2 weeks after the publication of Q2 2012 Report and/or 2 weeks after the Annual Report for 2012	15,000
	December 2009	184	2 weeks after publication of Q3 2012 Report and/or 2 weeks after publication of Q1 2013 Report and/or 2 weeks after publication of Q3 2013 Report and/or 2 weeks after publication of Q1 2014 Report	15,000
Paul Chaplin	August 2006	542	2 weeks after publication of the Annual Report for 2009	31,677
	August 2007	549	2 weeks after publication of Q3 2010 Report and/or 2 weeks after publication of the Annual Report for 2010	15,000
	October 2008	156	2 weeks after publication of Q2 2011 Report and/or 2 weeks after publication of the Annual Report for 2011 and/or 2 weeks after the publication of Q2 2012 Report and/or 2 weeks after the Annual Report for 2012	15,000
	December 2009	184	2 weeks after publication of Q3 2012 Report and/or 2 weeks after publication of Q1 2013 Report and/or 2 weeks after publication of Q3 2013 Report and/or 2 weeks after publication of Q1 2014 Report	15,000
Steen Vangsgaard	March 2009	124	2 weeks after publication of the Annual Report for 2011 and/or 2 weeks after publication of Q2 2012 Report and/or 2 weeks after publication of the Annual Report for 2012 and/or 2 weeks after publication of Q2 2013 Report	5,000
	December 2009	184	2 weeks after publication of Q3 2012 Report and/or 2 weeks after publication of Q1 2013 Report and/or 2 weeks after publication of Q3 2013 Report and/or 2 weeks after publication of Q1 2014 Report	15,000
Morten Max Rasmussen	August 2006	542	2 weeks after publication of the Annual Report for 2009	15,838
	August 2007	549	2 weeks after publication of Q3 2010 Report and/or 2 weeks after publication of the Annual Report for 2010	15,000
	October 2008	156	2 weeks after publication of Q2 2011 Report and/or 2 weeks after publication of the Annual Report for 2011 and/or 2 weeks after the publication of Q2 2012 Report and/or 2 weeks after the Annual Report for 2012	15,000
	December 2009	184	2 weeks after publication of Q3 2012 Report and/or 2 weeks after publication of Q1 2013 Report and/or 2 weeks after publication of Q3 2013 Report and/or 2 weeks after publication of Q1 2014 Report	15,000
Anders Gram	October 2008	156	2 weeks after publication of Q2 2011 Report and/or 2 weeks after publication of the Annual Report for 2011 and/or 2 weeks after the publication of Q2 2012 Report and/or 2 weeks after the Annual Report for 2012	15,000
	December 2009	184	2 weeks after publication of Q3 2012 Report and/or 2 weeks after publication of Q1 2013 Report and/or 2 weeks after publication of Q3 2013 Report and/or 2 weeks after publication of Q1 2014 Report	15,000

In the event of a sale of a majority of the shares in the Company, meaning a transfer of more than 50% of the Company's share capital to a third party (who may be a shareholder in the Company), the Company's Board of Directors may resolve: 1) that the warrant holder must exercise all warrants granted in whole or in part, whether or not they have vested, and transfer the shares on the same terms as the other disposing shareholders (and waive them whereby the warrants will terminate), or 2) that the warrant holder must keep the warrants granted on the terms stated.

In the event of dissolution of the Company, including by merger or demerger, the Company's Board of Directors may resolve: 1) that the warrant holder must exercise all warrants granted in whole or in part, whether or not they have vested, and transfer the shares on the same terms as the other disposing shareholders (and waive them whereby the warrants will terminate), or 2) that the warrant holder must keep the warrants granted on the terms stated.

Incentive programmes

For a description of the Company's incentive programmes comprising warrants, please see "Additional information – Warrants".

With effect from 1 November 2008, the Company has established a three-year phantom share programme. The programme applies to all employees of the Company, Bavarian Nordic GmbH and Bavarian Nordic Inc. Under the programme, all eligible employees will 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.

Employees employed during the term of the programme, will be allocated phantom shares, when such employees have been employed for three months. The phantom shares may be settled during a two-week period commencing on the date when the Company releases its interim report for the nine months ending 30 September 2011. Upon settlement, the holder of the phantom share will receive the difference between the allotment price of DKK 156 (the "Allotment Price"), and the weighted average price of the Company's Shares ("All trades") on NASDAQ OMX during a period of 10 business days prior to the first day of the exercise period (the "Exercise Price"), always provided that the Exercise Price is at least 10% higher than the Allotment Price. If the Exercise Price is not at least 10% higher than the Allotment Price, all of the awarded phantom shares will lapse without notice and without compensation. The incentive programme contains adjustment mechanisms for the number of phantom shares and the price in case of changes to the Company's capital position, including capital increases at a discount to the market price. The number of awarded phantom shares and the price must therefore be adjusted as a result of the Offering. At the Company's option, in certain cases the programme also includes a possibility of/duty to perform an extraordinary redemption of the phantom shares in case of a merger, de-merger, delisting, change of control pursuant to section 31 of the Danish Securities Trading Act and liquidation.

The table below sets out the number of awarded phantom shares at 30. November 2009 and the maximum number of phantom shares expected to be awarded as at 31 October 2011 based on a headcount of 367 at 30 November 2009.

The most significant factors in relation to the phantom share programme, including the number of phantom share and the exercise price will be adjusted if the Offering is completed.

Table 16 – Phantom share programme

	Allotment price (DKK)	Corporate Management	Executive Vice Presidents	Other employees	Total
Total number of awarded phantom shares at 30 November 2009	156	39	171	10,923	11,133
Maximum number of phantom shares at 31 October 2011	156	108	513	20,562	21,183

19. Major shareholders

As at the Prospectus Date, about 15,000 shareholders were registered by name in the Company's register of shareholders, representing approximately 83% of the Company's share capital.

Pursuant to section 29 of the Danish Securities Trading Act shareholders in a listed company are required to immediately notify the listed company and the Danish FSA when the shareholder's stake (i) represents 5% or more of the voting rights in the company or the nominal value of its share capital, and (ii) when a change in a holding already notified implies that the limits of 5%, 10%, 15%, 20%, 25%, 50% or 90% and the limits of one-third and two-thirds of the voting rights or the nominal value are reached or are no longer reached or the change implies that the limits stated in (i) are no longer reached. The notifications must comply with the requirements for the contents thereof set out in sections 15 and 16 of the Danish executive order on major shareholders, including the identity of the shareholder and the date when a limit is reached or is no longer reached. Failure to comply with the duties of disclosure is punishable by fine. When Bavarian Nordic has received such notification, it must publish its contents as soon as possible. Furthermore, the general duty of notification pursuant to the Danish Public Companies Act applies.

At the Prospectus Date, A.J. Aamund A/S has notified a holding representing more than 15%, LD Invest has notified a holding representing more than 5% and ATP and ATP Invest have notified an aggregate holding representing more than 5%.

The Company does not hold any treasury shares as at the Prospectus Date.

The Company's major shareholders have the same rights as the Company's other shareholders.

The Company is not aware that the Company is directly or indirectly owned or controlled by third parties. Further, the Company is not aware of any agreements which may lead to a direct or indirect change of control in the Company.

20. Related party transactions

The Corporate Management and the Board of Directors of Bavarian Nordic A/S are considered to be related parties as they exercise a significant influence on the Group's operations. Related parties also include such persons' relatives as well as companies in which such persons have significant interests.

Except for intra-group transactions and remuneration to the Corporate Management and Board of Directors and the incentive plan, no material transactions have been entered into with related parties. See "Remuneration and benefits" for a description of remuneration to the Board of Directors and Corporate Management and "Additional information – Warrants" for a description of incentive plans.

21. Financial information concerning Bavarian Nordic's assets and liabilities, financial position and profits and losses

For financial information about Bavarian Nordic, see Appendix 3 "Annual and interim financial statements of Bavarian Nordic".

For a description of the Company's dividend policy, legal and arbitration proceedings please see "Company information – Business overview".

See "Company information – Operating and financial review" for a description of significant changes to the Group's financial position since the publication of the most recent interim report.

22. Additional information

Share capital

Below is a summary of information regarding the Company's share capital.

Table 17 – Movements in the Company's share capital

	Capital increase, no. of shares of DKK 10 each	Gross proceeds, DKKm	Share capital, no. of shares of DKK 10 each	Issued share capital, DKK nominal value
Share capital at 31 December 2005			5,797,055	57,970,550
2006				
Capital increase, March 2006 at DKK 410 per share (private placement)	579,125	237.4	6,376,180	63,761,800
2007				
Capital increase, March 2007 at DKK 365 per share (1:5 rights issue)	1,275,236	465.5	7,651,416	76,514,160
Capital increase, May 2007 at a price of 283 per share (exercise of employee options)	155,603	44.0	7,807,019	78,070,190
Capital increase, May 2007 at a price of 437 per share (exercise of employee options)	8,549	3.7	7,815,568	78,155,680
2009				
Non-cash contribution, December 2009 (payment of minority interests in BNIT)	136,177		7,951,745	79,517,450
2010				
Maximum Offering This Offering 8 January 2010 at the Offer Price of DKK 80 per share.	3,975,872	318.1	11,927,617	119,276,170

Immediately prior to the Offering, Bavarian Nordic's issued share capital amounted to DKK 79,517,450 nominal value divided into 7,951,745 Shares each with a nominal value of DKK 10. When issued, the New Shares shall rank pari passu with the Existing Shares.

Apart from warrants issued by the Company as set out in table 18, none of the companies in the Group have warrants or options attached to their share capital.

Warrants

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 programme by way of a warrant plan for the Board of Directors, Corporate Management, other management employees and other employees.

In August 2006, August 2007, October 2008, March 2009 and December 2009, the Board of Directors granted warrants to the Board of Directors, Corporate Management, selected management employees in the Company and its subsidiaries as well as other employees.

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

The granted warrants vest at the date of the earliest exercise and the fair value of the warrants at grant date is amortised over the period from the date of grant to the date of the earliest exercise.

In the event a warrant holder resigns from his or her position with the Group before the warrants are exercised the following vesting conditions shall apply in relation to granted warrants:

- Warrant holders who are employees of Bavarian Nordic A/S and its subsidaries as well as the Company's CEO are subject to the following provisions in case of termination of their employment in the Group as set out in the Danish Stock Option Act, i.e. (i) if the warrant holder terminates his or her employment with the Group, the warrant holder forfeits all rights to warrants granted, but not yet exercised, (ii) if the employer terminates the warrant holder's employment with the Group for any other reason than breach by the warrant holder, the warrant holder preserves all rights to warrants granted and the same applies in the situations specified in section 4(2) and (3) of the Danish Stock Option Act and (iii) if the employer terminates the warrant holder's employment due to breach by the warrant holder, or if the warrant holder is dismissed summarily for cause, the warrant holder forfeits all rights to warrants granted, but not yet exercised.
- Warrant holders who are directors of the Company and who retire from the Board of Directors, howsoever caused, preserve all rights to warrants granted.

Vested warrants under the August 2006 programme may be exercised in whole or in part during open subscription windows commencing on the date of release/publication of the Company's full-year profit announcement in 2010 and ending two weeks later. Warrants may be exercised on or before 15 April 2010. Warrants issued under the 2006 programme contain an adjustment mechanism in case of a capital increase at a discount to the market price.

Vested warrants under the August 2007 programme may be exercised in whole or in part during open subscription windows commencing on the date of release/publication of the Company's interim announcement for the nine months ending 30 September 2010 and ending two weeks later and commencing on the date of release/publication of the Company's full-year profit announcement in 2011 and ending two weeks later. Warrants not exercised during the first subscription period may be exercised during the subsequent subscription period, however not later than 15 April 2011. Warrants issued under the August 2007 programme contain an adjustment mechanism in case of a capital increase at a discount to the market price.

Vested warrants under the October 2008 programme may be exercised in whole or in part during two-week open subscription windows, (1) first time in extension of the publication of the Company's interim report for the six months ending 30 June 2011, (2) second time in extension of the publication of the Company's annual report for the year ending 31 December 2011, (3) third time in extension of the publication of the Company's interim report for the six months ending 30 June 2012, and (4) fourth time in extension of the publication of the Company's annual report for the year ending 31 December 2012. Warrants not exercised during the first subscription period may be exercised during the subsequent subscription periods, however not later than 15 April 2013. Warrants issued under the 2008 programme contain an adjustment mechanism in case of a capital increase at a discount to the market price.

Vested warrants under the March 2009 programme may be exercised in whole or in part during two-week open subscription windows, (1) first time in extension of the publication of the Company's annual report for the year ending 31 December 2011, (2) second time in extension of the publication of the Company's interim report for the six months ending 30 June 2012, (3) third time in extension of the publication of the Company's annual report for the year ending 31 December 2012, and (4) fourth time in extension of the publication of the Company's interim report for the six months ending 30 June 2013. Warrants not exercised during the first subscription period may be exercised during the subsequent subscription periods, however not later than 13 September 2013. Warrants issued under the 2009 programme contain an adjustment mechanism in case of a capital increase at a discount to the market price.

Vested warrants under the December 2009 programme may be exercised in whole or in part during two-week open subscription windows, (1) first time in extension of the publication of the Company's interim Report for the nine months ending 30 September 2012, (2) second time in extension of the publication of the Company's interim Report for the three months ending 31 March 2013, (3) third time in extension of the publication of the Company's Interim Report for the nine months ending 30 September 2013, and (4) fourth time in extension of the publication of the Company's interim Report for the three months ending 31 March 2014. Warrants not exercised during the first subscription period may be exercised during the subsequent subscription periods, however not later than 18 June 2014. Warrants issued under the 2009 programme contain an adjustment mechanism in case of a capital increase at a discount to the market price.

The most significant factors in relation to the warrant programmes, including the number of warrants and the exercise price will be adjusted if the Offering is completed.

Table 18 – Outstanding warrants (at Prospectus Date)

Programme	Exercise Price (DKK)	Exercise period	Board of Directors (number)	Corporate Management (number)	Executive Vice Presidents (number)	Other employees (number)	Employees who have left (number)	Total
August 2006	542	2 weeks after publication of the Annual Report for 2009	15,837	0	47,515	36,422	39,066	138,840
August 2007	549	2 weeks after publication of Q3 2010 Report and/or 2 weeks after publication of the Annual Report for 2010	15,000	30,000	30,000	44,000	31,000	150,000
October 2008	156	2 weeks after publication of Q2 2011 Report and/or 2 weeks after publication of the Annual Report for 2011 and/or 2 weeks after the publication of Q2 2012 Report and/or 2 weeks after the Annual Report for 2012	20,000	20,000	60,000	56,500	2,000	158,500
March 2009	124	2 weeks after publication of the Annual Report for 2011 and/or 2 weeks after publication of Q2 2012 Report and/or 2 weeks after publication of the Annual Report for 2012 and/or 2 weeks after publication of Q2 2013 Report	0	0	5,000	20,000	0	25,000
December 2009	184	2 weeks after publication of Q3 2012 Report and/or 2 weeks after publication of Q1 2013 Report and/or 2 weeks after publication of Q3 2013 Report and/or 2 weeks after publication of Q1 2014 Report	25,000	20,000	75,000	150,000	0	270,000
Total			**75,837**	**70,000**	**217,515**	**406,922**	**72,066**	**742,340**

Warrants vested under the December 2009 programme have been issued pursuant to article 5f of the Company's articles of association. Upon registration with the Danish Commerce of Companies Agency the articles of association will be amended to reflect the issuance of warrants under the December 2009 programme and article 5f will be deleted from the Company's articles of association.

Convertible bonds

Pursuant to article 5h of the Company's articles of association, the Board of Directors shall be authorised, until 1 May 2012, to resolve on one or more occasions to raise loans of up to DKK 39,000,000 against issuance of convertible bonds which confer a right to subscribe for shares in the Company. The Company's shareholders shall have no preemptive rights in connection with the issuance of the convertible bonds under the authorisation. The loans shall be paid in cash. The specific terms and conditions governing the convertible bonds issued pursuant to the authorisation shall be determined by the Board of Directors.

For the purpose of implementing the capital increase relating to the conversion of convertible debt instruments, the Board of Directors is authorised, until 24 April 2014, to increase the Company's share capital in one or more issues by up to a total nominal amount of DKK 3,900,000 by conversion of the convertible bonds and otherwise on terms determined by the Company's Board of Directors. The Company's existing shareholders shall have no preemptive rights to shares issued through the conversion of the convertible bonds.

Share capital increase

At the extraordinary general meeting held on 6 January 2010, the Board of Directors was authorised, until 30 June 2011, at its own discretion, to increase the Company's share capital by up to DKK 80,000,000 nominal value (8,000,000 Shares, each with a nominal value of DKK 10) in one or more issues. The share capital may be increased by cash payment or in other ways. Where the capital increase is effected for cash at a subscription price lower than the market value of the Shares, the existing shareholders will have preemptive rights to subscribe the amount by which the share capital is increased in proportion to their shareholdings. Where an increase of the share capital is effected by cash payment outside the scope of article 5a(2) of the articles of association or otherwise, including by conversion of debt or as consideration for contribution of assets other than cash, the existing shareholders of the Company will have no preemptive rights. Where an increase of the share capital is effected in any other way, the provisions of section 33 of the Danish Public Companies Act apply, and the subscription price or the value of the shares issued, respectively, is determined by the Board of Directors within the framework provided by the mandatory rules of the Danish Public Companies Act, including sections 79 and 80 of the Act. The other terms and conditions for the subscription will be determined by the Board of Directors. The New Shares shall be negotiable instruments and shall be issued to bearer but they may be registered in the bearer's name in the Company's register of shareholders. No restrictions shall apply to the transferability of the New Shares, neither in whole or in part. The shares shall carry dividends from such time as resolved by the Board of Directors, but not later than for the financial year following the year of the share capital increase.

Up to DKK 39,758,720 nominal value (3,975,872 New Shares of DKK 10 nominal value each) (the Maximum Offering) of the above-mentioned authorisation will be used in connection with the Offering as described in more detail in "The Offering". Up to DKK 40,241,280 nominal value (4,024,128 Shares of DKK 10 nominal value each) (the Maximum Offering) then remains of the authorisation.

Treasury shares

At the Company's general meeting held on 27 April 2009, the Board of Directors was authorised to let the Company acquire treasury shares with a total nominal value of up to 10% of the Company's share capital. The Company does not hold any treasury shares as at the Prospectus Date.

Shareholders agreements

Management has no knowledge of any shareholder agreements concerning the Company.

Memorandum of association and the Company's articles of association

As regards the articles of association, the following should be emphasised:

Objects

The objects for which the Company has been established are to carry out research, trade, manufacture and any other related activities, primarily within the pharmaceutical industry. See article 3 of the articles of association.

The Company was established in 1992 as a shelf corporation, and the objects clause in the memorandum of association is therefore not relevant to the Company.

Summary of provisions concerning members of the Board of Directors and the Corporate Management

The Company shall be managed by a Board of Directors of three to six members to be elected for one year at a time by the shareholders at the general meeting. Retiring directors shall be eligible for re-election. Members that are to be elected pursuant to the statutory rules regarding representation of the employees on the Board of Directors shall be elected as well. The shareholders at the general meeting shall determine the remuneration of the Board of Directors. See article 17 of the articles of association.

The proceedings at Board meetings will be recorded in a minute book to be signed by the attending members. The Board of Directors shall elect its own chairman and deputy-chairman and may furthermore grant single or joint powers of procuration. The Board of Directors shall draw up its own rules of procedure governing the performance of its duties. The Board of Directors shall appoint the Corporate Management. See article 18 of the articles of association.

The Company shall be bound by the joint signatures of the Chairman of the Board of Directors and that of either any one member of the Corporate Management or any two members of the Board of Directors, or by the joint signatures of any two members of the Board of Directors and any one member of the Corporate Management. See article 19 of the articles of association.

Rights and restrictions in relation to Existing Shares

No share shall carry any special rights. See article 7 of the articles of association.

Each Share of DKK 10 shall carry one vote at general meetings. See article 15 of the articles of association.

The Shares are negotiable instruments and no restrictions shall apply to the transferability of the Shares. See article 6 of the articles of association.

No shareholder shall be obliged to let his Shares be redeemed in full or in part by the Company or by any other party, except as provided in the Danish Public Companies Act. See article 7 of the articles of association.

Amendments to the Company's articles of association:

All resolutions put to the vote of shareholders at general meetings shall be subject to adoption by a simple majority of votes, unless the Danish Public Companies Act or the articles of association prescribes other requirements. According to Article 16, if a greater majority of votes or unanimity is not required pursuant to the Danish Public Companies Act, the adoption of resolutions regarding amendments to the articles of association, the dissolution of the Company, or its merger or amalgamation with another company or business, is subject to such resolution being adopted by not less than two-thirds of all the votes cast as well as of the votes represented at the relevant general meeting, and to not less than 50% of the share capital being represented at the general meeting in question. In case less than 50% of the share capital is represented at the general meeting, but the resolution is adopted by not less than two-thirds of the votes cast as well as of the voting share capital represented at the meeting, another general meeting may be called within 14 days after the preceding general meeting. At the new general meeting, the resolution can be adopted by not less than two-thirds of the votes cast as well as of the voting share capital represented at the general meeting.

Notice convening annual and extraordinary general meetings

General meetings shall be held in the municipality of the Company's registered office or in the Greater Copenhagen Area. General meetings shall be convened by the Board of Directors giving not less than two weeks' and not more than four weeks' notice. General meetings shall be advertised in one leading daily newspaper and in the computer information system of the Danish Commerce and Companies Agency. Furthermore, all shareholders registered in the Company's register of shareholders, who have

so requested, shall be convened by letter. The notice shall set out the agenda of the general meeting. The notice shall specify whether any proposal requiring a special majority of votes is to be considered, including the essential contents of such proposal. During the last eight days before each general meeting, the agenda and the proposed resolutions, set out verbatim, and, in the case of the annual general meeting, also the audited annual report with the auditors' opinion, shall be made available for inspection by the shareholders at the Company's office. These documents shall also be sent to all registered shareholders who have so requested. See article 10 of the articles of association.

Any shareholder shall be entitled to attend general meetings, provided he has requested an admission card from the Company's office not later than five days prior to the relevant meeting. The shareholder must document his title to shares in the Company either by such title being registered in the Company's register of shareholders or by presenting appropriate documentation from the shareholder's bank, such documentation having been issued not more than 14 days prior to the time when the shareholder requests an admission card. In order to receive an admission card, the shareholder must also submit a written statement to the effect that his shares have not been, or will not be transferred to any third party prior to the general meeting. Each shareholder may attend in person, with an adviser or by proxy. The voting right may be exercised by proxy pursuant to an instrument of proxy issued to a person who need not be a shareholder in the Company. Proxies shall, unless they contain a provision to the contrary, be considered valid until revoked in writing by notification to the Company. However, instruments of proxy are valid for a maximum of 12 months. See Article 11 of the articles of association.

Extraordinary general meetings shall be held as directed by the shareholders at the general meeting, the Board of Directors or an auditor, or upon a written request to the Board of Directors by shareholders holding not less than one tenth of the share capital. Shareholder requests must contain a specification of the business to be considered at the general meeting. The general meeting shall be convened not later than 14 days after the appropriate request having reached the Board of Directors. See article 13 of the articles of association.

Provisions in the articles of association which may lead to a change of control in the Company being delayed
Shareholders who have acquired shares by transfer are not entitled to exercise voting rights on such shares, unless the shares have been entered in the Company's register of shareholders, or unless the shareholder has filed notification and substantiated his acquisition prior to the notice convening the general meeting. Even where the voting right cannot be exercised, the shareholding transferred shall nevertheless be deemed represented at the relevant general meeting, if prior to the general meeting the shares have been entered in the register of shareholders or the shareholder has filed notification of his acquisition and proved his title. See Article 15.

Provisions as to the level of equity investments to be notified
Pursuant to section 29 of the Danish Securities Trading Act shareholders in a listed company are required to immediately notify the listed company and the Danish FSA when the shareholder's stake (i) represents 5% or more of the voting rights in the company or the nominal value of its share capital, and (ii) when a change in a holding already notified implies that the limits of 5%, 10%, 15%, 20%, 25%, 50% or 90% and the limits of one-third and two-thirds of the voting rights or the nominal value are reached or are no longer reached or the change implies that the limits stated in (i) are no longer reached. The notifications must comply with the requirements for the contents thereof set out in sections 15 and 16 of the Danish executive order on major shareholders, including the identity of the shareholder and the date when a limit is reached or is no longer reached. Failure to comply with the duties of disclosure is punishable by fine. When Bavarian Nordic has received such notification, it must publish its contents as soon as possible. Furthermore, the general duty of notification pursuant to the Danish Public Companies Act applies.

New Act on public and private limited companies
On 29 May 2009, the Danish Parliament adopted a new Act on public and private limited companies (the Companies Act) which is expected to come into force in part in spring 2010. The Companies Act will entail a number of changes to the regulation of public and private limited companies, but Bavarian Nordic does not expect the Companies Act to have any material adverse effect on the Company's business or the rights and duties of the shareholders.

23. Material contracts

Collaborative agreements with other biopharmaceutical and biotechnology companies and production partners form an integral part of Bavarian Nordic's business. The Group will endeavour to retain its current partners or enter into new agreements or partnerships.

Development contract (RFP-2) with National Institute of Allergy and Infectious Diseases (NIAID)
In September 2004, NIAID awarded Bavarian Nordic a three-year contract for further development of its now patented IMVAMUNE® vaccine, as a third-generation smallpox vaccine. The total contract value was more than USD 100 million.

The contract was a three-year milestone-based contract under which, Bavarian Nordic, *inter alia*, during the first 12 months was to deliver detailed production plans, quality plans, clinical development plans, etc., and produce and deliver 500,000 doses of IMVAMUNE® vaccine, manufactured according to the final validated production process. The 500,000 doses of IMVAMUNE® were delivered in 2006. The RFP-2 contract also includes an option for the US authorities to buy at any time during the term of the RFP-2 contract up to an additional 2.5 million doses of IMVAMUNE®. So far, this option has not been exercised.

The contract is a cost-plus contract where Bavarian Nordic can invoice specified direct and indirect costs and charge a profit fee on top of the direct and indirect costs.

In October 2007, the RFP-2 contract was extended until 2010, and in August 2009 the RFP-2 contract was further extended to 29 September 2012. Within the scope of the extension, Bavarian Nordic initiated a large Phase II study with IMVAMUNE® in people diagnosed with atopic disorders. The 2007 contract extension had a value of USD 15 million.

Status of the contract as of 30 November 2009 is that a total of USD 108 million has been invoiced. NIAID is entitled to terminate the contract at its convenience in accordance with FAR against reimbursement of costs already incurred and as agreed and negotiated by NIAID and Bavarian Nordic. This is standard in US authorities procurement contracts, and the contract is in general regulated by usual standard FAR provisions.

The contract is subject to U.S Federal law, including the Contract Disputes Act of 1978 as amended.

Development and production contract (RFP-3) with the US Department of Health and Human Services (HHS (BARDA))
In June 2007, the HHS (BARDA) awarded a contract to Bavarian Nordic for the manufacture and delivery of 20 million doses of IMVAMUNE® for the protection of persons considered to be at risk for smallpox.

The total value of the contract including contractual options is minimum USD 1.6 billion, of which the base contract constitutes USD 500 million, of which Bavarian Nordic received USD 125 million.

Once the Group 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.

In addition to the supply of 20 million doses of IMVAMUNE®, the base contract will support additional research and development of the product to fulfil requirements for the potential use of the IMVAMUNE® vaccine following a declared emergency (EUA). In addition, the contract supports the funding of the pre-clinical and clinical studies necessary for Bavarian Nordic to register IMVAMUNE® with FDA as a safer and effective smallpox vaccine for healthy people.

The contract contains an option which the HHS can exercise at any time during the term of the base contract. The optional part of the contract, with a value of minimum USD 1.1 billion, includes further clinical studies to extend the licence to include people infected with HIV, children and the elderly, as well as the supply of up to an additional 60 million doses of IMVAMUNE®.

Advance and milestone payments in the base contract total USD 150 million.

Bavarian Nordic has already received an advance payment of USD 50 million and three milestone payments of USD 25 million each.

In addition to the milestone payments discussed above, a milestone payment of USD 25 million under the RFP-3 contract is due upon enrolment of the first 500 patients in a Phase III clinical study in IMVAMUNE® and is subject to repayment if a licensure of IMVAMUNE® is not achieved.

The initial advance payment of USD 50 million is required to be repaid if there is failure to perform by Bavarian Nordic under the RFP-3 contract. Furthermore, the last outstanding milestone of USD 25 million is fully recoverable in the event of default under the RFP-3 contract.

The delivery of the 20 million doses to the Strategic National Stockpile (SNS) will occur in stages, starting once Bavarian Nordic has fulfilled the requirements for the potential use of IMVAMUNE® following a declared emergency (EUA).

The HHS (BARDA) is entitled to terminate the contract at its convenience in accordance with standard FAR against reimbursement of costs already incurred and as agreed and negotiated by the HHS (BARDA) and Bavarian Nordic. This is standard in US authorities procurement contracts and the contract is in general regulated by usual standard FAR provisions.

The contract is subject to U.S Federal law, including the Contract Disputes Act of 1978 as amended.

Contract with the US Department of Health and Human Services (HHS (BARDA)) for the Development of Freeze-Dried IMVAMUNE® Smallpox Vaccine
In November 2009, BARDA awarded a contract to Bavarian Nordic 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 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 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 HHS (BARDA) is entitled to terminate the contract at its convenience in accordance with standard FAR against reimbursement of costs already incurred and as agreed and negotiated by the HHS (BARDA) and Bavarian Nordic. This is standard in US authorities procurement contracts and the contract is in general regulated by usual standard FAR provisions.

The contract is subject to U.S Federal law, including the Contract Disputes Act of 1978 as amended.

Contract with Canadian Department of National Defence regarding IMVAMUNE®
Following a Request for Proposal issued in 2007 with the intent to procure an MVA-based, third-generation smallpox vaccine, Public Works and Government Services Canada, on behalf of the Canadian Department of National Defence, in December 2008 awarded a contract to Bavarian Nordic for the delivery of IMVAMUNE®. The Canadian authorities intend to use IMVAMUNE® as part of the country's bio-preparedness programme.

The contract provides for the delivery of 20,000 doses of IMVAMUNE® and payment for the application process to support the use of IMVAMUNE® in an emergency under the Canadian Government's Special Access Programme. The delivery took place in October 2009.

The contract also provides for the optional purchase of an additional 180,000 doses of IMVAMUNE® as well as payment for investigating the requirements for obtaining a licensure of the vaccine in Canada.

The contract is subject to the laws in force in the province of Ontario.

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

The size and value of the contract are undisclosed.

Contract with an Asian country for the delivery of IMVAMUNE®
In March 2008, Bavarian Nordic was awarded a contract with an undisclosed Asian country for the delivery of IMVAMUNE®. Bavarian Nordic was awarded a three-year contract with the government of an Asian country for the delivery of a small order of IMVAMUNE® for the country's biodefence programme.

The size and value of the contract are undisclosed.

Agreement between National Cancer Institute (NCI) and United States Public Health Service (PHS) and BN ImmunoTherapeutics Inc. regarding PROSTVAC™
In August 2008, Bavarian Nordic's US subsidiary, BNIT, entered into a scientific partnership with the NCI in the US. Under the Cooperative Research and Development Agreement (CRADA), NCI and BNIT will jointly develop new immunotherapies for the treatment of prostate cancer. Under the CRADA, BNIT has rights to exclusively license intellectual property that results from this collaboration. The CRADA runs for an initial period of 5 years expiring 12 August 2013, and clinical studies performed under the CRADA will be based on a joint development plan between BNIT and NCI.

In addition to the CRADA, in August 2008 BNIT also entered into a licence agreement with the United States Public Health Service (PHS), under which it was granted a licence to intellectual property rights covering PROSTVAC™, a prostate cancer vaccine product candidate in late Phase II clinical development.

The licence agreement with PHS divides the licensed patent portfolio into (1) exclusively and (2) non-exclusively licensed patents and patent applications. The licence agreement requires BNIT to pay royalties and milestone payments on sales of PROSTVAC™ as well as contributing to patent prosecution costs.

The licence agreement contains a commercial development plan and gives PHS the right to terminate or modify the agreement if Bavarian Nordic does not execute the commercial development plan.

The agreement is subject to US Federal law.

Manufacturing subcontract with IDT Biologika GmbH (IDT Biologika)
According to the RFP-3 contract awarded by the US authorities (HHS/BARDA) to Bavarian Nordic in June 2007, Bavarian Nordic will initially supply 20 million doses of IMVAMUNE® smallpox vaccine to the US Strategic National Stockpile.

Bavarian Nordic has decided to place the fill and packaging of its IMVAMUNE® smallpox vaccines with its long-term strategic partner, IDT Biologika in Germany, which operates a modern facility designated for filling, inspection, labelling and packaging of sterile vaccines.

Bavarian Nordic and IDT Biologika have collaborated for approximately 10 years on the production of Bavarian Nordic's recombinant vaccines and smallpox vaccines.

In order to ensure that Bavarian Nordic can fulfil its obligations towards the US authorities (HHS/BARDA) with regard to the task of filling the 20 million doses of IMVAMUNE® smallpox vaccine, IDT Biologika and Bavarian Nordic have entered into a manufacturing subcontract covering the period corresponding to the duration of the RFP-3 contract until 31 December 2012. However, Bavarian Nordic has the option to prolong the subcontract for an additional year if it so wishes. The subcontract may be terminated in case of special circumstances, including default and insolvency but there are no ordinary termination rights without cause. The parties have agreed to a production plan and reserved capacity for the full length of the subcontract.

In case more filling days are needed compared to what is reserved according to the current production plan, Bavarian Nordic has secured certain flexibility in the form of extra filling days and the possibility of rescheduling planned campaigns. However, in case of rescheduling and need for extra filling days certain payments may have to be made to IDT Biologika. Such possible payments depend to a large extent on the length of prior written notice given to IDT Biologika. Furthermore, if Bavarian Nordic does not use reserved capacity during a calendar year certain payments will have to be made to IDT Biologika for unused days.

The subcontract does not contain any obligations for Bavarian Nordic to use IDT Biologika for filling services should HHS/BARDA exercise its option for production and delivery of additional 60 million doses of IMVAMUNE® smallpox vaccine.

Any dispute must be resolved by ICC in Basel, Switzerland according to the laws of the state of New York.

Agreement with Forschungszentrum für Umwelt und Gesundheit GmbH (GSF) – now called Helmholtz Zentrum München, Deutsches Forschungszentrum für Gesundheit und Umwelt (GmbH) (Helmholtz Zentrum)
In October 1994, Bavarian Nordic entered into its first collaborative and licence agreement with the Forschungszentrum für Umwelt und Gesundheit GmbH (GSF). In September 1997, this agreement was replaced by a new and revised collaborative and licence agreement with GSF.

The 1997 agreement gives Bavarian Nordic the exclusive royalty-bearing commercial licence to a number of specific patents on recombinant vaccines and includes clauses dealing with transfer of know-how pertaining thereto as well as the exclusive royalty-bearing commercial licence to the CapCell™ technology (no longer in use).

The research collaboration with GSF under the 1997 agreement formally ceased at the end of 2001, and Bavarian Nordic is no longer funding any research activities at GSF. However, under the agreement, the Group's exclusive licence rights continue until the relevant patents expire.

The agreement is subject to German law.

Bavarian Nordic was in August 2009 notified by the ICC International Court of Arbitration that a request for arbitration had been received from Helmholtz Zentrum.

The arbitration request is based on the agreements with Bavarian Nordic from 1994 and 1997, and GSF is claiming royalties from all sale of Bavarian Nordic's MVA-BN® based vaccines, including IMVAMUNE®.

Helmholtz Zentrum has previously raised claims against Bavarian Nordic, and Bavarian Nordic has for many years encouraged Helmholtz Zentrum to document and specify any claim they believe to have against Bavarian Nordic. However, Helmholtz Zentrum has for long periods remained silent and so far provided no specific documentation or evidence for the claims made. According to Management, the agreements with Helmholtz Zentrum do not encompass the MVA-BN® patents but merely provide Bavarian Nordic with exclusive royalty bearing licence to specific patents on recombinant vaccines and include clauses dealing with transfer of know how pertaining thereto. Helmholtz Zentrum has in their first request for arbitration stated that further details on the merits of the case will be provided with a subsequent submission in the course of the arbitration. Bavarian Nordic has filed its first response denying all claims raised by Helmholtz Zentrum and is awaiting further details from Helmholtz Zentrum on the merits of the case. Having received no specific documentation or evidence for the claims made, Management views the claims as being baseless and without merit.

Contractual commitments
The following table sets out the Group's contractual obligations, commercial commitments and principal payments schedule as at 30 September 2009:

Table 19 – Contractual commitments payments due by period

Contractual obligations[1)] (DKK million)	**Total 2009**	**Q4-2009**	**2010**	**2011-2014**	**After 2015**
Credit institutions					
Mortgage	44	0	2	7	35
Bank loan in USD	65	0	7	58	0
Financial lease obligations	12	3	8	1	0
Derivatives – interest rate swap	1	1	0	0	0
Derivatives – forward exchange contracts	(21)	(21)	0	0	0
Operational leasing	4	0	2	2	0
Rental commitments	46	3	11	24	8
Collaborative obligations	16	3	12	1	0
Other contractual obligations	312	9	125	178	0
Total	**479**	**(2)**	**167**	**271**	**43**

[1)] Note that the disclosed figures do not include interest payments

Mortgage debt relates to the property Hejreskovvej 10A, Kvistgaard, Denmark. In 2009 a construction loan of DKK 68 million has been fully refinanced by a new USD loan in Nordea of USD 12.7 million. The debt and the loan are secured by mortgage over this property.

Finance lease obligations relate to equipment, fixtures and fittings that have been acquired through finance lease agreements where substantially all risks of ownership are assumed by the Group.

Derivates in the form of interest swap relate to the USD loan in Nordea by which it has been refinanced to a fixed interest rate of 2.79% p.a. As at 30 September 2009 the fair value of the derivatives amounts to DKK 1 million.

Derivates in the form of forward exchange contracts relate to expected future USD inflow from sales of vaccines under the RFP-3 contract. As at 30 September 2009 this entered forward exchange contracts amounts to USD 46 million showing a fair value of DKK 21 million.

Operating leases predominantly relate to cars. The agreements are irrevocable for up to 24 months.

Rental commitments predominantly relate to rental payments on the Groups laboratory and office buildings in Germany and the United States. The agreements are irrevocable from 12 up to 174 months.

Collaborative obligations mainly consist of contractual obligations with research partners for long-term projects.

Other contractual obligations mainly consist of purchase commitments related to filling of vaccines.

See Section "Cash preparedness" for a detailed description of the Group's cash preparedness including financing facilities.

24. Third party information, expert statements and declarations of interest

Some of the information in the section "Company information – Market and diseases" has been sourced from third parties. Management believes that the market and disease description in this section is accurate and that the information has been accurately reproduced and that as far as the Company is aware and is able to ascertain from information published by the third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. However, there can be no assurance that other sources may not have different opinions of the market in which Bavarian Nordic operates. Nor can there be any assurance that the contents of the websites referred to will not be changed after the release of this Prospectus. Unless otherwise indicated, the information in the section "Company information – Market and diseases" is derived primarily from the World Health Organisation (WHO), Center for Disease Control (CDC), the American Cancer Society and NIH websites and relevant links.

25. Documents on display

The following documents are available for inspection at the Company's head office at Hejreskovvej 10A, 3490 Kvistgaard, Denmark (copies available on request):

- Audited annual reports for the years ended 31 December 2006, 2007 and 2008, respectively, as filed with the Danish Commerce and Companies Agency.
- The Company's articles of association
- The Company's Memorandum of Association.
- The Board of Directors' resolution to increase the share capital, dated 8 January 2010.
- The report from the Board of Directors pursuant to section 29(2)(ii) of the Danish Public Companies Act dated 8 January 2010 with the corresponding statement from the auditors pursuant to section 29(2)(iii) of the Danish Public Companies Act dated 8 January 2010.
- The annual reports of the Company's subsidiaries for the financial years 2007 and 2008

26. Disclosure of investments

Bavarian Nordic does not hold any equity investments that may affect the value of the Company.

II THE OFFERING

1. Persons responsible

An overview of the persons responsible for the Prospectus is given in "Persons responsible" herein.

2. Risk factors

For a description of risk factors in connection with the Offering, see “Risk factors”.

3. Key information

Information on cash preparedness

With the net proceeds from the Offering of DKK 299.0 million (the Net Maximum Proceeds) combined with expected payments from RFP contracts and expected payments from deliveries of IMVAMUNE® to the US authorities, the obtaining of a credit facility in the amount of DKK 150 to 200 million and the Group's current cash preparedness, Management expects that the cash preparedness will be sufficient to support the planned future operations, including preparations for Phase III for PROSTVAC™.

If the Offering is fully subscribed, the Group's cash preparedness will be sufficient to cover its capital requirements until the end of 2012.

With the gross proceeds from the Offering of DKK 0 million combined with expected payments from RFP contracts and expected payments from deliveries of IMVAMUNE® to the US authorities, the obtaining of a credit facility in the amount of DKK 150 to 200 million and the Group's current cash preparedness, Bavarian Nordic will be in a situation where the Group's cash preparedness will not be sufficient to support the planned future operations and thus the Group would not initiate new projects and would cancel existing research and development programmes or delay the up-scaling of production as well as would rely on additional financing.

Equity and indebtedness

The Group's equity at 30 November 2009 stood at DKK 735 million, and long-term borrowings and bank loans totalled DKK 87 million as at 30 November 2009.

The statement below shows the Group's expected equity and liabilities as at 30 November 2009 and as adjusted for the Net Maximum Proceeds of approximately DKK 299.0 million from the Offering of up to 3,975,872 New Shares. The table below includes audited comparative figures for the 2008 financial year.

Table 20 – Equity and liabilities as at 30 November 2009

DKK million	**As at 31 December 2008**	**As at 30 November 2009 (unaudited)**	**As at 30 November 2009 Adjusted for the Net Maximum Proceeds (unaudited)**
Equity			
Share capital	78.2	78.2 (*)	117.9 (*)
Retained earnings	899.5	635.9	895.2
Other reserves	33.8	22.7	22.7
Minorities	3.7	(1.4)	(1.4)
Total equity	**1,015.1**	**735.4**	**1,034.4**
Liabilities			
Non-current liabilities	52.7	86.8	86.8
Current liabilities	626.5	459.7	459.7
Total liabilities	**679.1**	**546.4**	**546.4**
Total equity and liabilities	**1,694.3**	**1,281.8**	**1,580.8**

(*) On 18 December 2009 the Company's share capital was increased by DKK 1,361,770 nominal value.

Out of the Group's borrowings as at 30 November 2009, DKK 117 million is secured against an owner's mortgage on the property Hejreskovvej 10A, Kvistgaard, Denmark.

Further, Bavarian Nordic's bank has notified Bavarian Nordic of its willingness to discuss the establishment of facilities for financing of operations going forward, once delivery allowance regarding the RFP-3 contract has been obtained from the US authorities.

Funding agreements with Nordea Bank Danmark A/S

Nordea Bank Danmark A/S has made unguaranteed construction financing of USD 13 million and a leasing limit of DKK 20 million available to the Group secured against an owner's mortgage of DKK 75 million on the property at Kvistgaard. The construction financing facility runs until 15 July 2013 with quarterly instalments from 15 January 2010 of USD 0.3 million. Nordea Bank Danmark A/S has also made an operating credit line of DKK 20 million

available to the Group. Bavarian Nordic has undertaken to maintain a cash preparedness from time to time of a minimum of DKK 150 million.

Natural and legal persons' interests in the Offering

Management is not aware of any potential conflicts of interest in relation to the Offering that would be material to the Company.

Reasons for the Offering and use of proceeds

The proceeds from the Offering will be used to fulfil the Group strategy within biodefence and cancer, by maintaining momentum in the production of IMVAMUNE®, gaining strategic flexibility in the clinical development of PROSTVAC™ as well as for new initiatives within the two business areas.

Following the Offering, the Group will seek to consolidate its operating activities within the biodefence business area as well as expand the cancer activities. Further, the Group will seek to ensure that it has an appropriate capital base in order to strengthen its future operational flexibility. Accordingly, the Group expects to be able to maintain momentum in the development, production and delivery of IMVAMUNE® and continue the Phase III preparations of PROSTVAC™.

Bavarian Nordic's cash preparedness totalled DKK 251.8 million at 30 November 2009. Once the Group 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.

Management expects that the net proceeds from the Offering, DKK 299.0 million (the Net Maximum Proceeds), combined with the cash flow from ongoing and future expected contracts and the Group's current net free liquidity will enable the Group to execute a number of important strategic activities. This will strengthen Bavarian Nordic's position as a leading provider of biodefence vaccines and cancer immunotherapies.

The proceeds will in part be used to maintain momentum in the production of IMVAMUNE® smallpox vaccines to ensure speedy and sufficient delivery under the RFP-3 contract once delivery allowance is granted by the US authorities. Furthermore, the proceeds will enable consolidation of the production facilities at Kvistgaard to further optimise processes and reduce production costs.

The net proceeds will also be used to strengthen the Group's cancer business area by allowing the Group to prepare its lead cancer project, PROSTVAC™, into the final development stage. PROSTVAC™, a therapeutic prostate cancer vaccine, has demonstrated the ability to exceed current approved treatment standards in clinical Phase II trials, and Management believes that PROSTVAC™ is competitive compared with other emerging therapies in its class and thus holds significant potential.

Specifically, the Group is considering the following activities within its core business areas:

Biodefence:
- Consolidate the operational activities within the biodefence area
- Maintain momentum in the production of IMVAMUNE®
- Continue the preclinical development of an anthrax vaccine and other potential vaccine targets (plague, Ebola and Marburg) until these projects are mature for government funding

Cancer:
- Secure financial flexibility to make preparations for Phase III with PROSTVAC™
- Continue the upgrade of the PROSTVAC™ facility in Berlin to ensure production for Phase III and early stage commercialisation
- Move the MVA-BN® HER2 breast cancer vaccine into Phase II clinical development

MVA-BN®:
- Continue the strengthening and defence of the MVA-BN® patent portfolio

With net proceeds from the Offering of DKK 299.0 million (the Net Maximum Proceeds) combined with expected payments from RFP contracts and expected payments from deliveries of IMVAMUNE® to the US authorities, the obtaining of a credit facility in the amount of DKK 150 to 200 million and the Group's current cash preparedness, Management expects that the cash preparedness will be sufficient to support the planned future operations, including preparations for Phase III for PROSTVAC™. In this case the Group's cash preparedness will be sufficient to cover its capital requirements until the end of 2012, where upon the Group expects its cash preparedness to cover the operational needs for an order producing company.

In case the gross proceeds from the Offering are DKK 0 million combined with expected payments from RFP contracts and expected payments from deliveries of IMVAMUNE® to the US authorities, the obtaining of a credit facility in the amount of DKK 150 to 200 million and the Group's current cash preparedness, Bavarian Nordic will be in a situation where the Group's cash preparedness will not be sufficient to support the planned future operations and thus the Group would not initiate new projects and would cancel existing research and development programmes and, if required, delay the up-scaling of production as well as would rely on additional financing in first quarter of 2010 in order to continue operations. In case sufficient additional financing is not obtained, Bavarian Nordic will, among other things, be in breach of its funding agreement with Nordea Bank Danmark A/S pursuant to which Bavarian Nordic has undertaken to maintain a cash preparedness of a minimum of DKK 150 million.

In case the gross proceeds from the Offering are DKK 0 million and Bavarian Nordic only receives the delivery allowance from the US authorities to deliver IMVAMUNE® in late 2010 instead of in the first half of 2010, the Group must align its strategy including an action plan containing both delay or closing of clinical projects, delay of the preparations for Phase III for PROSTVAC™, downscaling of production, restructuring of commercial and administrative activities and establish an alternative financing structure in order to secure continued operations. In case sufficient additional financing is not obtained, Bavarian Nordic will, among other things, be in breach of its funding agreement with Nordea Bank Danmark A/S pursuant to which Bavarian Nordic has undertaken to maintain a cash preparedness of a minimum of DKK 150 million.

In case the Offering is fully subscribed, but Bavarian Nordic only receives the delivery allowance from the US authorities to deliver IMVAMUNE® in late 2010 instead of in the first half 2010, 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 rely on additional financing by the end of first half of 2010. In case sufficient additional financing is not obtained, Bavarian Nordic may, among other things, be in breach of its funding agreement with Nordea Bank Danmark A/S pursuant to which Bavarian Nordic has undertaken to maintain a cash preparedness of a minimum of DKK 150 million.

4. Information on the securities to be offered

Type of security, Allocation Date and ISIN codes

Preemptive Rights
Preemptive Rights will be allocated free of charge to Existing Shareholders who are registered as Shareholders with VP Securities on 15 January 2010 at 12.30 p.m. CET. Shares traded after 12 January 2010 at 5.00 p.m. CET will be traded ex Preemptive Rights, assuming that the Shares are traded at customary three-day settlement.

The Preemptive Rights have ISIN code: DK0060205268.

The Preemptive Rights have been approved for trading and official listing on NASDAQ OMX, and trading and official listing of the Preemptive Rights on NASDAQ OMX commences on 13 January 2010 at 9.00 a.m. CET and close on 26 January 2010 at 5.00 p.m. CET.

The Subscription Period for the New Shares commences on 16 January 2010 at 9.00 a.m. CET and closes on 29 January 2010 at 5.00 p.m. CET.

The Offering is being made at the ratio of 1:2, to the effect that each Existing Shareholder will be allocated one (1) Preemptive Right for each Existing Share held, and that two (2) Preemptive Rights will be required to subscribe one (1) New Share.

The New Shares
The Subscription Period for the New Shares commences on 16 January 2010 at 9.00 a.m. CET and closes on 29 January 2010 at 5.00 p.m. CET. The New Shares to be issued by the Company upon exercise of the Preemptive Rights will be of the same class as the Existing Shares and will be registered under the temporary ISIN code DK0060205185. The New Shares will not be admitted to trading and official listing on NASDAQ OMX until registration with the Danish Commerce and Companies Agency is completed. Consequently, shareholders and investors should note that the New Shares will not be admitted to trading and official listing on NASDAQ OMX under a temporary ISIN code. The New Shares will be listed on NASDAQ OMX directly under the ISIN code of the Existing Shares (DK0015998017 (BAVA)) following registration of the capital increase with the Danish Commerce and Companies Agency, which is expected to take place on 4 February 2010.

Applicable law and jurisdiction

The Offering is subject to Danish law. This Prospectus has been prepared in compliance with the standards and requirements of Danish law, including the rules issued by NASDAQ OMX. Any dispute which may arise as a result of the Offering shall be brought before the Danish courts of law.

Registration

All Preemptive Rights and New Shares will be delivered in book-entry form on allocation to accounts with VP Securities through a Danish bank or other institution authorised as custodian institution for such shares. The address of VP Securities is Weidekampsgade 14, P.O. Box 4040, DK-2300 Copenhagen S, Denmark. The Preemptive Rights and the New Shares will be issued in non-certificated bearer form. The New Shares will be issued to bearer, but may be registered in the name of the holder in the Company's register of shareholders through the holder's custodian bank.

Currency

The Offering will be made and trading in the Preemptive Rights and the New Shares will take place in Danish kroner.

Exchange control regulation in Denmark
There is no legislation in Denmark that restricts the export or import of capital (except for certain investments in areas in accordance with applicable resolutions adopted by the United Nations and the European Union), including, but not limited to, foreign exchange controls, or that affect the remittance of dividends, interest or other payments to non-resident holders of the New Shares. As a measure to prevent money laundering and financing of terrorism, persons travelling into or out of Denmark carrying amounts of money (including, but not limited to, cash and travellers cheques) worth the equivalent of EUR 15,000 or more must declare such amounts with the Danish Customs Authority when travelling into or out of Denmark.

Rights attaching to the Preemptive Rights and the New Shares

One (1) New Share in the Company of DKK 10 nominal value each may be subscribed for each two (2) Preemptive Rights held. The Preemptive Rights may be traded on NASDAQ OMX during the period from 13 January 2010 at 9.00 a.m. CET to 26 January 2010 at 5.00 p.m. CET, and they may be exercised during the period from 16 January 2010 at 9.00 a.m. CET to 29 January 2010 at 5.00 p.m. CET (the latter period is the Subscription Period).

The Preemptive Rights may be exercised only by using a number of Preemptive Rights that allow subscription for a whole number of New Shares. If a holder of Preemptive Rights does not have a sufficient number of Preemptive Rights to subscribe for a whole number of New Shares, such holder wishing to subscribe for such shares must acquire in the market, during the period for trading in Preemptive Rights, the number of Preemptive Rights necessary to subscribe for a whole number of New Shares in the Company. Such holder may also choose to sell Preemptive Rights during the same period.

Preemptive Rights which have not been exercised during the Subscription Period will lapse with no value, and holders of such Preemptive Rights will not be entitled to any compensation. The Subscription Period closes on 29 January 2010 at 5.00 p.m. CET.

If the Offering is not completed, any exercise of Preemptive Rights that has already taken place will automatically be cancelled, the Offer Price will be refunded (less any brokerage fees), all Preemptive Rights will be null and void, and no New Shares will be issued. However, trades of Preemptive Rights executed during the trading period for the Preemptive Rights will not be affected. If so, investors who acquired Preemptive Rights will incur a loss corresponding to the purchase price of the Preemptive Rights. If the Offering is not completed, the New Shares will not be issued, and investors having acquired New Shares in an off-market transaction may lose their investment if the seller of the New Shares does not refund the purchase price.

The New Shares

The New Shares will, when fully paid up and registered with the Danish Commerce and Companies Agency, have the same rights as the Existing Shares.

Dividend rights/Rights to share in profits

The New Shares are eligible for any dividends paid by the Company after the issue of the New Shares and the registration of the capital increase with the Danish Commerce and Companies Agency. Consequently, the New Shares are eligible for any dividends in respect of the current financial year declared and payable after registration of the New Shares with the Danish Commerce and Companies Agency. However, the Company does not expect to declare any dividend in respect of the 2009 financial year.

Dividends are paid in DKK to the shareholder's account set up with VP Securities. There are no dividend restrictions or special procedures for non-resident holders of New Shares. See "Taxation" below for a description of the treatment of dividends under Danish tax law. Dividends not claimed by shareholders are forfeited under the general rules of Danish law.

The Company does not pay dividends cumulatively.

Voting rights

Any shareholder is entitled to attend general meetings provided that such shareholder has obtained an admission card not later than five days in advance against due proof of identity.

Each Share of DKK 10 carries one vote. For Shares acquired by transfer, voting rights shall be conditional on the shareholder having had his shares recorded in the Company's register of shareholders or having given notice of and documented his acquisition prior to the date of the notice to convene the relevant general meeting. The acquired shareholding shall be considered to be represented at the general meeting even though no voting rights may be exercised, if the shares have been entered in the register of shareholders prior to the general meeting or the shareholder has applied for registration of and substantiated his acquisition.

Registration of the New Shares in the investor's account with the VP Securities will take place against payment in cash on subscription.

Rights on liquidation

In case of liquidation of the Company, the shareholders are entitled to participate in the distribution of excess assets in proportion to their nominal shareholdings after the Company's creditors have been satisfied.

Preemptive right

Pursuant to article 5a of the Company's articles of association, the Board of Directors is authorised to increase the Company's share capital in one or more issues by a total of up to DKK 80,000,000 nominal value (8,000,000 Shares with a nominal value of DKK 10 each). Where the capital increase is effectuated for cash at a subscription price lower than the market value of the shares, the Existing Shareholders will have preemptive right to subscribe the amount by which the share capital is increased in proportion to their shareholdings. If the share capital is increased by cash payment at a subscription price of at least the market price or in any other way, such as by conversion of debt or the contribution of non-cash assets, the Board of Directors may decide that the shareholders shall not have preemptive right.

If shareholders of the Company in general meeting otherwise resolve to increase the share capital, section 30 of the Danish Public Companies Act will apply under the existing authorisation. Under that section, shareholders generally have preemptive right to an increase of the share capital by cash payment. However, the preemptive right may be derogated from by a majority comprising at least two-thirds of the votes cast and the share capital represented at the general meeting provided the share capital increase takes place at market price.

Other rights

No shareholder is under an obligation to have his shares redeemed in whole or in part by the Company or any other party other than as provided in the Danish Public Companies Act.

Resolutions, authorisations and approvals to proceed with the Offering

Board meeting approving the capital increase

The New Shares are issued in accordance with article 5a of the articles of association, according to which the Board of Directors is authorised to issue up to 8,000,000 Shares of DKK 10 nominal value each.

Under this authorisation, the Board of Directors adopted a resolution on 8 January 2010 to increase the Company's share capital. The capital increase totals up to DKK 39,758,720 nominal value (3,975,872 New Shares of DKK 10 each) (the Maximum Offering). The capital increase will be effected with preemptive rights to the Existing Shareholders at the ratio of 1:2. Two (2) Preemptive Rights will entitle the holder to subscribe for one (1) New Share of DKK 10 nominal value each at the Offer Price of DKK 80.

If the capital is increased by the Maximum Offering DKK 40,241,280 nominal value (4,024,128 Shares of DKK 10 nominal value each) remains of the authorisation.

Issue date of the New Shares

Date set for allocation of Preemptive Rights
On 15 January 2010 at 12.30 p.m. CET any person registered with VP Securities as a shareholder of the Company will be granted Preemptive Rights. Shares traded after the Allocation Date will be traded ex Preemptive Rights.

Date set for issue of New Shares
The New Shares may be subscribed for from 16 January 2010 at 9.00 a.m. CET to 29 January 2010 at 5.00 p.m. CET. During that period, the New Shares will be allocated through VP Securities upon exercise of the Preemptive Rights. The New Shares are expected to be issued by the Company and the capital increase to be registered with the Danish Commerce and Companies Agency on 2 February 2010. The Offering may be withdrawn and cancelled until registration of the capital increase relating to the New Shares with the Danish Commerce and Companies Agency. Please see section "Terms and conditions of the Offering – Withdrawal or suspension of the Offering". The issuance and admission to trading and official listing of the New Shares is expected to take place on 4 February 2010.

Negotiability and transferability of Shares and the New Shares

The Shares, including the New Shares, are negotiable instruments, and no restrictions shall apply to the transferability thereof. The Company's articles of association do not contain any provisions on the conversion of Shares into other financial instruments.

Danish regulations governing mandatory takeover bids, redemption of shares and disclosure requirements

Mandatory tender offers
The Danish Securities Trading Act includes rules concerning public offers for the acquisition of shares. If a shareholding is transferred, directly or indirectly, in a company with one or several share classes admitted to trading and official listing on a regulated market or an alternative marketplace, the transferee shall enable all shareholders of the company to dispose of their shares on identical terms if such transfer involves that the transferee:

- will hold the majority of voting rights in the company;
- becomes entitled to appoint or dismiss a majority of the members of the company's board of directors;
- obtains the right to exercise a controlling influence over the company according to the articles of association or otherwise in agreement with the company;
- according to the agreement, will control, with other shareholders, the majority of voting rights in the company; or
- will be able to exercise a controlling influence over the company and will hold more than one-third of the voting rights.

If special conditions apply, the Danish Financial Supervisory Authority may grant an exemption from the obligation to make a mandatory takeover bid.

Mandatory redemption of shares (squeeze-out)
Pursuant to section 20b (or 20e if the acquisition is the result of a takeover bid) of the Danish Public Companies Act, shares in a company may be redeemed in whole or in part by a shareholder holding more than nine-tenths of the share capital and the corresponding voting rights in the company. Such redemption can be made by the majority shareholder together with the board of directors by common agreement. A minority shareholder may require the majority shareholder holding more than nine-tenths of the shares and a corresponding proportion of the votes to redeem the minority shareholder's shares. See section 20d of the Danish Public Companies Act.

Major shareholdings
Pursuant to section 29 of the Danish Securities Trading Act, a shareholder of a listed company is required to notify the listed company and the Danish FSA as soon as possible if the shareholder's stake (i) represents 5% or more of the voting rights in the Company or the nominal value of its share capital, and (ii) when a change in a holding already notified entails that the limits of 5%, 10%, 15%, 20%, 25%, 50% or 90% and the limits of one-third and two-thirds of the voting rights or the nominal value are reached or are no longer reached or the change entails that the limits stated in (i) are no longer reached. The notifications must comply with the requirements for the contents thereof set out in sections 15 and 16 of the Danish executive order on major shareholders, including the identity of the shareholder and the date when a limit is reached or is no longer reached. Failure to comply with the notification requirements is punishable by a fine. When the Company has received such notification, it must publish the contents of such notification as soon as possible.

Furthermore, the general duty of notification pursuant to the Danish Public Companies Act applies.

New Danish Companies Act and amendment of the Danish Securities Trading Act
On 29 May 2009, the Danish parliament passed a new amendment to the Danish Companies Act, which is expected to come into force in part in Spring 2010. Although the act entails a number of changes to the general management of Danish companies with limited liability, the Company does not expect as at the Prospectus Date that the act will have any material impact on the activities of the Company or the rights and obligations of its shareholders.

The rules regulating mandatory tender offers are set out in part 8 of the Danish Securities Trading Act. They will be amended in connection with the implementation of the new Danish Companies Act. The amendments will not materially change the Danish rules on tender offers.

Public tender offers made by third parties for the Company's Shares during the past or current financial years

No takeover offers have been made by any third party in respect of the Company's Shares during the past or current financial years.

Taxation

Introduction

The following is a summary of certain Danish income tax considerations relating to an investment in the Preemptive Rights and the New Shares.

The summary is for general information only and does not purport to constitute tax or legal advice. It is specifically noted that the summary does not address all possible tax consequences relating to an investment in the Preemptive Rights and the New Shares. The summary is based solely upon the tax laws of Denmark in effect on the Prospectus Date. The Danish tax laws may be subject to change, possibly with retroactive effect. It should be noted that the description does not address all possible tax consequences of an investment in the Preemptive Rights and the New Shares.

The summary does not cover investors to whom special tax rules apply, including professional investors, private equity funds and professional traders, and may therefore, for example, not be relevant to certain institutional investors, insurance companies, banks, stock brokers and investors liable for tax on return on pension investments.

Investors in the Preemptive Rights and the New Shares are advised to consult their tax advisers regarding the applicable tax consequences of acquiring, holding, exercising and disposing of the Preemptive Rights and the Shares based on their particular circumstances. Investors who may be affected by the tax laws of other jurisdictions should consult their tax advisers with respect to the tax consequences applicable to their particular circumstances, as such consequences may differ significantly from those described herein.

It should be noted, that for individuals and companies with income years other than the calendar year, the 2010 income year may already have commenced. This would have an effect with regard to certain of the rules described below which are changed with effect from and including the 2010 income year.

Taxation of investors subject to full tax liability in Denmark

Individuals residing in Denmark or spending at least six months in Denmark and companies, etc. either registered in Denmark or the management of which is based in Denmark are generally subject to full tax liability. Individuals or companies that are also subject to full tax liability in another country may be subject to special rules which are not described herein.

Taxation of dividends

Individuals, available funds

Dividends paid to individuals are taxed as share income. For the 2009 income year, share income is taxed at the rate of 28% for share income up to DKK 48,300 (DKK 96,600 for married couples cohabiting at the end of the income year), at the rate of 43% for share income exceeding DKK 48,300 (DKK 96,600 for married couples cohabiting at the end of the income year) up to and including DKK 106,100 (DKK 212,200 for married couples cohabiting at the end of the income year), and at the rate of 45% for share income exceeding DKK 106,100 (DKK 212,200 for married couples cohabiting at the end of the income year). Certain transitional rules apply to the effect that the 45% rate does not apply to distributions of retained earnings from 2006 and earlier years. The relevant threshold amounts are for the 2009 income year and are adjusted annually. The said amounts include all share income for the individual or couple in question, respectively.

Dividends paid are generally subject to withholding tax at the rate of 28%, which is the responsibility of the Company.

As from the 2010 income year, the rate of 45% will be eliminated, and the rate of 43% will be lowered to 42%. The rate of 28% will be lowered to 27% as from the 2012 income year. The 2010 threshold amounts will be equivalent to the 2009 thresholds. This means that in the 2010 income year, share income up to and including DKK 48,300 will be taxed at the rate of 28%, and that share income exceeding DKK 48,300 will be taxed at the rate of 42%. From and including 2011, the thresholds will be subject to annual regulation.

Individuals, investment of pension savings

Subject to certain limits, investors may invest pension funds in the New Shares. The net return from such investment will be subject to taxation under the Danish Pension Investment Returns Act and will be taxed at the rate of 15% on a mark-to-market basis. When the mark-to-market principle is applied, the market value is made up on a year-to-year basis in connection with the calculation of taxable income, and any increase is taxed, irrespective of whether or not the shares have been sold during the year. Pension return tax is generally settled by the pension institution.

Dividends are not subject to withholding tax when the account is registered as a pension account.

Companies, etc.

As a general rule, companies must recognise as income 66% of dividends received, corresponding to an effective tax rate of 16.5% of such dividends.

Dividends paid are generally subject to withholding tax at the rate of 16.5%, which is the responsibility of the Company.

However, this does not apply if the company receiving the dividends holds 10% or more of the share capital of the company for a consecutive period of one year or more, during which dividend

distribution takes place. In such case, the company receiving the dividends will not be taxed on the dividends.

From and including the 2010 income year, a distinction will be made between "Subsidiary Shares", "Group Shares" and "Portfolio Shares" when determining whether or not dividends received by a company subject to tax liability in Denmark will be taxable. The various types of shares are defined as follows:

- "Subsidiary Shares" are defined as shares held by a company holding 10% or more of the share capital of the subsidiary. The subsidiary must be domiciled in Denmark, the EU or a state with which Denmark has a double taxation treaty.
- "Group Shares" are defined as shares in a company in which the shareholder of the company and the company are jointly taxed or meet the criteria for international joint taxation, usually implying that they control, directly or indirectly, more than 50% of the votes. In addition, Group Shares include shares where a fund etc. and the company, in which the shares are held, belong to the same group and where the company may be included in joint taxation.
- "Portfolio Shares" are shares not falling within the definitions of "Subsidiary Shares" or "Group Shares", for example if the shareholder holds less than 10%.

From and including the 2010 income year, dividends in respect of Portfolio Shares will be subject to full taxation irrespective of the length of the ownership period, and 25% must normally be withheld from such dividend distributions, which is the responsibility of the Company. Dividends in respect of Subsidiary Shares and Group Shares are tax-exempt, irrespective of ownership period.

Capital gains taxation

Individuals

The rules on taxation of individuals' gains and losses on shares were changed effective 1 January 2006. Special transition rules apply to the sale of shares on 1 January 2006 or later which had been acquired on or before 31 December 2005. These rules are not described below.

Gains realised are taxed as share income. For the 2009 income year, share income is taxed at the rate of 28% for share income up to DKK 48,300 (DKK 96,600 for married couples cohabiting at the end of the income year), at the rate of 43% for share income exceeding DKK 48,300 (DKK 96,600 for married couples cohabiting at the end of the income year), but not exceeding DKK 106,100 (DKK 212,200 for married couples cohabiting at the end of the income year), and at the rate of 45% for share income in excess of DKK 106,100 (DKK 212,200 for married couples cohabiting at the end of the income year). The said amounts include all share income for the individual or couple in question, respectively.

As from the 2010 income year, the rate of 45% will be eliminated, and the rate of 43% will be lowered to 42%. The rate of 28% will be lowered to 27% as from the 2012 income year.

Losses on listed shares may be set off against taxable gains and dividends on other listed shares. If the individual is married and the total loss on listed shares exceeds the individual's annual share income, the excess loss may (as of the 2010 income year: shall) be offset against the spouse's share income, provided the spouses are cohabiting at the end of the income year. Any remaining losses may be carried forward without time limits to be offset against taxable gains and dividends from listed shares.

Gains and losses are calculated using the average method, under which the purchase price of each share is made up as a proportionate share of the total purchase price of all shares held by the investor in the relevant company. The first in first out (FIFO) method is applied to determine which shares have been sold.

Individuals, investment of pension savings

Subject to certain limits, investors may invest pension funds in the New Shares. The net return from such investment will be subject to taxation under the Danish Pension Investment Returns Act and will be taxed at the rate of 15% on a mark-to-market basis. When the mark-to-market principle is applied, the market value is made up on a year-to-year basis in connection with the calculation of taxable income, and any increase is taxed, irrespective of whether or not the shares have been sold during the year. Pension return tax is generally settled by the pension institution.

Companies, etc.

Gains realised on the sale of shares in 2009 that have been held for less than three years are taxed at the rate of 25%. The gain is computed as the difference between the selling price and the original purchase price. Losses exceeding any tax exempt dividends received on the shares in question during the period of ownership may be set off against (taxable) gains from the sale of other shares that have also been held for less than three years and are realised in the same year. Furthermore, losses on shares held for less than three years may be carried forward without time limit and set off against similar (taxable) gains.

If a company sells only part of its shares, the acquisition price of the shares sold is determined as the average acquisition price of all the shares (the "average method"). This applies even though the disposal of shares is tax exempt. The first in first out (FIFO) method is applied to determine the ownership period.

Gains realised on the sale of shares are tax exempt if the shares have been held for three years or more at the time of disposal. Losses are not deductible.

New rules for companies etc. from and including the 2010 income year:

The rules on capital gains taxation of companies etc. will be changed with effect from the 2010 income year. A distinction will also be of Subsidiary Shares, Group Shares and Portfolio Shares with respect to taxation of gains on shares. Gains on the sale of Portfolio Shares will be taxable irrespective of the period of ownership. Gains on the sale of Subsidiary Shares and Group Shares will be tax exempt irrespective of the period of ownership.

Gains on listed Portfolio Shares will be included in the calculation of taxable income on the basis of the mark-to-market principle, i.e. on an unrealised basis. Companies may choose to have shares that are not admitted for trading and official listing on a regulated market taxed according to a realisation principle if the realisation principle is applied for all Portfolio Shares.

As a general rule, losses on Portfolio Shares may be deducted from gains on other Portfolio Shares and carried forward for deduction in later income years. Losses on Subsidiary Shares and Group Shares are not deductible.

Any change of status from Subsidiary/Group Shares to Portfolio Shares and vice versa will be treated for tax purposes as a disposal and reacquisition at market price at the time of change of status.

Allocation, exercise and sale of Preemptive Rights
Individuals
The allocation or exercise of Preemptive Rights does not result in a tax liability for Existing Shareholders or individuals who receive the Preemptive Rights. Proceeds from the sale of Preemptive Rights are calculated according to the share-for-share method as the difference between the purchase price and the sales price. For tax purposes, the Preemptive Rights are considered to have been acquired at DKK 0.

Realised gains on the sale of Preemptive Rights are taxed as share income. For the 2009 income year, share income is taxed at the rate of 28% for share income up to DKK 48,300 (DKK 96,600 for married couples cohabiting at the end of the income year), at the rate of 43% for share income exceeding DKK 48,600 (DKK 96,600 for married couples cohabiting at the end of the income year), but not exceeding DKK 106,100 (DKK 212,200 for married couples cohabiting at the end of the income year), and at the rate of 45% for share income in excess of DKK 106,100 (DKK 212,200 for married couples cohabiting at the end of the income year). The said amounts include all share income for the individual or couple in question, respectively.

As from the 2010 income year, the rate of 45% will be eliminated, and the rate of 43% will be lowered to 42%. The rate of 28% will be lowered to 27% as from the 2012 income year. The 2010 threshold amounts will correspond to the 2009 thresholds: DKK 48,300, and DKK 96,600 for spouses. After 2010, the thresholds will be adjusted once annually.

Companies, etc.
The allocation or exercise of preemptive rights does not result in a tax liability for existing shareholders or a company that receives the preemptive rights. Proceeds from the sale of preemptive rights are calculated according to the share-for-share method as the difference between the purchase price and the sales price. For tax purposes, the preemptive rights are considered to have been acquired at DKK 0.

When determining whether a company is liable to tax on the sale of preemptive rights, a distinction will be made as to whether or not the preemptive right entitles the holder to subscribe for New Shares at a discount to the market value of the underlying shares. If the shares can be subscribed for at a discount, the preemptive right will be considered to have been acquired at the same time as the share in respect of which the preemptive right was granted. Accordingly, any gain on the sale of preemptive rights attaching to shares that have been held for three years or more will be tax exempt. If the preemptive rights attach to shares that have been held for less than three years, gains are taxable at the rate of 25%. If subscription is not made at a discount to the market price, any gain on the sale of the preemptive right is taxed at the rate of 25%.

As from the 2010 income year, gains on preemptive rights will be taxed at the rate of 25%, provided that the investor holds Portfolio Shares in the company. If the investor holds Subsidiary Shares or Group Shares in the company, any gains on preemptive rights are tax exempt.

Danish taxation of investors not subject to full tax liability in Denmark

Taxation of dividends
Individuals
The distribution of dividends from a Danish company to a non-resident individual is generally subject to withholding tax at the rate of 28%. The tax rate will be lowered to 27% from and including the 2012 income year.

If Denmark has entered into a double taxation treaty with the country in which the shareholder is resident, the shareholder may seek a refund from the Danish tax authorities of the part of the tax withheld in excess of the tax to which Denmark is entitled under the relevant double taxation treaty.

VP Securities has entered into an agreement with the Danish tax authorities to the effect that, for certain foreign investors, tax on dividends must only be withheld at the rate of the double taxation treaty with the relevant country. The scheme applies to Danish shares held in custody by a Danish bank, and the shareholder must be a resident of Norway, Sweden, Germany, one of the Benelux countries, Canada, Ireland, Switzerland, Greece, the United Kingdom or the United States. The shareholders' shares must be registered with VP Securities through an account opened with a Danish bank. In addition, the shareholders must document their address and tax status. This is done by having the foreign tax authorities certify form 02.009. The shareholder can normally agree with the relevant custodian bank that the bank procures the relevant form. The documentation is valid for five years.

Individuals, investment of pension savings
Foreign investors whose pension savings are not placed in Denmark will not be subject to the Danish Pension Investment Returns Tax Act. Non-resident investors are normally subject to limited tax liability in Denmark in respect of pension returns when they invest their pension savings through a Danish pension insti-

tution. The net return will be subject to tax at the rate of 15% on a mark-to-marked basis, i.e. on an unrealised basis.

Dividends are not subject to withholding tax when the account is registered as a pension account.

From and including the 2010 income year, individuals not subject to full tax liability in Denmark will not be subject to the Danish Pension Returns Taxation Act. Accordingly, dividends will be subject to withholding tax according to the general rules. See "Danish taxation of investors not subject to full tax liability in Denmark – Taxation of dividends – Individuals".

Companies, etc.
Companies resident abroad are exempt from Danish tax on dividends received in 2009 from a Danish company provided that:

(a) the foreign company holds 10% or more of the share capital in the Danish company for a consecutive period of at least one year within with period the dividend is declared; and

(b) taxation of dividends is waived or reduced pursuant to the provisions contained in the Parent/Subsidiary Directive (Directive 90/435/EEC) or a double taxation treaty with the Faroe Islands, Greenland or the country in which the receiving company is resident.

Where the above conditions are not fulfilled, a withholding tax of 28% applies, which may under the circumstances be reduced pursuant to a double taxation treaty.

If a foreign resident investor is considered as trading in shares and the shares can be attributed to a permanent establishment in Denmark, dividends are taxed according to the same rules as apply to resident shareholders.

New rules for companies etc. from and including the 2010 income year:

From and including the 2010 income year, dividends distributed to non-resident companies in respect of Subsidiary or Group Shares will be exempt from taxation, when taxation of dividends must be waived or reduced under the provisions of the Parent/Subsidiary Directive (Directive 90/435/EEC) or under a double taxation treaty with the Faroe Islands, Greenland or the state in which the company is resident. With respect to dividends on Group Shares, it is also a condition that the company receiving dividends is resident in the EU/EEA.

Dividends in respect of Portfolio Shares are always subject to taxation, irrespective of the length of the ownership period. If the dividend-receiving company holds Portfolio Shares (i.e. less than 10%) in the company distributing dividends and the company is resident in a state which has a double taxation treaty with Denmark or any other agreement on the exchange of information between the tax authorities of the countries, the withholding tax rate may be reduced to 15% on request. If the rate of withholding tax is to be reduced to less than 15% under the relevant double taxation treaty, the withholding tax may be reduced to the rate stated in the double taxation treaty.

Moreover, shareholders with a permanent establishment in Denmark to which the shares can be attributed will be taxed according to the same rules as for shareholders who are residents of Denmark,

Capital gains taxation
As a general rule, investors who are residents outside Denmark are not subject to Danish tax on capital gains on the sale of shares.

However, gains and losses on shares are subject to Danish taxation according to the same rules as apply to Danish resident investors if (i) the investor is considered as trading in shares ("næringsdrivende") and (ii) the shares can be attributed to a permanent establishment in Denmark. The term permanent establishment is generally construed in accordance with the OECD Model Convention and its commentary.

As from the 2010 income year, shareholders who hold Portfolio Shares attributable to a permanent establishment in Denmark will be taxed according to the same rules as shareholders who are residents of Denmark.

Exercise and sale of Preemptive Rights
Individuals
The allocation of Preemptive Rights to individuals who are residing outside Denmark will not generally result in a tax liability in Denmark. Individuals residing outside Denmark will not normally be liable to tax to Denmark on gains on Preemptive Rights. If a non-Danish resident investor is considered (i) as trading professionally in shares and (ii) the Preemptive Rights can be attributed to a permanent establishment in Denmark, the Preemptive Rights are taxed according to the same rules as apply to resident shareholders.

Exercise of the Preemptive Rights does not result in taxation in Denmark.

Companies, etc.
The allocation of Preemptive Rights to companies, etc. resident outside Denmark will not generally result in a tax liability in Denmark. Companies etc. resident outside Denmark will not normally be liable to tax to Denmark on gains from the sale of Preemptive Rights. If a non-Danish resident company etc. is considered (i) as trading professionally in shares and (ii) the Preemptive Rights can be attributed to a permanent establishment in Denmark, the Preemptive Rights are taxed according to the same rules as apply to resident companies. As from the 2010 income year, shareholders with a permanent establishment in Denmark to which the preemptive rights can be attributed will be taxed according to the same rules as for shareholders who are residents of Denmark,

Exercise of the Preemptive Rights does not result in taxation in Denmark.

5. Terms and conditions of the Offering

Terms and conditions of the Offering

On 15 January at 12.30 p.m. CET, any person registered with VP Securities as a shareholder of Bavarian Nordic A/S will be entitled to and will be allocated one (1) Preemptive Right for each Existing Share of DKK 10 nominal value held as at the Allocation Time.

The Offering is not underwritten.

Two (2) Preemptive Rights confer the right on the holder to subscribe for one (1) New Share. Thus, the holder is entitled to subscribe for one (1) New Share for every two (2) Preemptive Rights held against payment of the Offer Price. No fractions of New Shares will be issued. One shareholder has waived his right to subscribe based on one Preemptive Right.

Shares traded after 13 January 2010 at 9.00 a.m. CET will be traded ex Preemptive Rights assuming that the Shares are traded at customary three-day settlement.

The Preemptive Rights and the New Shares will be delivered in book-entry form through allocation to accounts with VP Securities.

The New Shares to be issued by the Company upon exercise of the Preemptive Rights will be of the same class as the Existing Shares and will be registered under the temporary ISIN code DK0060205185. The New Shares will not be admitted to trading and official listing on NASDAQ OMX until registration with the Danish Commerce and Companies Agency is completed. Consequently, shareholders and investors should note that the New Shares will not be admitted to trading and official listing on NASDAQ OMX under a temporary ISIN code. The New Shares will be listed on NASDAQ OMX directly under the ISIN code of the Existing Shares (DK0015998017 (BAVA)) following registration of the capital increase with the Danish Commerce and Companies Agency, which is expected to take place on 4 February 2010.

When the New Shares have been admitted for trading and official listed, they may be settled through Euroclear and Clearstream.

The Preemptive Rights will be admitted to trading and official listing on NASDAQ OMX under ISIN code DK0060205268. The temporary ISIN code of the New Shares is DK0060205185. The Existing Shares are listed on NASDAQ OMX under ISIN code DK0015998017.

Proceeds from the Offering

The gross proceeds from the Offering will be up to DKK 318.1 million (the Maximum Offering).

The net proceeds from the Maximum Offering (gross proceeds from the Maximum Offering after deduction of estimated expenses to the Company relating to the Offering) are expected to be DKK 299.0 million.

Advance undertakings

A.J. Aamund A/S is entitled to 1,334,099 Preemptive Rights to subscribe for 667,049 New Shares. A.J. Aamund A/S has agreed with the Joint Lead Managers to participate in the Offering on a cash-neutral basis (after transaction costs) by subscribing for the maximum number of New Shares that it can finance solely through the sale of Preemptive Rights. The proceeds from any Preemptive Rights sold by A.J. Aamund A/S will be used to subscribe for New Shares. The Preemptive Rights will be sold during the trading period for Preemptive Rights by the Joint Lead Managers on behalf of A.J. Aamund A/S, in open market transactions, private placements, block trades or otherwise.

Save as described above, the Company has not received any binding advance undertakings to subscribe for New Shares.

Pre-allotment

No pre-allotment of Shares has taken place.

Subscription Period

The Subscription Period for the New Shares commences on 16 January 2010 at 9.00 a.m. CET and closes on 29 January 2010 at 5.00 p.m. CET.

For a description of the procedure for exercise and subscription, see II "Procedure for exercise of and dealings in Preemptive Rights and treatment of Preemptive Rights".

Expected timetable of principal events

Last day of trading in Existing Shares including Preemptive Rights:	12 January 2010.
First day of trading in Existing Shares excluding Preemptive Rights:	13 January 2010.
Trading period for Preemptive Rights commences:	13 January 2010.
Allocation time of Preemptive Rights:	15 January 2010 at 12.30 p.m. CET.
Subscription Period for New Shares commences:	16 January 2010.
Trading period for Preemptive Rights closes:	26 January 2010 at 5.00 p.m. CET.
Subscription Period for New Shares closes:	29 January 2010 at 5.00 p.m. CET.
Announcement of the results of the Offering:	Not later than two Business Days after the end of the Subscription Period (expected to be on 2 February 2010)
Completion of the Offering:	The Offering will only be completed when and if the New Shares subscribed are issued by Bavarian Nordic A/S after registration of the capital increase with the Danish Commerce and Companies Agency, which is expected to take place on 2 February 2010.
Admission of the New Shares to trading and official listing under the ISIN code of the Existing Shares:	4 February 2010.

Withdrawal or suspension of the Offering

The completion of the Offering is subject to no events occurring no later than 12 January 2010, the last business day before trading in the Preemptive Rights commences, which in the opinion of Bavarian Nordic A/S or the Joint Lead Managers or both would make it inadvisable to proceed with the Offering.

Furthermore, in the period until registration of the capital increase with the Danish Commerce and Companies Agency, the Joint Lead Managers are each entitled, in certain exceptional and unpredictable circumstances (including *force majeure*) to terminate the Rights Issue Agreement, and in such case, Bavarian Nordic A/S shall withdraw the Offering. The Rights Issue Agreement also contains conditions for the completion of the Offering which Management believes are usual in such offerings, including that the completion of the Offering is subject to compliance with all conditions of the Rights Issue Agreement. If one or more conditions for completion of the Offering are not met, the Joint Lead Managers may, at their discretion, terminate the Rights Issue Agreement and thereby require that the Company withdraw the Offering.

Any withdrawal will be notified immediately to NASDAQ OMX and announced as soon as possible in the same Danish daily newspapers in which the Offering was advertised.

If the Offering is not completed, any exercise of Preemptive Rights that has already taken place will be cancelled automatically, the subscription price of the New Shares will be refunded (less any brokerage fees) to the last registered owner of the New Shares as of the date of withdrawal, all Preemptive Rights will be null and void, and no New Shares will be issued, potentially causing investors who may have acquired Preemptive Rights and/or rights to New Shares (in an off-market transaction) to incur a loss. However, trades of Preemptive Rights executed during the trading period for the Preemptive Rights will not be affected. As a result, investors who acquired Preemptive Rights will incur a loss corresponding to the purchase price of the Preemptive Rights and any brokerage fees.

Reduction of subscription

Reduction of subscription is not applicable.

Minimum and/or maximum subscription amount

The minimum number of New Shares that a holder of Preemptive Rights may subscribe will be one (1) New Share, requiring the exercise of two (2) Preemptive Rights and the payment of the Offer Price. The number of New Shares that a holder of Preemptive Rights may subscribe is not capped. However, the number is limited to the number of New Shares which may be subscribed through the exercise of the Preemptive Rights held or acquired.

Withdrawal of applications for shares

Instructions to exercise Preemptive Rights are irrevocable.

Payment

Upon exercise of the Preemptive Rights, the holder must pay DKK 80 per New Share subscribed.

Payment for the New Shares shall be made in Danish kroner and shall be made not later than on 29 January 2010, at 5.00 p.m. CET against registration of the New Shares in the transferee's account with VP Securities. Holders of Preemptive Rights shall adhere to the account agreement with their own Danish custodian institution or other financial intermediary, through which they hold Shares. Financial intermediaries through which a holder has Preemptive Rights may require payment on an earlier date.

Publication of the results of the Offering

The results of the Offering will be communicated in a company announcement which is expected to be released through NASDAQ OMX not later than two (2) Banking Days after the end of the Subscription Period, expected to be on 2 February 2010.

Completion of the Offering

The Offering will only be completed when and if the New Shares subscribed are issued by Bavarian Nordic A/S after registration of the capital increase with the Danish Commerce and Companies Agency, which is expected to take place on 2 February 2010.

An announcement concerning the results of the Offering is expected to be made on 2 February 2010.

Procedure for exercise of and dealings in Preemptive Rights and treatment of Preemptive Rights

The Preemptive Rights are negotiable instruments and are expected to be admitted to trading and official listing on NASDAQ OMX.

Holders of Preemptive Rights who wish to subscribe for New Shares will be required to do so through their own custodian institution in accordance with the rules of such institution. The deadline for notification of exercise depends on the holder's agreement with and the rules and procedures of the relevant custodian bank or other financial intermediary, and the deadline may be earlier than the last day of the Subscription Period. Once a holder has exercised its Preemptive Rights, such exercise may not be revoked or modified.

Upon payment of the Offer Price and exercise of the Preemptive Rights during the Subscription Period, the New Shares will be allocated through VP Securities at the end of a Banking Day. The New Shares will not be issued or admitted to trading and official listing on NASDAQ OMX until registration of the capital increase has taken place with the Danish Commerce and Companies Agency. Admission to trading and official listing of the New Shares under the existing ISIN code on NASDAQ OMX is expected to take place on 4 February 2010.

Any holder who exercises his Preemptive Rights shall be deemed to have represented that he has complied with all applicable laws relating to the exercise of the Preemptive Rights. Custodian banks exercising Preemptive Rights on behalf of beneficial owners shall be deemed to have represented that they have complied with the offering procedures set forth in this Prospectus.

Shareholders who do not wish to exercise their Preemptive Rights to subscribe for the New Shares may transfer their rights, and the transferee may use the Preemptive Rights to subscribe for the New Shares. Holders wishing to sell their Preemptive Rights should instruct their custodian banks accordingly.

The Joint Lead Managers may, from time to time, acquire and sell Preemptive Rights, exercise Preemptive Rights and acquire and sell New Shares.

Any Preemptive Rights which have not been exercised during the Subscription Period will lapse with no value, and the holder of such Preemptive Rights will not be entitled to compensation. The Subscription Period closes on 29 January 2010 at 5.00 p.m. CET.

Jurisdictions in which the Offering will be made and restrictions applicable to the Offering

Where the Offering will be made

The Offering comprises a public offering in Denmark and the United Kingdom and private placements in certain other jurisdictions.

Consistent with the rules on cross-border offers of Directive 2003/71/EC of the European Parliament and the Council, the Company will request that the Danish Financial Supervisory Authority provides the competent authorities for approving prospectuses in the United Kingdom with a certificate of approval regarding the Prospectus. Such certificate of approval, accompanied by the Prospectus and a translation thereof, will be filed with the competent authorities for approving prospectuses in the United Kingdom after which the Prospectus will be valid for public offerings in that jurisdiction.

Restrictions applicable to the Offering

General restrictions

The Offering will be implemented under Danish law, and neither the Company nor the joint Lead Managers have taken any action or will take any action in any jurisdictions, with the exception of Denmark and the United Kingdom, which may result in a public offering of the Preemptive Rights and/or the New Shares.

The distribution of the Prospectus and the Offering as well as marketing of Preemptive Rights or Shares may be restricted by law and/or be comprised by other restrictions in certain jurisdictions, and this Prospectus may not be used for, or in connection with, any offer or solicitation to any person in any jurisdiction in which such offer or solicitation is not authorised or to any persons to whom it is unlawful to make such offer or solicitation. This Prospectus does not constitute an offer of or an invitation to purchase any Preemptive Rights or purchase or subscribe for New Shares in any jurisdiction in which such offer or invitation would be unlawful. Bavarian Nordic A/S and the Joint Lead Managers require persons into whose possession this Prospectus comes to inform themselves of and observe such restrictions, including any tax and currency restrictions that may be relevant in connection with the Offering. Each investor is advised to investigate through such investor's own advisers the tax consequences of an investment in New Shares. Neither Bavarian Nordic A/S nor the Joint Lead Managers accepts any legal liability for any violation of these restrictions by any person, irrespective of whether such person is an Existing Shareholder or a potential purchaser of Preemptive Rights and/or subscriber of the New Shares.

The Preemptive Rights and the New Shares are subject to transfer and reselling restrictions in certain jurisdictions. By purchasing or subscribing for the Preemptive Rights or the New Shares, purchasers of or subscribers for Preemptive Rights or New Shares will be deemed to have confirmed that Bavarian Nordic A/S and the Joint Lead Managers and their respective affiliates and other persons may rely on the accuracy of the representations, acknowledgements, guarantees and agreements contained herein.

Each prospective purchaser of or subscriber for Preemptive Rights and/or New Shares must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, subscribes, offers or sells Preemptive Rights and/or New Shares or possesses or distributes this Prospectus and must obtain any consent, approval or permission required by it for acquiring Preemptive Rights or New Shares.

This Prospectus may not be distributed in or otherwise be made available, the New Shares may not be offered or sold, directly or indirectly, and the Preemptive Rights may not be exercised or otherwise offered or sold, directly or indirectly, in the United States, Canada, Australia or Japan, unless such distribution, offering, sale or exercise is permitted under applicable laws in the relevant jurisdiction, and Bavarian Nordic A/S and the Joint Lead Managers must receive satisfactory documentation to that effect. This Prospectus may not be distributed or otherwise made available, the New Shares may not be offered or sold, directly or indirectly, and the Preemptive Rights may not be exercised or otherwise offered or sold, directly or indirectly, in any jurisdiction outside Denmark and the United Kingdom, unless such distribution, offering, sale or exercise is permitted under applicable laws in the relevant jurisdiction, and Bavarian Nordic A/S and the Joint Lead Managers may require receipt of satisfactory documentation to that effect. Due to such restrictions under applicable laws, Bavarian Nordic A/S expects that some or all investors residing in the United States, Canada, Australia, Japan and other jurisdictions outside Denmark and the United Kingdom may not have the Prospectus distributed to them and may not be able to exercise the Preemptive Rights and subscribe for the New Shares. Bavarian Nordic A/S makes no offer or solicitation to any person under any circumstances that may be unlawful.

Notice to US residents
The Preemptive Rights and the New Shares have not been approved, disapproved or recommended by the US Securities and Exchange Commission, any state securities commission in the United States or any other US regulatory authority, nor have any of such regulatory authorities passed upon or endorsed the merits of the Offering or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

The Preemptive Rights and the New Shares have not been and will not be registered under the United States Securities Act of 1933, as amended (the "US Securities Act"), or any state securities laws in the Unites States. Any offer and sale of the Preemptive Rights or the New Shares in the United States will be made only to qualified institutional buyers pursuant to an exemption from the registration requirements of the US Securities Act, and outside the United States will be made in accordance with Regulation S under the US Securities Act ("Regulation S").

Any person who wishes to exercise Preemptive Rights and subscribe for New Shares will be deemed to have declared, warranted and agreed, by accepting delivery of this Prospectus and delivery of Preemptive Rights or New Shares, either that he is acquiring the Preemptive Rights or the New Shares in an offshore transaction as defined in Regulation S of the US Securities Act (Regulation S) in compliance with Regulation S, or pursuant to an effective registration statement under the US Securities Act, or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act and in accordance with any applicable US state securities laws.

In addition, until the expiration of 40 days after the closing of the Subscription Period, an offer to sell or a sale of Preemptive Rights or New Shares within the United States by a broker or dealer (whether or not it is participating in the Offering) may violate the registration requirements of the US Securities Act if such offer to sell or such sale is made otherwise than pursuant to an exemption under the US Securities Act.

Due to such restrictions under applicable laws and regulations, Bavarian Nordic A/S expects that some or all investors residing in the US may not be able to exercise the Preemptive Rights and subscribe for the New Shares.

Notice to New Hamsphire Residents
NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ("RSA 421-B") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENCED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE OR CAUSE TO BE MADE TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

Restrictions on sales in the European Economic Area
In relation to each member state of the European Economic Area which has implemented the Prospectus Directive (each a "Relevant Member State"), no offering of Preemptive Rights or New Shares to the public will be made in any Relevant Member State prior to the publication of a prospectus concerning the Preemp-

tive Rights and the New Shares, which has been approved by the competent authority in such Relevant Member State or, where relevant, approved in another Relevant Member State and notified to the competent authority in such Relevant Member State, all pursuant to the Prospectus Directive, except that with effect from and including the date of implementation of the Prospectus Directive in such Relevant Member State, an offering of Preemptive Rights and New Shares may be made to the public at any time in such Relevant Member State under the following exemptions under the Prospectus Directive:

(a) to legal entities that are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity fulfilling at least two of the following criteria: (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than EUR 43,000,000; and (iii) an annual net revenue of more than EUR 50,000,000, as shown in its last annual or consolidated accounts;

(c) to less than 100 individuals or legal persons (except for "qualified investors" as defined in the Prospectus Directive) subject to the prior written consent of Bavarian Nordic A/S and the Joint Lead Managers; or

(d) in any other circumstances which do not require the publication by Bavarian Nordic A/S of a prospectus under Article 3 of the Prospectus Directive.

For the purposes of the above, the expression an "offer of Preemptive Rights and New Shares to the public" in relation to any Preemptive Rights and New Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the Offering, the Preemptive Rights and the New Shares so as to enable an investor to decide to purchase the Preemptive Rights or purchase or subscribe for the New Shares, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State. The term "Prospectus Directive" means Directive 2003/71/EC and includes all relevant implementation procedures in each Relevant Member State.

Restrictions on sales in Canada, Australia and Japan and any other jurisdictions outside Denmark and the United Kingdom
The Preemptive Rights and the New Shares have not been approved, disapproved or recommended by any foreign securities commission, nor have any of such authorities passed upon or endorsed the merits of the Offering or the accuracy or adequacy of this Prospectus.

Due to restrictions under applicable laws and regulations, Bavarian Nordic A/S expects that certain or all investors residing in Canada, Australia, Japan and other jurisdictions outside Denmark and the United Kingdom may not be able to exercise their Preemptive Rights and/or subscribe for the New Shares.

Intentions of Major Shareholders, members of the Board of Directors, member of the Corporate Management or members of Executive Management of Bavarian Nordic A/S participating in the Offering

A.J. Aamund A/S is entitled to 1,334,099 Preemptive Rights to subscribe for 667,049 New Shares. A.J. Aamund A/S has agreed with the Joint Lead Managers to participate in the Offering on a cash-neutral basis (after transaction costs) by subscribing for the maximum number of New Shares that it can finance solely through the sale of Preemptive Rights. The proceeds from any Preemptive Rights sold by A.J. Aamund A/S will be used to subscribe for New Shares. The Preemptive Rights will be sold during the trading period for Preemptive Rights by the Joint Lead Managers on behalf of A.J. Aamund A/S, in open market transactions, private placements, and block trades or otherwise.

Furthermore, Reiner Laus (CEO of BN ImmunoTherapeutics) has given notice that he expects to sell his Preemptive Rights in connection with the Offering.

Save as described above, Bavarian Nordic A/S has not received any indications from other shareholders that they intend to sell their Shares or Preemptive Rights.

Plan of distribution

No pre-allotment of New Shares has taken place.

Offer price

The New Shares are offered at DKK 80 per Share of DKK 10 nominal value, free of brokerage as disclosed in this Prospectus.

Price disparity

No persons have been granted the right to subscribe for New Shares at a preferential price, and consequently there is no price disparity.

Payment intermediaries

Euroclear Bank S.A./N.V.
1 Boulevard de Roi Albert II
B-1210 Brussels
Belgium

Clearstream Banking S.A.
42 Avenue JF Kennedy
L-1855 Luxembourg
Luxembourg

Placing

Nordea Markets and SEB Enskilda are Joint Lead Managers.

Addresses of the Joint Lead Managers

- Nordea Markets (company reg. (CVR) no. 13522197), Strandgade 3, P.O. Box 850, DK-0900 Copenhagen C, Denmark
- SEB Enskilda (company reg. (CVR) no. 19956075), Silkegade 8, DK-1113 Copenhagen K, Denmark

Rights Issue Agreement

In connection with the Offering, Bavarian Nordic A/S and the Joint Lead Managers have signed the Rights Issue Agreement.

Bavarian Nordic A/S has made certain representations and warranties to the Joint Lead Managers. Bavarian Nordic A/S has furthermore undertaken to indemnify the Joint Lead Managers for certain matters related to the Offering. Pursuant to the Rights Issue Agreement, the Joint Lead Managers may require at any time prior to registration of the capital increase pertaining to the New Shares that Bavarian Nordic A/S withdraw the Offering upon notice of termination of the Rights Issue Agreement. The Joint Lead Managers are entitled to terminate the Underwriting Agreement upon the occurrence of certain exceptional and unpredictable circumstances, such as *force majeure*.

The Rights Issue Agreement also contains completion conditions which Bavarian Nordic A/S believes are customary for offerings such as the Offering, and the completion of the Offering is subject to compliance with all conditions in that respect set out in the Rights Issue Agreement. If one or more conditions for completion are not met, the Joint Lead Managers may, at their discretion, also terminate the Rights Issue Agreement and thereby require that Bavarian Nordic A/S withdraw the Offering. See subsection "Withdrawal or suspension of the Offering" in this section.

The Offering is not underwritten.

6. Agreements on admission to trading and dealing

The Preemptive Rights will be admitted to trading and official listing on NASDAQ OMX, and the trading period of the Preemptive Rights commences on 13 January 2010 at 9.00 a.m. CET and closes on 26 January 2010 at 5.00 p.m. CET under ISIN code DK0060205268.

After registration of the capital increase relating to the New Shares with the Danish Commerce and Companies Agency, expected on 2 February 2010, the New Shares will be issued and, subject to the approval of the application for admission to trading and official listing, the admission of the New Shares for trading and official listing under the existing ISIN code is expected to commence.

The Existing Shares are listed on NASDAQ OMX under ISIN code DK0015998017.

Market maker agreements

Bavarian Nordic A/S does not have a market maker agreement.

Stabilisation

Stabilisation is not relevant in connection with the Offering.

7. Lock-up agreements

Shareholders that have indicated that they expect to sell their Shares or Preemptive Rights

A.J. Aamund A/S is entitled to 1,334,099 Preemptive Rights to subscribe for 667,049 New Shares. A.J. Aamund A/S has agreed with the Joint Lead Managers to participate in the Offering on a cash-neutral basis (after transaction costs) by subscribing for the maximum number of New Shares that it can finance solely through the sale of Preemptive Rights. The proceeds from any Preemptive Rights sold by A.J. Aamund A/S will be used to subscribe for New Shares. The Preemptive Rights will be sold during the trading period for Preemptive Rights by the Joint Lead Managers on behalf of A.J. Aamund A/S, in open market transactions, private placements, block trades or otherwise.

Furthermore, Reiner Laus (CEO of BN ImmunoTherapeutics) has given notice that he expects to sell his Preemptive Rights in connection with the Offering.

Save as described above, Bavarian Nordic A/S has not received any indications from other shareholders that they intend to sell their Shares or Preemptive Rights.

Lock-up agreement in connection with the Offering

Lock-up agreement with Bavarian Nordic A/S

Bavarian Nordic A/S has undertaken until after 180 days counted from the completion of the Offering (expected to be on 2 February 2010) not to issue, sell, offer for sale, enter into any agreement regarding the sale of, pledge or in any other way directly or indirectly transfer Shares in Bavarian Nordic A/S or other securities exchangeable into Shares in Bavarian Nordic A/S or warrants or other options to acquire Shares in Bavarian Nordic A/S (together "Company Securities") or to announce the intention to make any such act without the prior written consent of the Joint Lead Managers. Such consent is not to be unreasonably withheld or delayed, if the transaction is motivated by reasonable business considerations attributable to Bavarian Nordic A/S. The above-mentioned obligation of Bavarian Nordic A/S shall not apply to transfers or issues of Company Securities to employees of Bavarian Nordic A/S and employees of subsidiaries of Bavarian Nordic A/S, members of the Corporate Management or Board of Directors of Bavarian Nordic A/S in relation to the exercise by such persons of their rights in accordance with the existing or future employee-share, option or warrant programmes.

8. Expenses relating to the Offering

The gross proceeds from the Offering will total approximately DKK 318.1 million (estimated net proceeds of DKK 299.0 million), if the maximum number of New Shares is subscribed.

Assuming that all the New Shares are subscribed, the estimated costs payable by Bavarian Nordic A/S in connection with the Offering will be as stated below.

Table 21 – Costs relating to the Offering if the maximum number of New Shares is subscribed

	(DKK million)
Fees to the Joint Lead Managers	11.1
Fees to accountants and legal advisers	5.0
Other expenses	1.9
Printing	0.5
Advertising	0.3
Public charges and duties	0.2
Total expenses	**19.0**

The fees to the Joint Lead Managers are variable, and the total expenses are therefore subject to the results of the Offering.

9. Dilution

As at the Prospectus Date, the Company had a share capital of DKK 79,517,450 nominal value divided into 7,951,745 shares of DKK 10 nominal value. As a result of the issuance of 3,975,872 New Shares at the Offer Price of DKK 80, the percentage of ownership of the Company's Existing Shareholders may be reduced. If the Existing Shareholders refrain from exercising the Preemptive Rights allocated to them, they will be diluted by 33.3%. If the Existing Shareholders elect to partially exercise the Preemptive Rights allocated to them, the rate of dilution will be between 0 and 33.3%.

If the Existing Shareholders exercise their Preemptive Rights in full, they will not be diluted.

The table below shows an example of the dilution that would occur if an Existing Shareholder elects to exercise all the Preemptive Rights allocated, half of the Preemptive Rights allocated or, if such shareholder elects not to exercise any of the Preemptive Rights under the given terms and conditions of the Offering.

Table 22 – Example of dilution on exercise of Preemptive Rights

	100% exercise	**50% exercise**	**0% exercise**
Number of existing shares	100,000	100,000	100,000
Existing ownership interest	1.26%	1.26%	1.26%
Preemptive Rights allocated	100,000	100,000	100,000
Preemptive Rights exercised	100,000	50,000	0
Number of shares after exercise of Preemptive Rights	150,000	125,000	100,000
Ownership interest after exercise of Preemptive Rights	1.26%	1.05%	0.84%
Total dilution	**0.0%**	**16.7%**	**33.3%**

The dilution has been calculated as the percentage difference between each shareholder's number of Shares before and after the Offering (and assuming that all New Shares under the Offering are subscribed).

As at 30 November 2009, the Company's equity was DKK 736.8 million, corresponding to DKK 94.3 per Share. Equity per Share is made up by dividing the equity to the parent company's shareholders by the total number of Shares. After giving effect to the issuance of the New Shares (3,975,872 New Shares) at the Offer Price of DKK 80 per New Share and after deducting commissions and estimated costs, the pro forma equity of Bavarian Nordic A/S as at 30 November 2009 would have been approximately DKK 1,035.8 million, or DKK 87.8 per Share. This represents an immediate reduction in equity per Share of DKK 6.4 to the shareholders of Bavarian Nordic, and an immediate dilution in adjusted equity per Share of DKK (7.8) to subscribers of the New Shares, corresponding to a dilution of (10%).

The table below illustrates the dilution that investors in the New Shares will experience:

Table 23 – Dilution per Share (DKK)

Offer Price per New Share	80
Equity per Share of DKK 10 nominal value	94.3(*)
Increase in equity per Share as a result of the subscription of the Offer New Shares	(6.4)
Equity per Share after the Offering	87.8(*)
Dilution per Share	(7.8)(*)

(*) On 18 December 2009 the Company's share capital was increased by DKK 1,361,770 nominal value.

The dilution is determined by subtracting equity per Share after the Offering from the Offer Price per Share.

After completion of the Offering, the exercise price of the share options granted will be adjusted as per usual practice.

Additional dilution will occur in connection with the future exercise of warrants. In that connection, it should be noted that on completion of the Offering, the number of warrants will be increased and the exercise price will be reduced as the Offer Price is lower than the market price of the Company's Shares. See "Additional information – Warrants" for a further description of the outstanding warrants.

10. Additional information

Joint Lead Managers

Nordea Markets (Division of Nordea Bank Danmark A/S)
Strandgade 3
P.O. Box 850
DK-0900 Copenhagen C
Denmark

SEB Enskilda, Skandinaviska Enskilda Banken AB (publ),
Copenhagen Branch
Silkegade 8
DK-1113 Copenhagen K
Denmark

Legal adviser to the Company

As to Danish law:
Kromann Reumert
Sundkrogsgade 5
DK-2100 Copenhagen Ø
Denmark

Legal adviser to the Joint Lead Managers

As to Danish law:
Bech-Bruun
Langelinie Allé 35
DK-2100 Copenhagen Ø
Denmark

Auditors to the Company

Deloitte
Weidekampsgade 6
DK-2300 Copenhagen S
Denmark

III APPENDIX

1. Extract of Articles of Association of Bavarian Nordic A/S

The appendices to the Articles of Association of Bavarian Nordic A/S have been left out. These appendices are available for inspection at the Company's head office at Hejreskovvej 10A, 3490 Kvistgaard, Denmark (copies available on request).

Articles of Association of Bavarian Nordic A/S

Company reg. (CVR) no. 16271187

NAME, REGISTERED OFFICE AND OBJECTS OF THE COMPANY

Article 1
The name of the company is Bavarian Nordic A/S ("the Company").

Article 2
The registered office of the Company will be situated in the Municipality of Helsingør.

Article 3
The objective for which the Company has been established is to carry on research, trade, manufacture and any other related activities, primarily within the pharmaceutical industry.

THE COMPANY'S SHARE CAPITAL

Article 4
The Company's share capital amounts to 79,517,450, in words Seventyninemillionfivehundredseventeenthousandfourhundredefifty 00/100 Danish kroner, divided into shares in the denomination of DKK 1 and multiples thereof. The share capital has been paid up in full.

AUTHORISATION TO INCREASE THE CAPITAL STOCK

Article 5a
For the period ending on 30 June 2011, the Board of Directors shall be authorised to increase the Company's share capital in one or more issues with a total of nominally DKK 80,000,000 (80,000,000 shares of DKK 1 or multiples hereof).

The share capital may be increased by cash payment or in other ways. If the share capital is increased by a cash payment at a subscription price below the value of the shares, the existing shareholders shall have pre-emption right to subscribe for the amount by which the share capital is increased, proportional to their shareholdings. If the share capital is increased by a cash payment other than in the situations mentioned in this Article 5a, subsection 2 or in other ways, such as by conversion of debts or in payment of a contribution in kind, the Company's existing shareholders shall not have pre-emption right. If the share capital is increased in other ways, the provisions of Article 33 of the Danish Public Companies Act shall apply, and the subscription price or the value of the shares issued shall be fixed by the Board of Directors within the framework of the mandatory provisions under the Danish Public Companies Act, including sections 79 and 80 of the Act.

The terms and conditions of the subscription for shares shall be determined by the Board of Directors.

The new shares shall be negotiable instruments and shall be issued to bearer but they may be registered in the bearer's name in the company's register of shareholders. No restrictions shall apply to the transferability of the new shares, and no shareholder shall be obliged to have his shares redeemed – in whole or in part. The shares shall carry the right to dividend as from the date fixed by the Board of Directors but not later than the first financial year following the capital increase.

Article 5b
Cancelled

Article 5c
In accordance with authorization the Board of Directors has issued 184,768 warrants, providing the right to subscribe to a maximum of 184,768 shares, each with a nominal value of DKK 10 (a total nominal value of 1,847,680), at a rate of DKK 542 per share of DKK 10.

Subscription for shares according to the awarded warrants can be made, wholly or partly in periods 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 in periods of 14 days commencing from the day of publication of the company's Annual Results in the year of 2010. Warrants, which are not exercised used in the first subscription period, can be exercised in the second subscription period, however no later than 15 April 2010.

The existing shareholders shall not have pre-emptive right for the warrants.

The warrants can not be assigned or placed as collateral by the warrant holder to third party.

New shares as shall be subscribed for in accordance with the warrant shall have the same rights as existing shares pursuant to the articles of association, according to which new shares shall be negotiable securities and shall be issued to the holder but can be registered by name in the company's register of shareholders. No limitations in the negotiability of the new shares shall apply, and no duty for redemption shall be attached hereto. From the time of subscription, shares shall bear the right to returns.

If a decision is made before exercise of the warrants concerning sale of a majority of the shares in the company, which means transfer of more than 50% of the company's Share Capital to third party (who may be a share holder in the company), the Board of Directors can decide:

that the warrant holder, wholly or partly shall exercise all awarded warrants, regardless of whether vested or not and transfer the shares on the same terms and conditions as the other transferring shareholders (or renounce to do so, in which case the warrants shall lapse).

that the warrant holder shall keep the awarded warrants on the terms and conditions set out herein.

If a decision is made before exercise of the warrants concerning dissolution of the company, including by merger or de-merger, the Board of Directors can decide:

that the warrant holder, wholly or partly shall exercise all awarded warrants, regardless of whether vested or not and transfer the shares on the same terms and conditions as the other transferring shareholders (or renounce to do so, in which case the warrants shall lapse).

that the warrant holder shall keep the awarded warrants on the terms and conditions set out herein.

If a decision is made before exercise of the warrants concerning increase of capital, issue of warrants, convertible debt instrument or the like, by the means of which the shares can be subscribed for a value not lower than the market value, it shall not affect the terms and conditions for the exercise of the warrants.

If a decision is made before exercise of the warrants concerning 1) increase of capital, issue of warrants, convertible debt instrument of the like, except to employees or board members of the company and its subsidiaries, by the means of which the shares can be subscribed to a value lower that the market value, 2) if the company implements a reduction of capital for coverage of deficit or 3) implements a reduction of capital in the company with payment to the share holders and this change involves a reduction or increase of the potential possibly profit according to the warrants, the subscription price hereof shall be regulated and the amounts of shares, which can be subscribed by exercise the warrants, so that the potential profit of the warrants will remain unchanged.

As a consequence of the exercise of awarded warrants, the Board of Directors is authorised during the period until 26 April 2010 to increase the share capital by a nominal value of DKK 1,847,680 in one or more portions on resolution of the Board of Directors by cash payment at a price of DKK 542 per share of nominal DKK 10. The details and terms for the issuance of shares shall be established by the Board of Directors.

The new shares issued based on warrants shall have the same rights as existing shares according to the articles of association. The new shares shall be negotiable and be issued to the bearer, but may be registered in the Company's Stock Register. No restrictions in the transferability of the new shares shall apply and no shareholder shall be obliged to allow for their shares to be redeemed. The new shares shall be eligible for dividends from the time of subscription.

Article 5d

In accordance with authorization the Board of Directors has issued 190,000 warrants, providing the right to subscribe to a maximum of 190,000 shares, each with a nominal value of DKK 10 (a total nominal value of 1,900,000), at a rate of DKK 549 per share of DKK 10.

Subscription for shares according to the awarded warrants can be made, wholly or partly in periods 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 in periods of 14 days commencing from the day of publication of the company's Annual Results in the year of 2011. Warrants, which are not exercised used in the first subscription period, can be exercised in the second subscription period, however no later than 15 April 2011.

The existing shareholders shall not have pre-emptive right for the warrants.

The warrants can not be assigned or placed as collateral by the warrant holder to third party.

New shares as shall be subscribed for in accordance with the warrant shall have the same rights as existing shares pursuant to the articles of association, according to which new shares shall be negotiable securities and shall be issued to the holder but can be registered by name in the company's register of shareholders. No limitations in the negotiability of the new shares shall apply, and no duty for redemption shall be attached hereto. From the time of subscription, shares shall bear the right to returns.

If a decision is made before exercise of the warrants concerning sale of a majority of the shares in the company, which means transfer of more than 50% of the company's Share Capital to third party (who may be a share holder in the company), the Board of Directors can decide:

that the warrant holder, wholly or partly shall exercise all awarded warrants, regardless of whether vested or not and transfer the shares on the same terms and conditions as the other transferring shareholders (or renounce to do so, in which case the warrants shall lapse), or

that the warrant holder shall keep the awarded warrants on the terms and conditions set out herein.

If a decision is made before exercise of the warrants concerning dissolution of the company, including by merger or de-merger, the Board of Directors can decide:

that the warrant holder, wholly or partly shall exercise all awarded warrants, regardless of whether vested or not and transfer the shares on the same terms and conditions as the other transferring shareholders (or renounce to do so, in which case the warrants shall lapse), or

that the warrant holder shall keep the awarded warrants on the terms and conditions set out herein.

If a decision is made before exercise of the warrants concerning increase of capital, issue of warrants, convertible debt instrument or the like, by the means of which the shares can be subscribed for a value not lower than the market value, it shall not affect the terms and conditions for the exercise of the warrants.

If a decision is made before exercise of the warrants concerning 1) increase of capital, issue of warrants, convertible debt instrument of the like, except to employees or board members of the company and its subsidiaries, by the means of which the shares can be subscribed to a value lower that the market value, 2) if the company implements a reduction of capital for coverage of deficit or 3) implements a reduction of capital in the company with payment to the share holders and this change involves a reduction or increase of the potential possibly profit according to the warrants, the subscription price hereof shall be regulated and the amounts of shares, which can be subscribed by exercise the warrants, so that the potential profit of the warrants will remain unchanged.

As a consequence of the exercise of awarded warrants, the Board of Directors is authorised during the period until 26 April 2012 to increase the share capital by a nominal value of DKK 1,900,000 in one or more portions on resolution of the Board of Directors by cash payment at a price of DKK 549 per share of nominal DKK 10. The details and terms for the issuance of shares shall be established by the Board of Directors.

The new shares issued based on warrants shall have the same rights as existing shares according to the articles of association. The new shares shall be negotiable and be issued to the bearer, but may be registered in the Company's Stock Register. No restrictions in the transferability of the new shares shall apply and no shareholder shall be obliged to allow for their shares to be redeemed. The new shares shall be eligible for dividends from the time of subscription.

Article 5e
In accordance with authorization the Board of Directors has issued 10,000 warrants, providing the right to subscribe to a maximum of 10,000 shares, each with a nominal value of DKK 10 (a total nominal value of 100,000), at a rate of DKK 505 per share of DKK 10.

Subscription for shares according to the awarded warrants can be made, wholly or partly in periods 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 in periods of 14 days commencing from the day of publication of the company's Annual Results in the year of 2011. Warrants, which are not exercised used in the first subscription period, can be exercised in the second subscription period, however no later than 15 April 2011.

The existing shareholders shall not have pre-emptive right for the warrants.

The warrants can not be assigned or placed as collateral by the warrant holder to third party.

New shares as shall be subscribed for in accordance with the warrant shall have the same rights as existing shares pursuant to the articles of association, according to which new shares shall be negotiable securities and shall be issued to the holder but can be registered by name in the company's register of shareholders. No limitations in the negotiability of the new shares shall apply, and no duty for redemption shall be attached hereto. From the time of subscription, shares shall bear the right to returns.

If a decision is made before exercise of the warrants concerning sale of a majority of the shares in the company, which means transfer of more than 50% of the company's Share Capital to third party (who may be a share holder in the company), the Board of Directors can decide:

that the warrant holder, wholly or partly shall exercise all awarded warrants, regardless of whether vested or not and transfer the shares on the same terms and conditions as the other transferring shareholders (or renounce to do so, in which case the warrants shall lapse), or

that the warrant holder shall keep the awarded warrants on the terms and conditions set out herein.

If a decision is made before exercise of the warrants concerning dissolution of the company, including by merger or de-merger, the Board of Directors can decide:

that the warrant holder, wholly or partly shall exercise all awarded warrants, regardless of whether vested or not and transfer the shares on the same terms and conditions as the other transferring shareholders (or renounce to do so, in which case the warrants shall lapse), or

that the warrant holder shall keep the awarded warrants on the terms and conditions set out herein.

If a decision is made before exercise of the warrants concerning increase of capital, issue of warrants, convertible debt instrument or the like, by the means of which the shares can be subscribed for a value not lower than the market value, it shall not affect the terms and conditions for the exercise of the warrants.

If a decision is made before exercise of the warrants concerning 1) increase of capital, issue of warrants, convertible debt instrument of the like, except to employees or board members of the company and its subsidiaries, by the means of which the shares can be subscribed to a value lower that the market value, 2) if the company implements a reduction of capital for coverage of deficit or 3) implements a reduction of capital in the company with payment to the share holders and this change involves a reduction or increase of the potential possibly profit according to the warrants, the subscription price hereof shall be regulated and the amounts of shares, which can be subscribed by exercise the warrants, so that the potential profit of the warrants will remain unchanged.

As a consequence of the exercise of awarded warrants, the Board of Directors is authorised during the period until 26 April 2012 to increase the share capital by a nominal value of DKK 100,000 in one or more portions on resolution of the Board of Directors by cash payment at a price of DKK 505 per share of nominal DKK 10. The details and terms for the issuance of shares shall be established by the Board of Directors.

The new shares issued based on warrants shall have the same rights as existing shares according to the articles of association. The new shares shall be negotiable and be issued to the bearer, but may be registered in the Company's Stock Register. No restrictions in the transferability of the new shares shall apply and no shareholder shall be obliged to allow for their shares to be redeemed. The new shares shall be eligible for dividends from the time of subscription.

Article 5f
During the period ending 1 May 2012, the Company may issue warrants, in one or more portions by resolution of the Board of Directors. The warrants may be issued to the management and employees of the Company or its subsidiaries, including to consultants and the Company's Board of Directors, for the subscription of shares of a nominal value of up to DKK 2,700,000 by cash contribution at a subscription price and on such other terms as the Board of Directors may determine. Notwithstanding the foregoing, the issuances of warrants to members of the Board of Directors may not exceed a nominal value of DKK 250,000. Any issuance of warrants to the Board of Directors or management shall be made in accordance with the Company's policy for incentive remuneration of the Board of Directors and the Management, prepared in accordance with Article 69b of the Danish Public Companies Act and approved by the general meeting, cf. Article 17a of the articles of association.

Holders of warrants shall have pre-emption right to subscribe for the shares, issued based on the warrants, meaning that the pre-emption rights to subscribe to warrants and new shares for existing shareholders' are deviated from.

As a consequence of the exercise of awarded warrants, the Board of Directors is authorised during the period until 24 April 2014 to increase the share capital by a nominal value of up to DKK 2,700,000 in one or more portions by resolution of the Board of Directors by cash contribution at a subscription price and on such other terms as the Board of Directors may determine without pre-emption right for the existing shareholders.

The new shares issued based on warrants shall have the same rights as existing shares according to the articles of association. The new shares shall be negotiable instruments and shall be issued to the bearer, but they may be registered in the bearer's name in the Company's register of shareholders. No restrictions shall apply to the transferability of the new shares and no shareholder shall be obliged to have his shares to be redeemed – in whole or in part. The new shares shall carry the right to dividend from the time of subscription.

Article 5g
In accordance with authorization the Board of Directors has issued 175,000 warrants, providing the right to subscribe to a maximum of 175,000 shares, each with a nominal value of DKK 10 (a total nominal value of 1,750,000), at a rate of DKK 156 per share of DKK 10.

Subscription for shares according to the awarded warrants can be made, wholly or partly, in periods of each 14 days (1) first time from the day of publication of the company's Half Year Report for the year of 2011; (2) second time from the day of publication of the company's Annual Report for the year of 2011; (3) third time from the day of publication of the company's Half Year Report for the year of 2012; and (4) fourth time from the day of publication of the company's Annual Report for the year of 2012. Warrants, which are not exercised used in the one subscription period, can be exercised in later subscription periods, however no later than 15 April 2013.

The existing shareholders shall not have pre-emptive right for the warrants.

The warrants can not be assigned or placed as collateral by the warrant holder to third party.

New shares as shall be subscribed for in accordance with the warrant shall have the same rights as existing shares pursuant to the articles of association, according to which new shares shall be negotiable securities and shall be issued to the holder but can be registered by name in the company's register of shareholders. No limitations in the negotiability of the new shares shall apply, and no duty for redemption shall be attached hereto. From the time of subscription, shares shall bear the right to returns.

If a decision is made before exercise of the warrants concerning sale of a majority of the shares in the company, which means transfer of more than 50% of the company's Share Capital to third party (who may be a share holder in the company), the Board of Directors can decide:

that the warrant holder, wholly or partly shall exercise all awarded warrants, regardless of whether vested or not and transfer the shares on the same terms and conditions as the other transferring shareholders (or renounce to do so, in which case the warrants shall lapse), or

that the warrant holder shall keep the awarded warrants on the terms and conditions set out herein.

If a decision is made before exercise of the warrants concerning dissolution of the company, including by merger or de-merger, the Board of Directors can decide:

that the warrant holder, wholly or partly shall exercise all awarded warrants, regardless of whether vested or not and transfer the shares on the same terms and conditions as

the other transferring shareholders (or renounce to do so, in which case the warrants shall lapse), or

that the warrant holder shall keep the awarded warrants on the terms and conditions set out herein.

If a decision is made before exercise of the warrants concerning increase of capital, issue of warrants, convertible debt instrument or the like, by the means of which the shares can be subscribed for a value not lower than the market value, it shall not affect the terms and conditions for the exercise of the warrants.

If a decision is made before exercise of the warrants concerning 1) increase of capital, issue of warrants, convertible debt instrument of the like, except to employees or board members of the company and its subsidiaries, by the means of which the shares can be subscribed to a value lower that the market value, 2) if the company implements a reduction of capital for coverage of deficit or 3) implements a reduction of capital in the company with payment to the share holders and this change involves a reduction or increase of the potential possibly profit according to the warrants, the subscription price hereof shall be regulated and the amounts of shares, which can be subscribed by exercise the warrants, so that the potential profit of the warrants will remain unchanged.

As a consequence of the award of warrants the Board has decided on an increase of the Company's share capital with up to a nominal value of DKK 1,750,000.

For the exercise of awarded warrants, the Board of Directors is authorized during the period until 26 April 2013, to increase the share capital by a nominal value of DKK 1,750,000 in one or more portions on resolution of the Board of Directors by cash payment at a price of DKK 156 per share of nominal DKK 10. The details and terms for the issuance of shares shall be established by the Board of Directors.

The new shares issued based on warrants shall have the same rights as existing shares according to the articles of association. The new shares shall be negotiable and be issued to the bearer, but may be registered in the Company's Stock Register. No restrictions in the transferability of the new shares shall apply and no shareholder shall be obliged to allow for their shares to be redeemed. The new shares shall be eligible for dividends from the time of subscription.

Article 5h
During the period ending 1 May 2012, the Company may in one or more portions by resolution of the Board of Directors obtain loans in an amount of DKK 39,000,000 against issue of convertible notes which gives the right to subscribe for shares in the Company. The Company's existing shareholders shall not have pre-emption right. The loans shall be paid in cash. The terms and conditions for the convertible notes shall be determined by the Board of Directors.

As a consequence of the conversion of the convertible notes, the Board of Directors is authorised during the period until 24 April 2014 to increase the share capital by a nominal value of up to DKK 3,900,000 in one or more portions by resolution of the Board of Directors by conversion of the convertible notes and on such other terms as the Board of Directors may determine. The Company's existing shareholders shall not have pre-emption right to subscribe for shares issued by conversion of the convertible notes.

The new shares issued based on convertible notes shall have the same rights as existing shares according to the articles of association. The new shares shall be negotiable instruments and shall be issued to the bearer, but they may be registered in the bearer's name in the Company's register of shareholders. No restrictions shall apply to the transferability of the new shares and no shareholder shall be obliged to have his shares to be redeemed – in whole or in part. The new shares shall carry the right to dividend from the time of conversion of the issued convertible notes, i.e. from the time of subscription.

Article 5i
In accordance with authorization the Board of Directors has issued 25,000 warrants, providing the right to subscribe to a maximum of 25,000 shares, each with a nominal value of DKK 10 (a total nominal value of 250,000), at a rate of DKK 124 per share of DKK 10.

Subscription for shares according to the awarded warrants can be made, wholly or partly, in periods of each 14 days (1) first time from the day of publication of the company's Annual Report for the year of 2011; (2) second time from the day of publication of the company's Half Year Report for the year of 2011; (3) third time from the day of publication of the company's Annual Report for the year of 2012; and (4) fourth time from the day of publication of the company's Half Year Report for the year of 2013. Warrants, which are not exercised used in the one subscription period, can be exercised in later subscription periods, however no later than 13 September 2013.

The existing shareholders shall not have pre-emptive right for the warrants.

The warrants can not be assigned or placed as collateral by the warrant holder to third party.

If a decision is made before exercise of the warrants concerning sale of a majority of the shares in the company, which means transfer of more than 50% of the company's Share Capital to third party (who may be a share holder in the company), the Board of Directors can decide:

that the warrant holder, wholly or partly shall exercise all awarded warrants, regardless of whether vested or not and transfer the shares on the same terms and conditions as the other transferring shareholders (or renounce to do so, in which case the warrants shall lapse), or

that the warrant holder shall keep the awarded warrants on the terms and conditions set out herein.

If a decision is made before exercise of the warrants concerning dissolution of the company, including by merger or de-merger, the Board of Directors can decide:

that the warrant holder, wholly or partly shall exercise all awarded warrants, regardless of whether vested or not and transfer the shares on the same terms and conditions as the other transferring shareholders (or renounce to do so, in which case the warrants shall lapse), or

that the warrant holder shall keep the awarded warrants on the terms and conditions set out herein.

If a decision is made before exercise of the warrants concerning increase of capital, issue of warrants, convertible debt instrument or the like, by the means of which the shares can be subscribed for a value not lower than the market value, it shall not affect the terms and conditions for the exercise of the warrants.

If a decision is made before exercise of the warrants concerning 1) increase of capital, issue of warrants, convertible debt instrument of the like, except to employees or board members of the company and its subsidiaries, by the means of which the shares can be subscribed to a value lower that the market value, 2) if the company implements a reduction of capital for coverage of deficit or 3) implements a reduction of capital in the company with payment to the share holders and this change involves a reduction or increase of the potential possibly profit according to the warrants, the subscription price hereof shall be regulated and the amounts of shares, which can be subscribed by exercise the warrants, so that the potential profit of the warrants will remain unchanged. Warrants to employees of BN Immunotherapeutics, Inc. are, however, subject to additional adjustment provisions.

For the exercise of awarded warrants, the Board of Directors has decided on an increase of the Company's share capital in one or more portions by a total nominal value of up to DKK 250,000 by cash payment at a price of DKK 124 per share of nominal DKK 10 and without pre-emption right for the Company's existing shareholders. The details and terms for the issuance of shares have been established by the Board of Directors.

The new shares issued based on warrants shall have the same rights as existing shares according to the articles of association. The new shares shall be negotiable and be issued to the bearer, but may be registered in the Company's Stock Register. No restrictions in the transferability of the new shares shall apply and no shareholder shall be obliged to allow for their shares to be redeemed. The new shares shall be eligible for dividends from the time of subscription.

SHARES

Article 6
All shares shall be issued to bearer, but may be recorded in the name of the holder in the Company's Stock register. The shares shall be negotiable instruments and there shall be no restrictions as to their transferability.

Article 7
No share shall confer any special rights upon the holder, and no shareholder shall be obligated to have his shares redeemed, whether in whole or in part, by the Company or by any other party.

Article 8
As resolved by the Board of Directors, the Company's Stock Register may be kept either by the appropriate officer of the Company, or by a secretary outside the Company to be designated by the Board of Directors. The Company's Stock Register is kept by Computershare A/S, Kongevejen 418, Øverød, 2840 Holte.

Article 9
Share certificates may be declared null and void without a prior court order in accordance with the statutory rules applying from time to time to the annulment of negotiable instruments.

GENERAL MEETINGS

Article 10
Within the framework laid down by statute and these articles of association, the shareholders at the General Meeting shall give general supervision and direction to all corporate affairs.

General Meetings shall be held in the municipality in which the Company's registered office is situated, or in the Greater Copenhagen area.

General Meetings shall be convened by the Board of Directors giving not less than 14 days nor more than four weeks' notice.

General meetings shall be convened by publication in one leading newspaper and in the IT information system of the Danish Commerce and Companies Agency. Furthermore, a written notice convening the general meeting shall be sent to all registered shareholders who have so requested.

The convening notice shall contain the agenda of the relevant General Meeting. If any proposals are to be considered at the General Meeting, the adoption of which is subject to a special majority, then this fact shall be emphasized in the convening notice and the essentials of the relevant proposal shall be reproduced in it.

During the last eight days prior to each General Meeting, the agenda and the complete proposals to be considered at the General Meeting, and with respect to the Annual General Meeting moreover the audited annual report with the audit report, shall be available for the inspection of shareholders at the Company's offices. At the same time, copies of this material shall be circulated to all shareholders of record who have so requested in writing.

Article 11
Any shareholder shall be entitled to attend each annual and special meeting, provided that he has requested an admission card from the Company's offices no later than five days prior to the

pertinent meeting. His capacity as a shareholder shall be documented by his title having already been entered in the Company's Stock Register, or against presentation of the appropriate documentation from the shareholder's bank, such documentation not to have been issued more than 14 days prior to the time when the shareholder requests an admission card. In addition, in order to receive an admission card a shareholder must issue a statement in writing to the effect that the shares have not, or will not, be transferred to any third parties prior to the pertinent general meeting. The shareholder may attend in person or be represented by proxy, and a shareholder shall be entitled to attend together with an advisor.

The voting right can be exercised according to an instrument of proxy issued to a person who need not be a shareholder in the Company. Unless containing a provision to the contrary, instruments of proxy shall be deemed to be in force until revoked in writing by notification to the Company. However, instruments of proxy may not be issued for a period of more than 12 months.

Article 12
The ordinary general meeting shall be held in time to allow for the audited and approved annual report to be received in the Danish Commerce and Companies Agency no later than 4 months after the end of the financial year.

The agenda of the Annual General Meeting shall contain the following business:

1. The Directors' report on the Company's activities in the past year.

2. The presentation of the annual report for adoption.

3. A proposal from the Board of Directors regarding the application of profit or covering of loss pursuant to the annual report as adopted.

4. A resolution for ratification of the acts of the Board of Directors and the Board of Management.

5. Election of members to the Board of Directors.

6. Election of auditors.

7. Any proposals from the Board of Directors or shareholders, including proposals authorizing the Company to acquire shares of Company stock.

Any proposals from shareholders for consideration at the Annual General Meeting must be lodged with the Company no later than two months after the end of the financial year.

Article 13
Extraordinary General Meetings shall be held as directed by the shareholders at the General Meeting, the Board of Directors or an auditor, or when requested by shareholders holding in the aggregate not less than 1/10 of the share capital. The request from the shareholders shall be lodged with the Board of Directors and must contain a specification of the business desired to be considered at the General Meeting. The General Meeting shall be convened no later than 14 days after the appropriate request having reached the Board of Directors.

Article 14
A chairman appointed by the Board of Directors shall preside over the General Meeting.

The Chairman thus appointed shall officiate at the General Meeting and shall settle all matters relating to the transaction of business.

Minutes of the proceedings at a General Meeting shall be entered in a Minute Book, such minutes to be signed by the Chairman and all members of the Board of Directors present at the General Meeting.

No later than 14 days after a General Meeting, the Minute Book or a certified copy of the appropriate entries shall be available for the inspection of shareholders at the Company's offices, and a copy thereof shall be sent to all shareholders who have so requested in writing.

VOTING RIGHTS

Article 15
Each share amount of DKK 10 shall give one vote at General Meetings. Shareholders who have acquired shares by transfer may not exercise the voting right on the relevant shares unless such shares have already been entered in the Company's Stock Register, or the shareholder has filed notification and substantiated his acquisition prior to the time when the relevant general meeting is convened. Even where the voting right cannot be exercised for failure to comply with any of the conditions referred to above in this Article 15, the shareholding transferred shall nevertheless be deemed represented at the relevant general meeting if the shares have been entered in the Stock Register prior to the general meeting, or the shareholder has filed notification of his acquisition and proved his title.

Article 16
All resolutions put to the vote of shareholders at General Meetings shall be subject to adoption by a simple majority of votes, unless the Danish Companies Act or these articles of association prescribe special rules regarding representation and majority.

Unless a greater majority or unanimity is required pursuant to legislation, the adoption of resolutions regarding amendment of these articles of association, the dissolution of the Company or its merger or amalgamation with another company or business is subject to such resolution being adopted by not less than 2/3 of all the votes cast as well as of the votes represented at the relevant General Meeting, and to not less than 50% of the share capital being represented at the General Meeting in question.

In case less than half of the share capital is represented at the general meeting, but the resolution is passed by at least 2/3 of the votes cast as well as of the votes represented at the general meeting, the resolution may at a new general meeting called within 14 days after the date of the preceding general meeting be passed by 2/3 of the votes cast as well as of the votes represented.

BOARD OF DIRECTORS AND BOARD OF MANAGEMENT

Article 17
The Company shall be managed by a Board of Directors of not less than three nor more than six members to be elected for one year at a time by the shareholders at the General Meeting. Retiring Directors shall be eligible for re-election. In addition, such members that are to be elected pursuant to the statutory rules regarding representation of the employees on the Board of Directors shall be elected as well.

The shareholders at the General Meeting shall determine the remuneration of Directors.

Article 17a
In accordance with article 69b of the Danish Public Companies Act, the Company has adopted a policy for incentive remuneration of the Board and the Board of Management. The policy has been submitted to and approved by the general meeting. The policy is available on the Company's website or by contacting the Company.

Article 18
Minutes shall be taken of all proceedings at Board Meetings. Such minutes shall be signed by all Directors in attendance at the relevant Board Meeting.

The Board of Directors shall elect its own chairman and deputy chairman.

The Board of Directors may grant powers of procuration to individuals to sign singly or collectively.

In addition, the Board of Directors shall lay down more specific Rules of Procedure regarding the discharge of its duties.

The Board of Directors shall appoint a Board of Management.

BINDING SIGNATURES

Article 19
The Company shall be bound in legal transactions by the joint signatures of the Chairman of the Board of Directors and that of either any one member of the Board of Management or any two members of the Board of Directors, or by the joint signatures of any two members of the Board of Directors and any member of the Board of Management.

AUDITORS

Article 20
The Company's annual report shall be audited by one or two Danish state-authorized public accountants elected by the shareholders at the General Meeting.

Auditors shall be elected for a term of one year at a time. Retiring auditors shall be eligible for re-election.

ACCOUNTS

Article 21
The Company's financial year shall coincide with the calendar year.

The Annual Report and group report shall be prepared pursuant to the applicable legislation regarding the presentation of Annual Reports and the international standards in accordance with the IFRS Regulation.

2. Glossary and definitions

Glossary

Androgen antagonist therapy	Treatment with a group of compounds that is capable of preventing or inhibiting the biologic effects of male sex hormones.
Animal Rule	Regulatory procedure to demonstrate the efficacy of drugs (Phase III) against diseases by experimental models in animals.
Antibody	A compound, specific for a certain antigen, produced by the immune system. Antibodies combat antigens and assist other parts of the immune system in recognising antigens.
Antigen	A compound that can induce an immune response in animals or humans.
Antiretroviral therapy (ART)	Standard antiretroviral therapy (ART) consists of the use of at least three antiretroviral drugs to maximally suppress the HIV virus and stop the progression of HIV disease.
Atopic dermatitis (AD)	Atopic dermatitis is an inflammatory, chronically relapsing, non-contagious and pruritic skin disease.
Atopic disorders	Diseases such as atopic dermatitis, allergy and hay fever.
B-cell lymphoma	Cancer type occurring in the B-cells of the lymphatic system.
Brachytherapy	Form of radiotherapy where a radioactive source is placed inside or next to the area requiring treatment.
BSL-1	BioSafety Level-1. This safety level is suitable for work involving well-characterised agents not known to consistently cause disease in healthy adult humans, and of minimal potential hazard to laboratory personnel and the environment.
BSL-2	BioSafety Level-2. This safety level is suitable for work involving agents of moderate potential hazard to personnel and the environment.
Clinical trials	Tests in humans of drugs under development.
Cost-plus contract	A contract where a contractor is paid for all of its allowed expenses to a set limit plus additional payment to allow for a profit.
CRADA	Cooperative Research and Development Agreement is an agreement between a federal research organisation and one or more parties to work together as partners on a research project of mutual interest.
CVA	Chorioallantois Vaccinia Ankara is the parental virus of MVA.
Deletion sites	Areas of the DNA sequence fallen out due to growth passages in CEF cells.
Dendritic cells	Immune cells formed by monocytes such as Langerhans cells.
Dengue fever	Disease caused by the dengue virus.
De-novo synthesis	The making of a gene from scratch in a laboratory.
DNA plasmid	Small, circular, double-stringed DNA.
Ebola	A virus (Ebolavirus) responsible for the disease Ebola hemorrhagic fever.

Elstree-BN®	Second-generation vaccinia smallpox vaccine. Developed from a generic virus strain.
Encephalitis	Encephalitis is an acute inflammation of the brain.
Endemic	Occurring naturally in a particular area or especially associated with a particular area.
Fast track	Designation awarded by the FDA to drugs under development for which a serious demand is deemed to exist.
First-generation smallpox vaccine	Replicating vaccinia virus produced in animals.
Gene therapy	The transfer of genes to a patient with a resulting therapeutic effect.
GMP	Good Manufacturing Practice. Production according to approved quality standards.
H1N1	Subtype of the influenzavirus A. The H1N1 strain is often called "swine flu" by the public media.
HAART	Highly Active Anti-Retroviral Therapy, used to treat infections caused by retroviruses, primarily HIV.
HER2-Neu	Protein overexpressed by many breast cancer cells, among others.
Herceptin®	Herceptin® (trastuzumab) is a monoclonal antibody that interferes with the HER2/neu receptor.
Humoral immune response	Antibody-mediated immune response.
Immunogenicity	The ability to invoke an immune response.
Immunotherapy	Common description for therapeutic forms that exploit the immune system or its components to combat disease.
IMVAMUNE®	Bavarian Nordic's patented third-generation smallpox vaccine based on MVA-BN®.
Japanese encephalitis	A disease caused by the mosquito-borne Japanese encephalitis virus.
Marburg's disease	Marburg is the common name for the genus of viruses Marburgvirus, which causes the disease Marburg Hemorrhagic Fever.
Measles	Infectious disease caused by the measles virus.
MVA	Modified Vaccinia Ankara strain.
MVA-BN®	Bavarian Nordic's patented MVA-based vaccine vector.
MVA-BN® HER2	Therapeutic breast cancer vaccine candidate based on recombinant MVA-BN®.
MVA-BN® multiantigen	Vaccine against HIV based on recombinant MVA-BN® vaccine expressing 8 whole or truncated HIV proteins.
MVA-BN® polytope	Vaccine against HIV based on recombinant MVA-BN® vaccine expressing an HIV polytope.
MVA-BN® PRO	Therapeutic prostate cancer vaccine candidate based on recombinant MVA-BN®.
MVA nef	HIV vaccine expressing the HIV nef protein in recombinant MVA virus.
Myopericarditis	Myopericarditis is a combination of myocarditis (inflammation of heart muscle) and pericarditis (inflammation of the fibrous sac surrounding the heart) appearing in a single individual.

Nef	Protein produced by HIV virus.
Orthopox virus	Group of smallpox viruses.
PAP	Prostatic Acid Phosphatase. An enzyme produced by the prostate. It can be found in increased amounts in men who have prostate cancer.
Passages	In connection with the development of MVA, the number of times an MVA virus has been grown on the medium and harvested after growth.
Pathogen	An organism that causes disease.
Phase I	Clinical trial with the purpose of evaluating the safety of a trial product and estimate how the product is tolerated and metabolised in the human body. Usually performed in a small group of healthy individuals.
Phase I/II	Clinical trial with the purpose of evaluating the safety of a trial product and estimate how the product is tolerated and metabolised in patients with the relevant disease. The trials are performed with patients because the nature of the trial products excludes the possibility of performing safety studies to be performed in healthy individuals. In addition, it is possible to obtain early information about the efficacy of the trial product.
Phase II	Clinical trial with the purpose of evaluating the efficacy of a trial product in a limited number of subjects with the relevant disease. These studies are often double-blinded, which means that neither the physician nor the patient know whether the patient is treated with the trial product, placebo (inactive substance) or an already existing treatment.
Phase III	Clinical trial with the purpose of evaluating the efficacy and safety of a trial product in a large number of patients suffering from the relevant disease and in which the new treatment is usually compared with already existing treatment alternatives. These studies are double-blinded, which means that neither the physician nor the patient know whether the patient is treated with the trial product, placebo (inactive substance) or an already existing treatment.
Plague	A disease caused by Yersinia pestis, a bacterium which CDC has classified as a category A pathogen requiring preparation for a possible terrorist attack.
Preclinical study	A study encompassing in vitro and in vivo screening, pharmacokinetics and toxicology which are necessary prior to the administration of a therapeutic agent to humans.
PREP Act	Public Readiness and Emergency Preparedness Act. The PREP Act provides liability protections in the US after a Secretarial declaration of covered countermeasures for any disease or health condition that the Secretary views as constituting a public health emergency.
Prophylatic vaccination	Vaccination for the prevention of disease.
PROSTVAC™	PROSTVAC™ is a therapeutic prostate cancer vaccine moving into late-stage clinical development
PSA	Prostate-specific antigen (PSA) is a protein produced by cells of the prostate gland.
Recombinant	Genetic information that is constructed or modified. This can be performed in a natural process or in a laboratory as a result of genetic engineering. A vector-based vaccine is an example of a recombinant organism.
RFP	Request for Proposals.
RFP-1	Tender for the development of a smallpox vaccine based on Modified Vaccinia Ankara (MVA).

RFP-2	Tender for the production, filling and release of 500,000 doses of smallpox vaccine based on MVA, with a further option for the supply of 2.5 million doses and validation of preclinical efficacy models and clinical studies in more than 2,000 individuals for each contracting party. The contract was extended on 3 October 2007. In that connection, the Company initiated a large Phase II study with IMVAMUNE® in persons with atopic dermatitis. The contract extension was valued at USD 15 million. This extra study will be conducted during the contract period, which has been extended until 2010.
RFP-3	Contract awarded by HHS to Bavarian Nordic on 4 June 2007 for the delivery of 20 million doses of the Company's MVA-based smallpox vaccine IMVAMUNE® to be used for the protection of persons considered to be at risk of contracting smallpox. The contract is divided into a base contract and an optional part. The total value of the contract, including the option, is USD 1.6 billion, of which the base contract is valued at DKK 500 million.
Rituxan	Product developed by Genentech and Biogen Idec. for the treatment of cancer in B-cells.
RSV	Respiratory Syncytial Virus.
Second-generation smallpox vaccine	Replicating vaccinia virus produced in cell cultures.
Smallpox virus	Large DNA virus belonging to the orthopox family, which includes variola major (human smallpox), cowpox, vaccinia virus, mousepox and monkeypox.
SPF	Specific Patogen Free eggs are laid by selected chicken strains that are kept disease-free and unvaccinated. The chicken flock is regularly examined for a number of microbiological diseases that may be caused by virus, virus bacteria or other microorganisms.
T-cell immune response	Immune response induced by killer T-cells and helper T-cells, also known as cell-mediated immune response.
Therapeutic vaccination	Vaccination of a subject who already suffers from a disease in order to achieve a therapeutic effect.
Third-generation smallpox vaccine	Vaccinia virus produced in cell cultures which is unable to replicate. In their RFP programme, the US authorities have defined that a third-generation smallpox vaccine must be based on MVA virus.
Transgenic	A genetically modified organism.
Truncated	With respect to proteins: a shortened protein.
Vaccine vector	Virus, bacterium or DNA plasmid transmitting an antigen to the vaccinated organism.
Vaccinia virus	Smallpox virus used for vaccination against smallpox.
Vector	In the field of vaccination: A transmitter of antigens to the individuals that require vaccination.
VRBPAC	Vaccines Related Biological Product Advisory Committee. FDA advisory committee that reviews and evaluates data concerning the safety, effectiveness, and appropriate use of vaccines and related biological products.
WAVE Bioreactor™	A technology used to produce cell cultures.
WMD	Weapon of Mass Destruction.

Definitions

A.M. Best	A.M. Best Company Inc. is a US-based insurance and credit rating organisation approved by the US Securities and Exchange Commission as a so-called Nationally Recognized Statistical Rating Organization.
Acambis	Acambis Plc or Acambis Inc.
Allocation Time	The time of allocation of Preemptive Rights to shareholders who are registered as shareholders of Bavarian Nordic A/S, 15 January 2010 at 12.30 p.m. (CET).
ASEAN	Association of Southeast Asian Nations.
BARDA	Biomedical Advanced Research and Development Authority, USA.
Bavarian Nordic	Bavarian Nordic A/S together with its subsidiaries, also referred to as the Group.
Bavarian Nordic A/S	The parent company of the Group.
Bavarian Nordic GmbH	Bavarian Nordic's German subsidiary.
Bavarian Nordic Holding Inc.	Bavarian Nordic's former US holding company.
Bavarian Nordic Inc.	Bavarian Nordic's operative subsidiary in Washington DC, which engages in lobbyism.
Bioreliance	Bioreliance Corporation, Scotland.
BLA	Biologic License Application, an application for registration of a biologically-based drug.
BN ImmunoTherapeutics	BN ImmunoTherapeutics Inc. is Bavarian Nordic's operative US subsidiary, which engages in cancer research.
BNIT	BN ImmunoTherapeutics Inc. is Bavarian Nordic's operative US subsidiary, which engages in cancer research.
Board of Directors	The board of directors of Bavarian Nordic A/S.
Business Days	Monday through Friday from 9 a.m. to 5 p.m (CET) except for federal or state holidays.
CDC	Center for Disease Control.
Company	Bavarian Nordic A/S
Corporate Management	The corporate management of Bavarian Nordic A/S consisting of Anders Hedegaard.
Deloitte	Deloitte Statsautoriseret Revisionsaktieselskab, Weidekampsgade 6, DK-2300 Copenhagen S, Denmark.
Dendreon	Dendreon Corporation, a US-based biotechnology company.
DKK	Danish kroner.
EMEA	European Medicines Agency, an EU regulatory agency for the evaluation of medicinal products.
EPO	The European Patent Office.
EUA	Emergency Use Authorisation allows the usage of a drug/vaccine in special circumstances in the US, even though it has not been approved by the FDA for ordinary sale.

EUR	Euro.
Executive Management	Corporate Management and the six Executive Vice Presidents in Bavarian Nordic.
Executive Vice Presidents	The six Executive Vice Presidents who assist the Corporate Management in the day-to-day management of the Group are: Ole Larsen (CFO), Paul Chaplin (CSO), Steen Vangsgaard (Commercial Affairs), Morten Max Rasmussen (Director of Legal Affairs), Anders Gram (CTO) and Reiner Laus (CEO of BN ImmunoTherapeutics).
Existing Shares	The existing shares of Bavarian Nordic A/S immediately prior to the Offering.
Existing Shareholders	The existing shareholders of Bavarian Nordic A/S immediately prior to the Offering.
EEA	The European Economic Area.
FAR	The Federal Acquisition Regulation is the primary set of rules used by all public US Authorities when purchasing goods and services.
FDA	Food and Drug Administration, USA.
FSR	Foreningen af Statsautoriserede Revisorer, the Institute of State Authorized Public Accountants in Denmark.
G7 countries	Canada, France, Germany, Italy, Japan, United Kingdom, US.
Group	Bavarian Nordic A/S, together with its subsidiaries, also referred to as Bavarian Nordic.
GSF	Institute for Molecular Virology, Forschungszentrum für Umwelt und Gesundheit GmbH. The entity is now named Helmholtz Zentrum München, Deutsches Forschungszentrum für Gesundheit und Umwelt (GmbH).
HHS	Department of Health and Human Services, USA.
IDT Biologika	IDT Biologika GmbH. Contract filling partner for Bavarian Nordic's recombinant vaccine.
IFRS	International Financial Reporting Standards.
IND	Investigational New Drug Application, which is filed with the FDA in order to get exemption from restrictions on transporting and distributing a drug candidate between states in the USA.
IPR	Intellectual Property Rights.
ITC	US International Trade Commission.
Joint Lead Managers	Nordea Markets (Division of Nordea Bank Danmark A/S) and SEB Enskilda, Skandinaviska Enskilda Banken AB (publ), Copenhagen Branch.
Management	The Board of Directors and Corporate Management of Bavarian Nordic A/S.
Maximum Offering	3,975,872 New Shares of DKK 10.
Maximum Proceeds	Approximately DKK 318.1 million.
NCI	National Cancer Institute, part of the US Federal government's NIH.
NASDAQ OMX	Nasdaq OMX Copenhagen A/S.

Net Maximum Proceeds	Gross proceeds from the Maximum Offering after deduction of estimated expenses relating to the Offering
New Shares	3,975,872 New Shares with a nominal value of DKK 10 each issued by Bavarian Nordic A/S.
NIAID	National Institute of Allergy and Infectious Diseases. A part of National Institutes of Health (NIH).
NIH	National Institutes of Health, USA (the US health agency).
Nordea Markets (Division of Nordea Bank Danmark A/S)	Joint Lead Manager.
Offering	The offering of up to 3,975,872 New Shares of DKK 10 (total nominal value DKK 39,758,720 in Bavarian Nordic A/S.
Offer Price	All the New Shares are offered at DKK 80 per Share of DKK 10 nominal value, for each two (2) Preemptive Rights.
Oxford BioMedica	Oxford BioMedica plc, Biomedica Inc and Oxford BioMedica Ltd.
PHS	United States Public Health Service, a division under United States Department of Health and Human Services.
Preemptive rights	Shareholders who are registered as shareholders of Bavarian Nordic A/S on 15 January 2010 at 12.30 p.m. CET are entitled to subscribe for one (1) New Share for each two (2) Existing Shares held.
Prospectus	This prospectus dated 8 January 2010.
Prospectus Date	8 January 2010.
Prospectus Directive	Directive 2003/71/EC.
Relevant Member States	The individual member states of the European Economic Area which have implemented the Prospectus Directive.
Rights Issue Agreement	Agreement between the Company and the Joint Lead Managers.
RoW	Rest of World. Sales of IMMANUNE® to countries other than USA.
Sanofi-Aventis	Sanofi-Aventis SA – or one of the company's subsidiaries.
SEB Enskilda, Skandinaviska Enskilda Banken AB (publ), Copenhagen Branch	Joint Lead Manager.
Shares	Ordinary bearer shares in Bavarian Nordic A/S of DKK 10 nominal value each.
SNS	CDC's Strategic National Stockpile (SNS), which has large quantities of medicine and medical supplies to protect the American public if there is a public health emergency.
SPC	Supplementary Protection Certificates.
Standard & Poors	Global credit rating agency.
Subscription Period	The period from 16 January 2010 at 9.00 a.m. (CET) until 29 January 2010 at 5.00 p.m. (CET).

Therion	Therion Biologics Corp. A former US-based biotech company which went bankrupt in 2007.
TroVax®	TroVax® is a cancer vaccine being developed by Oxford BioMedica.
UK	United Kingdom.
US	The United States of America.
USA	The United States of America.
USD	US dollars.
USPTO	United States Patent and Trademark Office.
VP Securities	VP Securities A/S, Helgeshøj Allé 61, DK-2630 Taastrup, Denmark.
WHO	World Health Organization.
WMD Commission	Weapons of Mass Destruction Commission. An independent body funded by the Swedish government and based in Stockholm.

ANNUAL AND INTERIM FINANCIAL STATEMENTS OF BAVARIAN NORDIC

Contents

1. Introduction to financial information

Bavarian Nordic has published an interim report for the Group for the nine months ended 30 September 2009.

The interim report contains the management's review and interim financial statements for the period 1 January to 30 September 2009 with comparative figures for the period 1 January to 30 September 2008. The interim report is presented in accordance with IAS 34 as adopted by the EU and additional Danish interim financial reporting requirements. The accounting policies in the interim report are unchanged from the policies applied in the annual report for 2008, except for the amended IAS 1, Presentation of financial statements, which has resulted in a change to the presentation of primary financial disclosures in the financial statements, introducing a new statement of comprehensive income, and the statement of changes in equity has been restated accordingly. The new IFRS 8, Operating Segments, stipulates that the reporting segments must be identified based on internal reporting that is regularly reviewed by the group's chief operating decision maker in order to support this person's decisions on the allocation of resources to the segments and to assess their performance. The implementation has not presently resulted in any change to the identification of the Group's reporting segments. Other new and revised standards and interpretations effective from the financial year 2009 have not resulted in any changes in accounting policies.

The interim financial statements for the period 1 January to 30 September 2009 with comparative figures for the period 1 January to 30 September 2008 reproduced in this Prospectus are in accordance with the interim financial statements contained in Bavarian Nordic's interim report for the Group for the nine months ended 30 September 2009.

The following financial statements for 2008 and 2007 are extracts of Bavarian Nordic's published annual report for 2008 with comparative figures for the financial year 2007 presented in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies. The financial statements for 2006 are extracts of Bavarian Nordic's published annual report for 2007 with comparative figures for the financial year 2006 presented in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies. The accounting policies applied in the annual report for 2008 are unchanged from those applied in the annual report for 2007.

The published annual reports for 2008 and 2007 comprise a management's review, financial statements of the parent company Bavarian Nordic A/S, consolidated financial statements of the Group and notes thereto. The financial statements in this Prospectus comprise financial statements of the parent company Bavarian Nordic A/S, consolidated financial statements of the Group and notes thereto. The financial statements in this Prospectus do not include the management's review, as these are incorporated in the Prospectus by cross reference to the published annual reports. See "Financial information – Information incorporated by reference".

The annual report for 2009 is expected to be presented using the same accounting policies as in 2008 and 2007.

The published annual reports for 2008, 2007 and 2006 presented by the management of Bavarian Nordic A/S are audited. The auditors' report in respect of the annual report for the financial year 2006 dated 30 March 2007, in respect of the annual report for the financial year 2007 dated 31 March 2008 and in respect of the financial year 2008 dated 27 March 2009 are unqualified and without emphasis of matter.

No other information in the Prospectus has been audited.

2. Information incorporated by reference

The additional information explicitly listed in the table below has been incorporated by reference in the Prospectus pursuant to section 18 of the Prospectus Order. Direct and indirect references in the reports to other documents or websites are not incorporated by reference and do not form part of the Prospectus. The reports speak only as of the date of their respective publications and have not been updated and in some cases they have been made superfluous by the information in this Prospectus. Potential investors in the Preemptive Rights, the New Shares or the Existing Shares should assume that the information in this Prospectus as well as the information Bavarian Nordic incorporates by reference, is accurate as of the dates on the front cover of those documents only.

The Group's business, financial condition, cash flows and results of operations may have changed since those dates.

Potential investors in the Preemptive Rights, the New Shares or the Existing Shares are encouraged to read the information incorporated by reference in conjunction with the cautionary statements in "Forward-looking statements" and in conjunction with "Risk factors".

The published annual reports for 2008 and 2007 comprise a management's review and financial statements of the parent company Bavarian Nordic A/S. The interim report for the nine months ended 30 September 2009 comprises a management's review.

The information herein is incorporated in this Prospectus by reference as set out in the cross reference table below, and is available for inspection at Bavarian Nordic's address, Hejreskovvej 10A, DK-3490 Kvistgaard, Denmark and at the Company's website www.bavarian-nordic.com.

Disclosure	Reference	Page(s)
Management's review for the period 1 January to 30 September 2009	Bavarian Nordic A/S' unaudited interim report for the nine months ended 30 September 2009	2–8
Management's statement for the period 1 January to 30 September 2009	Bavarian Nordic A/S' unaudited interim report for the nine months ended 30 September 2009	8
Management's review for the period 1 January to 30 June 2009	Bavarian Nordic A/S' unaudited interim report for the six months ended 30 June 2009.	2–8
Management's statement for the for the period 1 January to 30 June 2009	Bavarian Nordic A/S' unaudited interim report for the six months ended 30 June 2009.	8
Interim financial statements for the six months ended 30 June 2009	Bavarian Nordic A/S' unaudited interim report for the six months ended 30 June 2009.	9–15
Bavarian Nordic A/S' management's review for the financial year 2008	Bavarian Nordic A/S' annual report for 2008	4–29
Bavarian Nordic A/S' management's statement for the financial year 2008	Bavarian Nordic A/S' annual report for 2008	28
Bavarian Nordic A/S' auditors' report for the financial year 2008	Bavarian Nordic A/S' annual report for 2008	29
Bavarian Nordic A/S' management's review for the financial year 2007	Bavarian Nordic A/S' annual report for 2007	1–31
Bavarian Nordic A/S' management's statement for the financial year 2007	Bavarian Nordic A/S' annual report for 2007	30
Bavarian Nordic A/S' auditors' report for the financial year 2007	Bavarian Nordic A/S' annual report for 2007	31
Bavarian Nordic A/S' management's review for the financial year 2006	Bavarian Nordic A/S' annual report for 2006	19–49
Bavarian Nordic A/S' management's statement for the financial year 2006	Bavarian Nordic A/S' annual report for 2006	48
Bavarian Nordic A/S' auditors' report for the financial year 2006	Bavarian Nordic A/S' annual report for 2006	49

3. Unaudited consolidated financial information for the nine months ended 30 September 2009 with comparative figures for the nine months ended 30 September 2008

Management's statement

The Board of Directors and the Corporate Management have on 11 November 2009 discussed and adopted the interim report for the period 1 January to 30 September 2009 with comparative figures for the period 1 January to 30 September 2008.

The consolidated financial information for the period 1 January to 30 September 2009 contained in the Prospectus with comparative figures for the period 1 January to 30 September 2008 is extracted from the published interim report.

The interim report is presented in accordance with IAS 34 "Interim financial reporting" as adopted by the EU and additional Danish disclosure requirements for interim reports of listed companies. The interim report is neither audited nor reviewed by the Company's auditors.

In our opinion, the consolidated financial information gives a true and fair view of the Group's assets and liabilities and financial position at 30 September 2009 and of the results of the Group's operations and cash flows for the period 1 January to 30 September 2009.

Kvistgård, 8 January 2010

Board of Directors

Asger Aamund, Chairman | Claus Bræstrup | Erling Johansen | Gerard van Odijk | Flemming Pedersen

Corporate Management

Anders Hedegaard
President & CEO

Income Statement for the period 1 January – 30 September

Amounts in DKK mio.	Group 1/1-30/9 2009	Group 1/1-30/9 2008
Revenue	53.2	45.0
Production costs	125.6	101.2
Gross profit	**(72.4)**	**(56.2)**
Research and Development costs	114.3	97.7
Sales costs	13.6	15.6
Administrative costs	69.2	54.4
Total operating costs	**197.1**	**167.7**
Income before interest and tax	**(269.6)**	**(223.9)**
Financial income	25.0	47.2
Financial expenses	(16.7)	(18.4)
Income before company tax	**(261.3)**	**(195.1)**
Tax on income for the period	49.2	39.9
Net profit for the period	**(212.1)**	**(155.2)**
Distribution of result		
Parent Company´s part of the result	(207.8)	(152.2)
Minority Interest	(4.3)	(3.0)
	(212.1)	**(155.2)**
Earnings per share (EPS) – DKK		
– basic earnings per share of DKK 10	(26.6)	(19.5)
– diluted earnings, per share of DKK 10	(26.6)	(19.5)
Result for the period for parent company's shareholders	(207.8)	(152.2)
Weighted average number of shares – thousand units	7,816	7,816
Statement of comprehensive income		
Net profit for the period	**(212.1)**	**(155.2)**
Exchange rate adjustments	2.1	3.6
Fair value of financial investments	(23.7)	(48.7)
Tax effect on total income	5.9	4.5
Other comprehensive income of tax	**(15.7)**	**(40.6)**
Total comprehensive income	**(227.8)**	**(195.8)**
Distribution of comprehensive result		
Parent Company´s part of the result	(223.6)	(193.1)
Minority Interest	(4.1)	(2.7)
	(227.8)	**(195.8)**

Statement of financial position – Assets – for the period 1 January – 30 September

		Group	
Note	Amounts in DKK mio.	30/9 2009	30/9 2008
	Purchased rights	8.9	2.8
	Software	16.0	1.3
3	Assets under construction	92.5	53.7
	Intangible assets	**117.5**	**57.8**
	Land and buildings	152.3	155.9
	Leasehold improvements	2.3	1.5
	Plant and machinery	150.6	179.2
	Machinery, equipment and furniture	13.1	13.6
	Assets under construction	28.0	15.5
	Tangible assets	**346.3**	**365.7**
	Other financial non-current assets	0.2	0.2
	Deferred tax assets	216.7	159.2
	Financial assets	**216.9**	**159.4**
	Non-current assets	**680.7**	**582.9**
4	**Inventories**	**183.4**	**63.0**
	Trade receivables	23.2	13.1
5	Other receivables	51.4	177.4
	Pre-payments and accrued income	77.1	32.0
	Receivables	**151.7**	**222.5**
	Securities	**161.8**	**225.4**
	Cash and cash equivalents	**141.7**	**556.1**
	Current assets	**638.5**	**1,067.0**
	Assets	**1,319.2**	**1,649.9**

Statement of financial position – Equity and liabilities – for the period 1 January – 30 September

		Group	
Note	Amounts in DKK mio.	30/9 2009	30/9 2008
	Share capital	78.2	78.2
	Retained earnings	680.3	891.9
	Other reserves	35.2	51.9
	Equity, parent company	**793.7**	**1,022.0**
	Equity, minority interest	(0.4)	4.8
	Equity	**793.2**	**1,026.8**
	Credit institutions	91.3	102.3
	Non-current liabilities	**91.3**	**102.3**
	Other provisions	-	0.1
	Credit institutions	32.1	35.9
	Prepayment from customer	276.6	276.6
	Accounts payable	33.0	23.1
	Company tax	1.6	1.8
6	Other debts	91.3	183.3
	Current liabilities	**434.6**	**520.8**
	Liabilities	**525.9**	**623.1**
	Total liabilities and shareholders´ equity	**1,319.2**	**1,649.9**

Statement of cash flow for the period 1 January – 30 September

	Group	
Amounts in DKK mio.	30/9 2009	30/9 2008
Income before interest and tax	**(269.6)**	**(223.9)**
Depreciations, amortisation and write-down	37.1	35.4
Share-based payment	5.9	4.9
Changes in inventories	(121.2)	(51.4)
Changes in receivables	(36.5)	21.7
Changes in provisions	-	(0.6)
Changes in current liabilities	(24.0)	120.9
Cash flow from operating activities	**(408.3)**	**(93.0)**
Financial income	24.0	47.2
Financial expenses	(31.6)	(18.4)
Paid taxes during the year	(0.2)	(1.9)
Cash flow from operations	**(416.0)**	**(66.1)**
Investments in intangible assets	(49.2)	(36.0)
Investments in tangible assets	(15.9)	(18.9)
Investments in financial assets	-	0.1
Investments in securities	64.4	(0.6)
Cash flow to investment activities	**(0.7)**	**(55.4)**
Payment on mortgage debt	(1.1)	(1.1)
Payment on leasing liabilities	(10.3)	(10.1)
Cash flow from financing activities	**(11.4)**	**(11.2)**
Net changes in cash and cash equivalents	**(428.1)**	**(132.7)**
Cash and cash equivalents, 1 January	**569.8**	**688.8**
Cash and cash equivalents, end of period	**141.7**	**556.1**
Securities – highly liquid bonds	161.8	225.4
Credit lines	20.0	20.0
Cash preparedness	**323.5**	**801.5**

Statement of changes in equity – Group – for the period 1 January – 30 September

Amounts in DKK mio.	Share capital	Retained earnings	Reserves for ad-justement	Reserves for fair value of financial instruments	Share-based payment	Equity Parent Company	Equity Minority	Equity Group
2009								
Shareholders equity as of 1 January 2009	**78.2**	**888.1**	**2.8**	**31.0**	**11.3**	**1,011.4**	**3.7**	**1,015.1**
Share-based payment	-	-	-	-	5.9	5.9	-	5.9
Transfer to minority interest	-	-	-	-	-	-	-	-
Total comprehensive income	-	(207.8)	1.9	(17.8)	-	(223.6)	(4.1)	(227.8)
Shareholders equity as of 30 September 2009	**78.2**	**680.3**	**4.7**	**13.3**	**17.2**	**793.7**	**(0.4)**	**793.2**
2008								
Shareholders equity as of 1 January 2008	**78.2**	**1,040.8**	**(1.3)**	**94.1**	**5.2**	**1,217.0**	**0.7**	**1,217.7**
Share-based payment	-	-	-	-	4.7	4.7	0.2	4.9
Transfer to minority interest	-	(6.6)	-	-	-	(6.6)	6.6	-
Total comprehensive income	-	(152.2)	3.3	(44.2)	-	(193.1)	(2.7)	(195.8)
Shareholders equity as of 30 September 2008	**78.2**	**882.0**	**2.0**	**49.9**	**9.9**	**1,022.0**	**4.8**	**1,026.8**

Notes

Note 1 Accounting policies

The interim report is prepared in accordance with IAS 34, Presentation of interim reports, and the additional Danish requirements for submission of interim reports for companies listed on the Nasdaq Omx Copenhagen. The interim report does not include figures for the parent company.

The interim report is presented in Danish Kroner (DKK), which is considered the prime currency of the Group´s activities and the functional currency of the parent company.

Except for the below mentioned, the accounting policies used in the interim report are consistent with those used in the Annual Report 2008 and in accordance with the recognition and measurement policies in the International Financial Reporting Standards (IFRS/IAS) as adopted by the EU and additional Danish disclosure requirements for listed companies. We refer to annual report 2008 for further description the accounting policies.

The revised IAS 1, Presentation of Financial Statements, has resulted in a changed presentation of the primary financial statements, as a new statement of comprehensive income has been incorporated and the statement of changes in equity has consequently been adjusted.

The new IFRS 8, Operating Segments, requires that reportable segments must be identified on the basis of internal reporting which is regularly reviewed by the chief operating decision maker in the group in order to allocate resources to the segments and to assess its performance.

At present, the implementation has not resulted in a change in the identification of the group's reportable segments.

New and changed standards and interpretations which as been introduced with effect for financial year 2009 has no impact in the accounting policies regarding recognition and measurement.

Note 2 Significant accounting estimates and judgements

In the preparation of the interim report according to generally accepted accounting principles, Management is required to make certain estimates as many financial statement items cannot be reliably measured, but must be estimated. Such estimates comprise judgements made on the basis of the most recent information available at the reporting date. It may be necessary to change previous estimates as a result of changes to the assumptions on which the estimates were based or due to supplementary information, additional experience or subsesequent events.

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

Further to significant accounting estimates and judgements which are stated in Annual Report 2008, the Management has not performed significant estimates and judgement regarding recognition and measurement.

Note 3 Intangible assets under construction

Intangible assets under construction include development costs related to the registration of IMVAMUNE® under the RFP-3 contract (own development).

Investment in new ERP system is completed and classified as Software in the balance sheet.

	Group	
Amounts in DKK mio.	30/9 2009	30/9 2008
Note 4 Inventories		
Raw materials and supply materials	28.6	12.3
Work in progress	227.3	35.5
Write-down on inventory	(72.6)	-
Raw materials and supply materials	**183.4**	**47.8**
Write-down on inventory recognised under production costs	(29.9)	-
Note 5 Other receivables		
Financial instruments to fair value	21.4	150.0
Other receivables	29.9	27.5
Total	**51.4**	**177.5**
Note 6 Other debts		
Financial instruments to fair value	-	-
Other receivables	91.3	68.0
Total	**91.3**	**68.0**

4. Financial information for the financial years 2006, 2007 and 2008

Management's statement

The Board of Directors and Corporate Management have considered and adopted the published annual reports for the financial years ended 31 December 2008, 2007 and 2006 of Bavarian Nordic A/S on 27 March 2009, 31 March 2008 and 30 March 2007, respectively. The financial statements in this Prospectus for the financial years ended 31 December 2008, 2007 and 2006 have been prepared for the Offering and have been extracted from the published and audited annual reports for such years.

The Company's annual and consolidated financial information for the financial years ended 31 December 2008, 2007 and 2006 as included in this Prospectus, have been extracted from the Company's annual reports which are prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies.

We consider the accounting policies applied to be appropriate and in our opinion the annual financial statements of the parent company Bavarian Nordic A/S and the consolidated financial information give a true and fair view of the Group's operations and cash flows for the financial years ended 31 December 2008, 2007 and 2006.

Kvistgård, 8 January 2010

Board of Directors

Asger Aamund, Chairman | Claus Bræstrup | Erling Johansen | Gerard van Odijk | Flemming Pedersen

Corporate Management

Anders Hedegaard
President & CEO

Independent auditor's report on the financial statements for the financial years 2006, 2007 and 2008

To the readers of this Prospectus
We have audited the annual reports for the financial years 2006, 2007 and 2008 presented and published by Management of Bavarian Nordic A/S, from which the financial statements on pages F-14-F-53 have been extracted. We conducted our audit of the annual reports in accordance with Danish and International Standards on Auditing. In our auditor's report on the annual report for the financial year 2006, dated 30 March 2007, on the annual report for the financial year 2007, dated 31 March 2008, and on the annual report for the financial year 2008, dated 27 March 2009, we expressed an unmodified opinion.

Our auditor's report on the annual report for the financial year 2008, dated 27 March 2009, is represented below:

*"**To the shareholders of Bavarian Nordic A/S***
We have audited the annual report of Bavarian Nordic A/S for the financial year 1 January – 31 December 2008, which comprises the statement by Management on the annual report, Management's review, income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies for the Group as well as for the Parent.

The annual report is presented according to International Financial Reporting Standards as approved by EU and further Danish disclosure requirements to annual reports of listed companies.

Management's responsibility for the annual report
Management is responsible for the preparation and fair presentation of an annual report in accordance with International Financial Reporting Standards as approved by EU and further Danish disclosure requirements regarding annual reports of listed companies. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of an annual report that is 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 this annual report 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 annual report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the 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 company'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 annual report.

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 annual report gives a true and fair view of the Group's and the Parent's financial position at 31 December 2008 and of the result of the Group's and the Parent's activities and the Group's cash flows for the financial year 1 January to 31 December 2008 in accordance with International Financial Reporting Standards as approved by EU and further Danish disclosure requirements to annual reports of listed companies."

We have not performed any further audit procedures after 27 March 2009.

Management is responsible for the correct extraction of the financial statements on pages F-14-F-53 from the annual reports for the financial years 2006, 2007 and 2008. Our responsibility is based on our work to express an opinion on the extraction of the financial statements from the published annual reports.

Basis of opinion
We have planned and performed our work in accordance with the Danish Standard of Auditing RS 800, "The Independent Auditor's Report on Special Purpose Audit Engagements" to obtain reasonable assurance that the financial statements are, in all material respects, in accordance with the published annual reports, from which they have been extracted.

Opinion
In our opinion, the financial statements presented on pages F-14-F-53 are, in all material respects, in accordance with the published annual reports for the financial years 2006, 2007 and 2008, from which they have been extracted.

Copenhagen, 8 January 2010

Deloitte
Statsautoriseret Revisionsaktieselskab

Carsten Vaarby	Jens Rudkjær
State Authorised	State Authorised
Public Accountant	Public Accountant

Income statements for the period 1 January – 31 December

		Parent Company			Group		
Note	Amounts in DKK thousands	2008	2007	2006	2008	2007	2006
2	Revenue	208,805	332,103	175,292	208,805	332,103	175,292
3,4	Production costs	196,660	62,628	127,611	196,660	64,457	136,285
	Gross profit	**12,145**	**269,475**	**47,681**	**12,145**	**267,646**	**39,007**
3,4	Research and development costs	93,238	231,005	117,539	129,647	243,558	118,405
3,4,5	Sales expenses and administrative costs	90,762	76,052	112,916	92,043	89,114	124,368
	Total operating costs	**184,000**	**307,057**	**230,455**	**221,690**	**332,672**	**242,773**
	Income before interest and tax	**(171,855)**	**(37,582)**	**(182,774)**	**(209,545)**	**(65,026)**	**(203,766)**
6	Financial income	39,964	25,888	14,770	40,089	25,707	14,978
7	Financial expenses	16,747	11,171	15,592	13,842	11,174	16,005
	Income before company tax	**(148,638)**	**(22,865)**	**(183,596)**	**(183,298)**	**(50,493)**	**(204,793)**
8	Tax on income for the year	(35,571)	9,805	(46,730)	(32,944)	13,011	(43,856)
	Net profit for the year	**(113,067)**	**(32,670)**	**(136,866)**	**(150,355)**	**(63,504)**	**(160,937)**
	Distribution of result						
	Parent company´s part of the result				(146,105)	(59,972)	(158,040)
	Minority interest				(4,250)	(3,532)	(2,897)
					(150,355)	**(63,504)**	**(160,937)**
	Proposal for distribution of earnings						
	Retained earnings	**(113,067)**	**(32,670)**	**(136,866)**			
	Earnings per share (EPS) – DKK						
9	– basic earnings per share of DKK 10.00				(18.7)	(8.0)	(25.3)
9	– diluted earings, per share of DKK 10.00				(18.7)	(8.0)	(25.3)

Balance sheet – Assets

		Parent Company			Group		
Note	As of 31 December. Amounts in DKK thousands	2008	2007	2006	2008	2007	2006
	Non-current assets						
10	Purchased rights	2,690	3,138	3,586	7,887	3,138	3,586
10	Software	317	4,276	9,193	318	4,284	9,383
10	Intangible assets under construction	79,024	16,941	-	79,024	16,941	-
	Intangible assets	**82,031**	**24,355**	**12,779**	**87,228**	**24,363**	**12,969**
11	Land and buildings	154,079	159,198	164,332	154,079	159,198	164,332
11	Leasehold improvements	-	-	-	1,184	2,461	2,511
11	Plant and machinery	172,375	200,582	221,524	172,375	200,582	221,524
11	Machinery, equipment and furniture	3,638	3,591	5,294	12,754	14,301	19,690
11	Assets under construction	7,050	2,691	-	7,778	2,691	-
	Tangible assets	**337,142**	**366,062**	**391,150**	**348,170**	**379,233**	**408,057**
12	Investments in subsidiaries	147,757	80,423	80,423	-	-	-
	Other financial non-current assets	30	7	20	201	167	236
	Financial assets	**147,787**	**80,430**	**80,443**	**201**	**167**	**236**
8	**Deferred tax assets**	**159,040**	**134,027**	**143,832**	**158,640**	**135,058**	**146,972**
	Total non-current assets	**725,999**	**604,874**	**628,204**	**594,240**	**538,821**	**568,234**
	Current assets						
13	**Inventories**	**60,318**	**9,594**	**11,162**	**62,201**	**11,621**	**12,882**
14	Trade receivables	19,052	144,810	24,257	19,052	144,872	24,257
	Receivables from subsidiaries	254	27,819	12,979	-	-	-
15	Other receivables	170,269	109,841	6,115	171,038	110,551	7,499
16	Pre-payments and accrued income	49,196	9,711	7,910	51,791	12,598	8,860
	Receivables	**238,771**	**292,181**	**51,261**	**241,882**	**268,021**	**40,616**
18	**Securities**	**226,160**	**224,804**	**231,322**	**226,160**	**224,804**	**231,322**
18	**Cash and cash equivalents**	**559,160**	**683,119**	**98,441**	**569,778**	**688,783**	**101,366**
	Total current assets	**1,084,408**	**1,209,698**	**392,186**	**1,100,021**	**1,193,229**	**386,186**
	Total assets	**1,810,408**	**1,814,572**	**1,020,390**	**1,694,261**	**1,732,050**	**954,420**

Balance sheet – Equity and liabilities

		Parent Company			Group		
Note	As of 31 December. Amounts in DKK thousands	2008	2007	2006	2008	2007	2006
	Share capital	78,156	78,156	63,762	78,156	78,156	63,762
	Retained earnings	989,058	1,096,358	647,552	899,454	1,046,061	624,217
	Other reserves	31,044	94,089	-	33,810	92,754	(1,220)
	Equity, parent company	**1,098,258**	**1,268,603**	**711,314**	**1,011,420**	**1,216,971**	**686,759**
	Equity, minority interest	-	-	-	3,708	692	4,640
	Equity total	**1,098,258**	**1,268,603**	**711,314**	**1,015,128**	**1,217,663**	**691,399**
	Liabilities						
19	Provisions	-	-	-	-	-	1,620
20	Credit institutions	52,659	134,673	148,976	52,659	134,673	148,976
	Non-current liabilities	**52,659**	**134,673**	**148,976**	**52,659**	**134,673**	**150,596**
19	Provisions	-	-	-	-	670	2,682
20	Credit institutions	82,112	15,161	51,739	82,112	15,161	51,739
21	Prepayment from customers	276,640	276,640	-	276,640	276,640	-
	Accounts payable	57,553	17,420	18,040	63,825	21,588	19,689
	Payables to subsidiaries	50,236	44,183	58,243	-	-	-
	Company tax	-	-	-	72	55	230
17	Other debts	192,949	57,892	32,078	203,824	65,600	38,085
	Current liabilities	**659,490**	**411,296**	**160,100**	**626,473**	**379,714**	**112,425**
	Total liabilities	**712,149**	**545,969**	**309,076**	**679,132**	**514,387**	**263,021**
	Total liabilities and shareholders´ equity	**1,810,408**	**1,814,572**	**1,020,390**	**1,694,261**	**1,732,050**	**954,420**

18 Financial risks and financial instruments
22 Related party transactions
23 Incentive plans
24 Contingent liabilities, contractual obligations

Cash flow statements

	Parent Company			Group		
Amounts in DKK thousands	2008	2007	2006	2008	2007	2006
Earings before interest and tax	**(171,855)**	**(37,582)**	**(182,774)**	**(209,545)**	**(65,026)**	**(203,766)**
Depreciation, amortisation and write-down	41,753	34,219	10,900	48,339	40,139	17,950
Share-based payment	5,767	4,643	1,170	6,121	4,983	1,170
Changes in inventories	(50,724)	1,568	(3,198)	(50,580)	1,261	(3,253)
Changes in receivables	115,237	(145,992)	(12,668)	89,425	(132,477)	1,852
Changes in provisions	-	-	-	(670)	(3,632)	(2,565)
Changes in current liabilities	64,396	286,907	29,180	68,146	305,463	4,466
Cash flow from operating activities	**4,574**	**143,763**	**(157,390)**	**(48,764)**	**150,711**	**(184,146)**
Financial income	39,181	25,888	14,770	39,306	25,707	14,978
Financial expenses	(13,429)	(11,171)	(15,592)	(11,984)	(11,174)	(16,005)
Paid taxes during the year	-	-	-	(969)	(2,079)	(9,320)
Cash flow for activities	**30,326**	**158,480**	**(158,212)**	**(22,411)**	**163,165**	**(194,493)**
Investments in intangible assets	(62,131)	(16,941)	(245)	(68,143)	(16,941)	(245)
Investments in tangible assets	(8,378)	(3,766)	(68,325)	(11,998)	(5,768)	(73,914)
Investments in financial assets	(67,357)	13	(40,144)	(34)	69	(236)
Investments in securities	(1,356)	6,518	(117,800)	(1,356)	6,518	(117,800)
Cash flow for investment activities	**(139,222)**	**(14,176)**	**(226,514)**	**(81,531)**	**(16,122)**	**(192,195)**
Payment on mortgage debt	(1,386)	(1,327)	(1,270)	(1,386)	(1,327)	(1,270)
Payment on financial leasing liabilities	(13,677)	(14,554)	(9,897)	(13,677)	(14,554)	(9,897)
Winding up bank loan	-	(35,000)	-	-	(35,000)	-
Proceeds from issue of new shares	-	465,461	237,441	-	465,461	237,441
Expenses regarding issue of new shares	-	(21,978)	(7,233)	-	(21,978)	(7,233)
Proceeds from issue of warrant programme	-	47,772	-	-	47,772	-
Cash flow from financing activities	**(15,063)**	**440,374**	**219,041**	**(15,063)**	**440,374**	**219,041**
Net changes in cash and cash equivalents of period	**(123,959)**	**584,678**	**(165,685)**	**(119,005)**	**587,417**	**(167,647)**
Cash as of 1 January	**683,119**	**98,441**	**264,126**	**688,783**	**101,366**	**269,013**
CASH, end of period	**559,160**	**683,119**	**98,441**	**569,778**	**688,783**	**101,366**
Securities – highly liquid bonds	226,160	224,804	231,322	226,160	224,804	231,322
Trusted/pledged funds	-	(80,000)	(115,000)	-	(80,000)	(115,000)
Credit lines	20,000	20,000	20,000	20,000	20,000	20,000
Cash preparedness	**805,320**	**847,923**	**234,763**	**815,938**	**853,587**	**237,688**

Statement of changes in equity – Parent Company

Amounts in DKK thousands	Share-capital	Retain earings	Reserves for fair value of financial instruments	Equity Total
Shareholders´ equity as of 1 January 2008	**78,156**	**1,096,358**	**94,089**	**1,268,603**
Adjustment financial instrument as of 1 January	-	-	(22,893)	(22,893)
Fair value of financial instruments	-	-	(60,219)	(60,219)
Fair value adjustment transferred from equity concerning financial instruments entered into to hedge revenues	-	-	6,683	6,683
Tax effect on hedging	-	-	13,384	13,384
Transactions recorded on equity	**-**	**-**	**(63,045)**	**(63,045)**
Net profit for the year	-	(113,067)	-	(113,067)
Net income for the year	**-**	**(113,067)**	**(63,045)**	**(176,112)**
Share-based payment	-	5,767	-	5,767
Other transactions	**-**	**5,767**	**-**	**5,767**
Shareholders´ equity as of 31 December	**78,156**	**989,058**	**31,044**	**1,098,258**
Shareholders´ equity as of 1 January 2007	**63,762**	**647,552**	**-**	**711,314**
Fair value of financial investments	-	-	139,111	139,111
Transfer of fair value to secured items	-	-	(21,290)	(21,290)
Tax effect on hedging	-	-	(23,732)	(23,732)
Transactions recorded on equity	**-**	**-**	**94,089**	**94,089**
Net profit for the year	-	(32,670)	-	(32,670)
Net income for the year	**-**	**(32,670)**	**94,089**	**61,419**
Proceeds from issue of new shares	12,752	452,709	-	465,461
Expenses from issues of new shares	-	(21,978)	-	(21,978)
Proceeds from issue of warrant programme	1,642	46,130	-	47,772
Share-based payment		3,775	-	3,775
Tax effect on equity transaction	-	840	-	840
Other transactions	**14,394**	**481,476**	**-**	**495,870**
Shareholders´ equity as of 31 December 2007	**78,156**	**1,096,358**	**94,089**	**1,268,603**

Statement of changes in equity – Parent Company – continued

Amounts in DKK thousands	Share-capital	Retain earings	Reserves for fair value of financial instruments	Equity Total
Shareholders´ equity as of 1 January 2006	**57,971**	**566,448**	**-**	**624,419**
Exchange rate adjustments	-	515	-	515
Transactions recorded on equity	**-**	**515**	**-**	**515**
Net profit for the year	-	(136,866)	-	(136,866)
Net income for the year	**-**	**(136,351)**	**-**	**(136,351)**
Proceeds from issue of new shares	5,791	231,650	-	237,441
Expenses from issues of new shares	-	(7,233)	-	(7,233)
Share-based payment	-	1,100	-	1,100
Change in deferred tax regarding warrant programme	-	(8,062)	-	(8,062)
Other transactions	**5,791**	**217,455**	**-**	**223,246**
Shareholders´ equity as of 31 December 2006	**63,762**	**647,552**	**-**	**711,314**

Transactions on the share capital have been the following

Amounts in DKK thousands	2008	2007	2006	2005	2004
Share capital as of 1 January	78,156	63,762	57,971	46,395	45,145
Issue of new shares	-	14,394	5,791	11,576	1,250
Share capital as of 31 December	**78,156**	**78,156**	**63,762**	**57,971**	**46,395**

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 shares carries one vote.

Statement of changes in equity – Group

Amounts in DKK thousands	Share-capital	Retained earnings	Reseves for adjustement	Reserves for fair value of financial instruments	Equity Parent company	Equity Minority	Equity Group
Shareholders´ equity as of 1 January 2008	**78,156**	**1,046,061**	**(1,335)**	**94,089**	**1,216,971**	**692**	**1,217,663**
Adjustment financial instrument as of 1 January	-	-	-	(22,893)	(22,893)	-	(22,893)
Fair value of financial investments	-	-	-	(60,219)	(60,219)	-	(60,219)
Fair value adjustment transferred from equity concerning financial instruments entered into to hedge revenues	-	-	-	6,683	6,683	-	6,683
Tax effect on hedging	-	-	-	13,384	13,384	-	13,384
Exchange rate adjustments	-	-	4,100	-	4,100	644	4,744
Transactions recorded on equity	**-**	**-**	**4,100**	**(63,045)**	**(58,944)**	**644**	**(58,301)**
Net profit for the year	-	(146,105)	-	-	(146,105)	(4,250)	(150,355)
Net income for the year	**-**	**(146,105)**	**4,100**	**(63,045)**	**(205,049)**	**(3,607)**	**(208,656)**
Share-based payment	-	6,121	-	-	6,121	-	6,121
Transfer to minority interest	-	(6,623)	-	-	(6,623)	6,623	-
Other transactions	**-**	**(502)**	**-**	**-**	**(502)**	**6,623**	**6,121**
Shareholders´ equity as of 31 December 2008	**78,156**	**899,454**	**2,765**	**31,044**	**1,011,420**	**3,708**	**1,015,128**
Shareholders´ equity as of 1 January 2007	**63,762**	**624,217**	**(1,220)**	**-**	**686,759**	**4,640**	**691,399**
Fair value of financial investments	-	-	-	139,111	139,111	-	139,111
Transfer of fair value to secured items	-	-	-	(21,290)	(21,290)	-	(21,290)
Tax effect on hedging	-	-	-	(23,732)	(23,732)	-	(23,732)
Exchange rate adjustments	-	-	(115)	-	(115)	(416)	(531)
Transactions recorded on equity	**-**	**-**	**(115)**	**94,089**	**93,974**	**(416)**	**93,558**
Net profit for the year	-	(59,972)	-	-	(59,972)	(3,532)	(63,504)
Net income for the year		**(59,972)**	**(115)**	**94,089**	**34,002**	**(3,948)**	**30,054**
Proceeds from issue of new shares	12,752	452,709	-	-	465,461	-	465,461
Expenses from issues of new shares	-	(21,978)	-	-	(21,978)	-	(21,978)
Proceeds from exercise of warrant programme	1,642	46,130	-	-	47,772	-	47,772
Share-based payment	-	4,115	-	-	4,115	-	4,115
Tax effect on equity transaction	-	840	-	-	840	-	840
Other transactions	**14,394**	**481,816**	**-**	**-**	**496,210**	**-**	**496,210**
Shareholders´ equity as of 31 December 2007	**78,156**	**1,046,061**	**(1,335)**	**94,089**	**1,216,971**	**692**	**1,217,663**

Statement of changes in equity – Group – continued

Amounts in DKK thousands	Share-capital	Retained earnings	Reseves for adjustement	Reserves for fair value of financial instruments	Equity Parent company	Equity Minority	Equity Group
Shareholders´ equity as of 1 January 2006	**57,971**	**570,464**	**(206)**	**-**	**628,229**	**1,875**	**630,104**
Exchange rate adjustments regarding foreign companies	-	-	(1,014)	-	(1,014)	-	(1,014)
Transactions recorded on equity	**-**	**-**	**(1,014)**	**-**	**(1,014)**	**-**	**(1,014)**
Net profit for the year	-	(158,040)	-	-	(158,040)	(2,897)	(160,937)
Net income for the year	**-**	**(158,040)**	**(1,014)**	**-**	**(159,054)**	**(2,897)**	**(161,951)**
Proceeds from issue of new shares	5,791	231,650	-	-	237,441	-	237,441
Expenses from issues of new shares	-	(7,233)	-	-	(7,233)	-	(7,233)
Transfer to minority interest	-	(5,662)	-	-	(5,662)	5,662	-
Share-based payment	-	1,100	-	-	1,100	-	1,100
Change in defened tax regarding worrant programme	-	(8,062)	-	-	(8,062)	-	(8,062)
Other transactions	**5,791**	**211,793**	**-**	**-**	**217,584**	**5,662**	**223,246**
Shareholders´ equity as of 31 December 2006	**63,762**	**624,217**	**(1,220)**	**-**	**686,759**	**4,640**	**691,399**

Transactions on the share capital have been the following

Amounts in DKK thousands	2008	2007	2006	2005	2004
Share capital as of 1 January	78,156	63,762	57,971	46,395	45,145
Issue of new shares	-	14,394	5,791	11,576	1,250
Share capital as of 31 December	**78,156**	**78,156**	**63,762**	**57,971**	**46,395**

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 shares carries one vote.

List of notes

Note 1 Accounting policies

General information

Basis of preparation
The Annual Report of Bavarian Nordic A/S, 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 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 certain financial assets and 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 amended standards and interpretations
All new or amended standards and interpretations relevant to the annual report of the Bavarian Nordic Group, which have entered into force for the annual reports included in the Prosepctus, have been included in the annual reports.

Application of new or amended standards and interpretations has not resulted in changes in amounts in the annual reports for 2006, 2007 and 2008, and thus the accounting policies of the Group are unchanged for the annual reports included in the Prospectus.

Standards and interpretations not yet in force
As of the date of the publication of the Annual Report for 2008, new or amended standards and interpretations relevant to the annual report of the Bavarian Nordic Group have been issued which have not yet entered into force, and which are therefore not included in this Annual Report:

- Revised IFRS 2, Share-based payment (2008). The standard comes into force for financial years starting on or after 1 January 2009. The standard has not yet been adopted for use in the EU.
- IFRS 8, Operating Segments (2006). The standard comes into force for financial years starting on or after 1 January 2009.
- Revised IAS 1, Presentation of Financial Statements (2007). The revised standard comes into force for financial years starting on or after 1 January 2009. The standard has not yet been adopted for use in the EU.
- Revised IAS 27, Consolidated and Separate Financial Statements (2008). The revised standard comes into force for financial years starting on or after 1 July 2009. The standard has not yet been adopted by the EU.
- Minor amendments of various standards as a result of the IASB's annual improvement process (2008). Most amendments come into force for financial years starting on or after 1 January 2009. The amendments have not yet been adopted by the EU.
- Revised IFRS 39, Financial instruments: Recognition and Measurement (2008). The revised standard comes into force for financial years starting on or after 1 July 2009. The standard has not yet been adopted by the EU.
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (2008). The interpretation comes into force for financial years starting on or after 1 October 2008. The interpretation has not yet been adopted by the EU.

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 capitalisation. See "Research and development costs". The carrying amount of capitalised development projects was DKK 64 million as at 31 December 2008 (DKK 17 million as at 31 December 2007).

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 2008 did not give rise to any changes as compared with 2007. The carrying amount of property, plant and equipment was DKK 348 million as at 31 December 2008 (DKK 379 million as at 31 December 2007 and DKK 408 million as at 31 December 2006).

Value of investments in subsidiaries in the parent company's financial statements
The carrying amount as at 31 December 2008 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 circumstanc-

es 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 148 million (DKK 80 million as at 31 December 2007 and DKK 80 million as at 31 December 2006).

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 62 million as at 31 December 2008 (DKK 12 million as at 31 December 2007 and DKK 13 million as at 31 December 2006).

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 159 million as at 31 December 2008 (DKK 135 million as at 31 December 2007 and DKK 147 million as at 31 December 2006).

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 41 million as at 31 December 2008 (DKK 105 million as at 31 December 2007 and DKK 0 million as at 31 December 2006).

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.

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.

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 taken directly to equity. Similarly, exchange differences arising as a result of changes made directly in the equity of the foreign subsidiary are also taken directly to equity.

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 also taken directly to equity 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 directly in equity. 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 financial items. 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.

Sales costs and administrative expenses
Sales costs and administrative expenses include costs of Company management, staff functions, administrative and commercial personnel, office costs, rent, lease payments and depreciation not relating specifically to production or research and development activities.

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 directly in equity.

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.

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

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.

Financial assets
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. In addition, cost is written down if dividend distributed exceeds the accumulated earnings in the company since the parent company's acquisition of the investments.

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 FIFO 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 amortised cost, which is usually equal to the nominal value, less provision for bad debts based on an individual assessment of the risk.

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. The fair value as of the balance sheet date is measured having regard to known future gains and losses on drawing or at final maturity. 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.

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.

Credit institutions
Loans are initially recognised at market value, net of transaction costs incurred. Loans are subsequently measured at amortised cost as of the balance sheet date; any difference between the proceeds (net of transaction costs and amortised cost) is recognised in the income statement over the term of the loan using the effective interest method. Loans are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Debts
Debts are measured at amortised cost.

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 items.

Segment reporting
As the Bavarian Nordic Group only operates in one business segment, and because revenue comes primarily from the US market, no separate segment information is provided in the notes to the Annual Report.

Financial definitions

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

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

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

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

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 27.

Notes

	Parent Company			Group		
Amounts in DKK thousands	2008	2007	2006	2008	2007	2006
Note 2 Revenue						
Contract work	69,556	55,463	175,292	69,556	55,463	175,292
Milestone payment from RFP-3 Contract	139,249	276,640	-	139,249	276,640	-
Total	**208,805**	**332,103**	**175,292**	**208,805**	**332,103**	**175,292**
Net sales include:						
Fair value adjustment transferred from equity concerning financial instruments entered into to hedge revenues	(6,683)	21,290	-	(6,683)	21,290	-

Notes

	Parent Company			Group		
Amounts in DKK thousands	2008	2007	2006	2008	2007	2006
Note 3 Staff costs						
Wages and salaries	83,106	73,988	59,214	149,684	133,643	107,416
Pension and social security expenses	5,352	5,121	4,488	13,469	13,485	11,798
Other staff expenses	9,008	7,508	6,961	13,835	12,227	12,642
Share-based payment	4,773	4,643	1,170	5,125	4,983	1,170
Staff costs before capitalisation	102,239	91,260	71,833	182,112	164,338	133,026
Capitalised salaries	-	-	(33,182)	-	-	(33,182)
Total staff costs	**102,239**	**91,260**	**38,651**	**182,112**	**164,338**	**99,844**
Staff expenses are distributed as follows:						
Production costs	52,870	9,339	18,498	58,135	9,341	23,995
Research and Development costs	9,830	40,967	19,387	68,970	104,454	69,203
Sales and administrative costs	38,813	40,582	33,948	44,848	46,291	39,828
Capitalised salaries	726	372	-	10,159	4,253	-
Staff costs before capitalisation	102,239	91,260	71,833	182,112	164,338	133,026
Capitalised salaries	-	-	(33,182)	-	-	(33,182)
Total staff costs	**102,239**	**91,260**	**38,651**	**182,112**	**164,338**	**99,844**
Of which:						
Board of Directors:						
Remuneration to the Board of Directors	1,200	750	400	1,200	750	400
Share-based payment	621	378	126	621	378	126
President of the company:						
Salary	5,043	2,459	1,900	5,043	2,459	1,900
Pension	2	50	-	2	50	-
Share-based payment	684	570	94	684	570	94
Managerial Staff:						
Salaries	10,745	7,163	6,056	16,372	9,322	7,591
Pensions	854	434	393	1,120	514	731
Share-based payment	2,818	2,477	839	2,818	2,817	839
Total management remuneration	**21,967**	**14,281**	**9,808**	**27,860**	**16,860**	**11,681**

Incentive programmes are disclosed in note 23.
The share based payment to the Board of Directors, the President of the company and the Managerial Staff are respectively DKK thousans 621, 684 and 2,818. (2007: thousands DKK 378, 570 and 2,477). (2006: thousands DKK 127, 94 and 839).

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	128	119	104	270	256	225
Numbers of employees as of December 31 convert to full-time	147	120	105	294	264	233

	Parent Company			Group		
Amounts in DKK thousands	2008	2007	2006	2008	2007	2006
Note 4 Depreceation and amortisation						
Depreciation and amortisation included in:						
Production costs	35,993	7,023	1,303	37,597	7,030	1,493
Research and development costs	445	21,725	3,120	5,323	27,587	9,922
Sales expenses and administrative costs	5,314	5,471	6,477	5,419	5,522	6,535
Total Depreciations	**41,753**	**34,219**	**10,900**	**48,339**	**40,139**	**17,950**
Hereof profit/loss from disposed fixed assets	-	36	(28)	(2)	36	(28)
Note 5 Fees to board auditor						
Audit of the annual report	361	350	450	545	520	450
Other assistance	265	652	369	648	902	369
Audit of the Annual Report	**626**	**1,002**	**819**	**1,193**	**1,422**	**819**
Note 6 Financial income						
Financial income from securities and realised/ unrealised capital gains on securities measured at the fair value through the income statement	9,525	14,101	11,824	9,525	14,101	11,824
Financial income from bank and deposit contracts	23,157	11,549	1,800	23,281	11,606	2,350
Financial income from subsidiaries	-	238	347	-	-	-
Fair value adjustment of financial contracts held for trading	7,282	-	799	7,282	-	804
Total	**39,964**	**25,888**	**14,770**	**40,089**	**25,707**	**14,978**
Note 7 Financial expenses						
Interest expenses on debt	6,150	6,828	9,115	6,218	7,100	9,813
Financial leasing expense	1,582	2,133	2,267	1,582	2,133	2,267
Net income from exchange rate adjustments	6,510	1,950	3,863	6,042	1,941	3,925
Financial expenses to subsidiaries	2,505	260	347	-	-	-
Total	**16,747**	**11,171**	**15,592**	**13,842**	**11,174**	**16,005**

Notes

	Parent Company			Group		
Amounts in DKK thousands	2008	2007	2006	2008	2007	2006
Note 8 Tax for the year						
Current income tax	-	-	-	2,648	3,205	2,874
Change in deferred tax	(33,900)	9,805	(38,807)	(33,900)	11,914	(39,429)
Tax recognised directly in equity transferred to the income statement	(1,671)	-	-	(1,671)	-	-
Corrections to previous years	-	-	(7,923)	(21)	(2,108)	(7,301)
Tax for the year recognised in the income statement	**(35,571)**	**9,805**	**(46,730)**	**(32,944)**	**13,011**	**(43,856)**
Tax on income for the year is explained as follows:						
Loss for the year	**(148,638)**	**(22,865)**	**(183,596)**	**(183,299)**	**(46,963)**	**(204,793)**
Calculated tax (25%) tax on income before tax	(37,160)	(5,716)	(51,407)	(45,825)	(11,741)	(56,531)
Tax effect on:						
Change in tax from 28% to 25%	-	15,411	-	-	15,411	-
Different percentage in foreign subsidaiaries	-	-	-	953	933	456
Tax values in foreign subsidairies, not included	-	-	-	10,497	7,818	8,063
Loss of tax loss carry-forwards	-	-	2,330	-	-	2,330
Permanent differences	1,500	111	32	1,500	111	32
Other corrections	89	-	2,315	(69)	479	1,794
Tax on income for the year	**(35,571)**	**9,805**	**(46,730)**	**(32,944)**	**13,011**	**(43,856)**
Tax on income and costs recognised directly in equity:						
Tax on fair value adjustment of financial instruments entered into to hedge future cash flow	(15,055)	23,732	-	(15,055)	23,732	-
Tax on other entries on shareholders' equity	-	(840)	8,062	-	(840)	8,062
Tax recognised directly in equity transferred to the income statement	1,671	-	-	1,671	-	-
Tax for the year recognised directly in equity	**(13,384)**	**22,892**	**8,062**	**(13,384)**	**22,892**	**8,062**
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	(27,050)	(28,562)	(29,564)	(27,450)	(27,531)	(26,424)
Patent costs	(15,356)	(345)	(85)	(15,356)	(345)	(85)
Obligations	1,923	2,038	-	1,923	2,038	-
Inventories	1,016	-	-	1,016	-	-
Financial instruments	-	23,732	-	-	23,732	-
Prepayment from customers	69,160	69,160	-	69,160	69,160	-
Tax losses carried-forward	129,347	68,004	173,481	129,347	68,004	173,481
Recognised tax assets	**159,040**	**134,027**	**143,832**	**158,640**	**135,058**	**146,972**

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 44,664 DKK thousands.

	Group		
Amounts in DKK thousands	2008	2007	2006

Note 9 Earnings per share (EPS)

Profit for the Parent company´s shareholders	(146,105)	(59,972)	(158,040)
Weighted average number of shares (thousand units)	7,816	7,478	6,248
Earnings per share of DKK 10.00	(18.7)	(8.0)	(25.3)
Diluted earings, per share of DKK 10.00	(18.7)	(8.0)	(25.3)

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.

The following potential shares are not diluted and have therefore been excluded from the statement of average number of shares when calculating diluted earnings per share:

2008-programme re. note 23	175	-	-
2007-programme re. note 23	165	185	-
2006-programme re. note 23	144	170	185

Notes

Note 10 Intangible assets

Amounts in DKK thousands	Rights	Software	Intangible assets under construction	2008 Total
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)
Exchange rate adjustments	-	-	-	-
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)
Exchange rate adjustments	-	-	-	-
Amortisation as of 31 December	**4,174**	**15,360**	**-**	**19,534**
Book value as of 31 December	**2,690**	**317**	**79,024**	**82,031**
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).

Amounts in DKK thousands	Rights	Software	Intangible assets under construction	2007 Total
Note 10 Intangible assets – continued				
Parent company 2007				
Costs as of 1 January	6,864	16,466	-	23,330
Additions during the year	-	-	16,941	16,941
Disposals during the year	-	(59)	-	(59)
Exchange rate adjustments	-	-	-	-
Cost as of 31 December	**6,864**	**16,407**	**16,941**	**40,212**
Amortisation as of 1 January	3,278	7,273	-	10,551
Amortisation during the year	448	4,917	-	5,365
Disposals during the year	-	(59)	-	(59)
Exchange rate adjustments	-	-	-	-
Amortisation as of 31 December	**3,726**	**12,131**	**-**	**15,857**
Book value as of 31 December	**3,138**	**4,276**	**16,941**	**24,355**
Group 2007				
Costs as of 1 January	6,864	17,700	-	24,564
Additions during the year	-	-	16,941	16,941
Disposals during the year		(263)	-	(263)
Exchange rate adjustments	-	-	-	-
Cost as of 31 December	**6,864**	**17,437**	**16,941**	**41,242**
Amortisation as of 1 January	3,278	8,317	-	11,595
Amortisation during the year	448	5,099	-	5,547
Disposals during the year	-	(263)	-	(263)
Exchange rate adjustments	-	-	-	-
Amortisation as of 31 December	**3,726**	**13,153**	**-**	**16,879**
Book value as of 31 December	**3,138**	**4,284**	**16,941**	**24,363**

Notes

Note 10 Intangible assets – continued

Amounts in DKK thousands	Rights	Software	Intangible assets under construction	2006 Total
Parent company 2006				
Costs as of 1 January	6,864	16,221	-	23,085
Additions during the year	-	245	-	245
Disposals during the year	-	-	-	-
Exchange rate adjustments	-	-	-	-
Cost as of 31 December	**6,864**	**16,466**	**-**	**23,330**
Amortisation as of 1 January	2,631	2,191	-	4,822
Amortisation during the year	647	5,082	-	5,729
Disposals during the year	-	-	-	-
Exchange rate adjustments	-	-	-	-
Amortisation as of 31 December	**3,278**	**7,273**	**-**	**10,551**
Book value as of 31 December	**3,586**	**9,193**	**-**	**12,779**
Group 2006				
Costs as of 1 January	6,864	17,448	-	24,312
Additions during the year	-	245	-	245
Disposals during the year		-	-	-
Exchange rate adjustments	-	7	-	7
Cost as of 31 December	**6,864**	**17,700**	**-**	**24,564**
Amortisation as of 1 January	2,631	2,951	-	5,582
Amortisation during the year	647	5,358	-	6,005
Disposals during the year	-	-	-	-
Exchange rate adjustments	-	8	-	8
Amortisation as of 31 December	**3,278**	**8,317**	**-**	**11,595**
Book value as of 31 December	**3,586**	**9,383**	**-**	**12,969**

Note 11 Tangible assets

Amounts in DKK thousands	Land and buildings	Leasehold improv-ment	Plant and machinery	Equipment	Pre-payment of assets	2008 Total
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)
Exchange rate adjustments	-	-	-	-	-	-
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)
Exchange rate adjustments	-	-	-	-	-	-
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**
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

Notes

Note 11 Tangible assets – continued

Amounts in DKK thousands	Land and buildings	Leasehold improv-ment	Plant and machinery	Equipment	Pre-payment of assets	2007 Total
Parent company 2007						
Costs as of 1 January	165,525	-	221,610	15,428	-	402,563
Additions during the year	449	-	541	85	2,691	3,766
Transfer from subsidiary	-	-	-	108	-	108
Disposals during the year	-	-	-	(1,214)	-	(1,214)
Exchange rate adjustments	-	-	-	-	-	-
Cost as of 31 December	**165,974**	**-**	**222,151**	**14,407**	**2,691**	**405,223**
Depreciation of 1 January	1,193	-	86	10,134	-	11,413
Transfer from subsidiary	-	-	-	108	-	108
Depreciation during the year	5,583	-	21,483	1,788	-	28,854
Disposals during the year	-	-	-	(1,214)	-	(1,214)
Exchange rate adjustments	-	-	-	-	-	-
Depreciation as of 31 December	**6,776**	**-**	**21,569**	**10,816**	**-**	**39,161**
Book value as of 31 December	**159,198**	**-**	**200,582**	**3,591**	**2,691**	**366,062**
Book value of leased assets as of 31 December	**-**	**-**	**35,546**	**-**	**-**	**35,546**
Group 2007						
Costs as of 1 January	165,525	7,449	221,610	61,464	-	456,048
Additions during the year	449	-	541	2,606	2,691	6,287
Transfer	-	1,745	-	(1,745)	-	-
Disposals during the year	-	(223)	-	(6,361)	-	(6,584)
Exchange rate adjustments	-	(179)	-	(436)	-	(615)
Cost as of 31 December	**165,974**	**8,792**	**222,151**	**55,528**	**2,691**	**455,136**
Depreciation of 1 January	1,193	4,938	86	41,774	-	47,991
Transfer	-	349	-	(349)	-	-
Depreciation during the year	5,583	1,302	21,483	6,224	-	34,592
Disposals during the year	-	(223)	-	(5,842)	-	(6,065)
Exchange rate adjustments	-	(35)	-	(580)	-	(615)
Depreciation as of 31 December	**6,776**	**6,331**	**21,569**	**41,227**	**-**	**75,903**
Book value as of 31 December	**159,198**	**2,461**	**200,582**	**14,301**	**2,691**	**379,233**
Book value of leased assets as of 31 December	**-**	**-**	**35,546**	**-**	**-**	**35,546**

As of 31 December 2007 mortgage deeds of total of DKK 125 mio. have been issued for safety on loan of DKK 68 million against credit institution on the property Bøgeskovvej 9/Hejreskovvej 10, Kvistgård, Denmark

Note 11 Tangible assets – continued

Amounts in DKK thousands	Land and buildings	Leasehold improv-ment	Plant and machinery	Equipment	Pre-payment of assets	2006 Total
Parent company 2006						
Costs as of 1 January	170,280	-	133,666	31,495	-	335,441
Additions during the year	1,020	-	71,514	1,615	-	74,149
Transfer from subsidiary	-	-	16,430	(16,430)	-	-
Disposals during the year	(5,775)	-	-	(1,252)	-	(7,027)
Exchange rate adjustments	-	-	-	-	-	-
Cost as of 31 December	**165,525**	**-**	**221,610**	**15,428**	**-**	**402,563**
Depreciation of 1 January	747	-	16	6,682	-	7,445
Transfer from subsidiary	-	-	-	-	-	-
Depreciation during the year	446	-	70	4,655	-	5,171
Disposals during the year	-	-	-	(1,203)	-	(1,203)
Exchange rate adjustments	-	-	-	-	-	-
Depreciation as of 31 December	**1,193**	**-**	**86**	**10,134**	**-**	**11,413**
Book value as of 31 December	**164,332**	**-**	**221,524**	**5,294**	**-**	**391,150**
Book value of leased assets as of 31 December	**-**	**-**	**50,100**	**-**	**-**	**50,100**
Group 2006						
Costs as of 1 January	170,280	7,449	134,380	71,666	528	384,303
Additions during the year	1,020	-	71,514	6,781	-	79,315
Transfer	-	-	15,716	(15,188)	(528)	-
Disposals during the year	(5,775)	-	-	(1,795)	-	(7,570)
Exchange rate adjustments	-	-	-	-	-	-
Cost as of 31 December	**165,525**	**7,449**	**221,610**	**61,464**	**-**	**456,048**
Depreciation of 1 January	747	3,612	28	33,829	-	38,216
Transfer	-	-	-	-	-	-
Depreciation during the year	446	989	70	10,440	-	11,945
Disposals during the year	-	337	(12)	(2,495)	-	(2,170)
Exchange rate adjustments	-	-	-	-	-	-
Depreciation as of 31 December	**1,193**	**4,938**	**86**	**41,774**	**-**	**47,991**
Book value as of 31 December	**164,332**	**2,511**	**221,524**	**19,690**	**-**	**408,057**
Book value of leased assets as of 31 December	**-**	**-**	**50,100**	**-**	**-**	**50,100**

As of 31 December 2006 mortgage deeds of total of DKK 125 mio. have been issued for safety on loan of DKK 68 million against credit institution on the property Bøgeskovvej 9/Hejreskovvej 10, Kvistgård, Denmark

Notes

	Parent Company		
Amounts in DKK thousands	2008	2007	2006
Note 12 Investment in subsidiaires			
Cost of subsidiaries as of 1 January	80,423	80,423	40,820
Additions during the year	67,334	-	40,121
Disposals during the year	-	-	(521)
Exchange rate adjustment	-	-	3
Cost of subsidiaries as of 31 December	**147,757**	**80,423**	**80,423**
Write-down as of 1 January	-	-	(521)
Disposals during the year	-	-	521
Write down as of 31 December	**-**	**-**	**-**
Book value as of 31 December	**147,757**	**80,423**	**80,423**

Company summary

	Domicile	Ownership	Voting rights
		%	%
Subsidiaries			
Bavarian Nordic GmbH	Germany	100	100
Bavarian Nordic Holding	USA	100	100
– Bavarian Nordic Inc	USA	100	100
– BN ImmunoTherapeutics Inc.	USA	90	90
Representative office			
Bavarian Nordic A/S	Singapore		

BN ImmunoTherapeutics is owned by Bavarian Nordic Holding Inc., which solely acts as the holding company in the USA. The remaining 10% of the shares of BN ImmunoTherapeutics is owned by the company´s CEO in USA, who is secured a 10% ownership in the company as part of his employment contract. Half of the allocation (5%) is restricted for a five-year period (until 2010). Moreover, an additional 10% of the shares (not yet issued) is allocated to current and future key employees of BN ImmunoTherapeutics, who, as part of their employment contract, will receive shares or stock options. The company´s future ownership of BN ImmunoTherapeutics via Bavarian Nordic Holding Inc. will be reduced to an anticipated 80%.

The companies in USA are not under audit obligations.

	Parent Company			Group		
Amounts in DKK thousands	2008	2007	2006	2008	2007	2006
Note 13 Inventories						
Raw materials and supply materials	15,347	11,318	11,162	17,230	13,345	12,882
Work in progress	87,708	-	-	87,708	-	-
Write-down on inventory	(42,738)	(1,724)	-	(42,738)	(1,724)	-
Raw materials and supply materials	**60,318**	**9,594**	**11,162**	**62,201**	**11,621**	**12,882**
Write-down on inventory recognised under production costs	(42,738)	(1,724)	-	(42,738)	(1,724)	-
Note 14 Trade receivables						
Trade receivables from contract work	19,052	6,490	24,257	19,052	6,552	24,257
Milestone payment on RFP-3 Contract	-	138,320	-	-	138,320	-
Total	**19,052**	**144,810**	**24,257**	**19,052**	**144,872**	**24,257**
Note 15 Other receivables						
Financial instruments to fair value	147,377	94,089	-	147,377	94,089	-
Other receivables	22,892	15,752	6,115	23,661	16,462	7,499
Total	**170,269**	**109,841**	**6,115**	**171,038**	**110,551**	**7,499**
Except from financial instruments, other receivables are measured at amortised cost.						
Note 16 Pre-payments and accrued income						
Prepayments for future fillings	46,052	5,215	-	46,052	5,215	-
Other Pre-payments	3,144	4,496	7,910	5,740	7,383	8,860
Total	**49,196**	**9,711**	**7,910**	**51,791**	**12,598**	**8,860**
Note 17 Other debts						
Financial instruments to fair value	117,840	-	-	117,840	-	-
Other debt	75,109	57,892	32,078	85,984	65,600	38,085
Total	**192,949**	**57,892**	**32,078**	**203,824**	**65,600**	**38,085**

Except from financial instruments, other debts are measured at amotised cost.

Notes

Note 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 2008, the balance on the forward exchange contract was USD 175 million.

The forward exchange contracts are subject to a sensitivity which affects equity equivalent to DKK 17.5 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 2 million per quarter.

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. A rise in the USD/DKK exchange rate will affect the equity adversely.

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.

It 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.

	Parent Company and Group					
Amounts in DKK thousands	2008		2007		2006	
	Securities	Effective interest	Securities	Effective interest	Securities	Effective interest
Securities						
Due between 0-2 years	143,370	4.3%	168,915	6.9%	151,563	6.0%
Due between 2-5 years	14,578	8.3%	18,520	3.8%	36,641	4.1%
Due after 5 years	68,212	5.3%	37,369	5.7%	43,118	4.0%
Total	**226,160**	**6.3%**	**224,804**	**6.2%**	**231,322**	**5.7%**

None of the securities held in the Company´s portfolio of securities had been provided as collateral security for loans from credit institutions as of 31 December 2008 (2007: DKK 80 million).

	Parent Company	Group	Parent Company	Group	Parent Company	Group
Amounts in DKK thousands	2008		2007		2006	
Cash and cash equivalents						
Cash and bank deposits	559,160	569,778	683,119	688,783	98,441	101,366
Total	**559,160**	**569,778**	**683,119**	**688,783**	**98,441**	**101,366**

Note 18 Financial risks and financial instruments – continued

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 1-3 million on the Group´s results of operations and equity, primarily related to a loss on the Group´s bond portfolio (2007: DKK 1.5 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 5-6 million. A corresponding fall in the interest rate would have had an equivalent negative effect.

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 Danish banks with high ratings and invested in bonds, either government bonds, Danish mortgage bonds or bonds issued by Danish banks with high ratings. Due to the gevernment guarantee issued, the Danish State is ultimately the creditor in respect of all cash and cash equivalents.

Exchange rate risks in respect of recognised financial assets and liabilities

The Group uses forward exchange contracts to hedge recognised and non-recognised transactions.

Amounts in DKK thousands	Bank, cash equivalents and securities	Receivables	Non-current liabilities	Net position	Covered	Non-secure net position
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**
2007 Parent Company						
DKK	907,923	109,841	(225,146)	792,618	-	792,618
EUR	-	27,819	-	27,819	-	27,819
USD	-	144,810	(44,183)	100,627	(138,320)	(37,693)
As of 31 December 2007	**907,923**	**282,470**	**(269,329)**	**921,064**	**(138,320)**	**782,744**
2007 Group						
DKK	907,923	106,892	(225,148)	789,667	-	789,667
EUR	1,934	3,659	(8,324)	(2,731)	-	(2,731)
USD	3,730	144,872	(4,275)	144,327	(138,320)	6,007
As of 31 December 2007	**913,587**	**255,423**	**(237,747)**	**931,263**	**(138,320)**	**792,943**
2006 Parent Company						
DKK	329,763	6,116	(250,833)	85,046	-	85,046
EUR	-	12,123	(3,642)	8,481	-	8,481
USD	-	25,112	(54,601)	(29,489)	-	(29,489)
As of 31 December 2006	**329,763**	**43,351**	**(309,076)**	**64,038**	**-**	**64,038**
2006 Group						
DKK	329,762	5,166	(250,978)	83,950	-	83,950
EUR	2,393	1,478	(10,106)	(6,235)	-	(6,235)
USD	533	25,112	(1,937)	23,708	-	23,708
As of 31 December 2006	**332,688**	**31,756**	**(263,021)**	**101,423**	**-**	**101,423**

As of the balance sheet date, the non-realised fair value of the Group´s derivative financial instruments was DKK 27,553 thousand. The fair value is regognised under other receivables and other payables.

Notes

Note 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 three years 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.

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 (2008: income of DKK 1,769 thousand, 2007: income of DKK 1,293 thousand, 2006: income of DKK 252 thousand).

The term to maturity of the forward exchange contracts is between three and four months, but they are extended regulary, and the will hedge expected cash flow under the RFP-3 contract 2-3 years ahead.

Interes rate swaps run until repayment of the hedged loan.

	2008		2007		2006	
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	Contract amount based on agreed rates	Fair value as of 31 December
Forward exchange contract (sales)						
USD – 175 million (2007: 200 million)	827,658	(112,233)	1,106,590	91,927	-	-
Interest rate swap						
DKK/DKK – fixed rate of 2.79% p.a.	68,000	960	68,000	2,162	68,000	2,371
	895,658	(111,273)	1,174,590	94,089	68,000	2,371

Note 18 Financial risks and financial instruments – continued

	Parent Company			Group		
Amounts in DKK thousands	2008	2007	2006	2008	2007	2006
Derivative financial instruments to hedge the fair value of recognised assets and liabilities	-	11,820	-	-	11,820	-
Derivative financial instruments to hedge future cash flows	(111,273)	92,765	-	(111,273)	92,765	-
Financial assets/liabilities used as hedging instruments	**(111,273)**	**104,585**	**-**	**(111,273)**	**104,585**	**-**
Trade receivables	19,052	132,990	24,257	19,052	133,052	24,257
Receivables from subsidiaries	254	27,819	12,979	-	-	-
Other receivables	23,852	109,841	6,115	24,621	110,551	7,499
Cash and cash equivalents	559,160	683,119	98,441	569,778	688,783	101,366
Loan and receivables measured at amortised cost	**602,318**	**953,769**	**141,792**	**613,451**	**932,386**	**133,122**
Derivative financial instruments	146,417	-	-	146,417	-	-
Other securities and investments	226,160	224,804	231,322	226,160	224,804	231,322
Financial assets through profit and loss measured at fair value	**372,577**	**224,804**	**231,322**	**372,577**	**224,804**	**231,322**
Mortgage debt	44,902	46,288	47,615	44,902	46,288	47,615
Bank debt	68,000	68,000	103,000	68,000	68,000	103,000
Financial lease commitments	21,869	35,546	50,100	21,869	35,546	50,100
Trade payables	57,553	17,420	18,040	63,826	21,589	19,689
Other payables	75,109	57,892	32,078	85,984	65,600	38,085
Debt to subsidiaries	50,236	44,183	58,243	-	-	-
Financial obligations measured at amortised cost	**317,669**	**269,329**	**309,076**	**284,581**	**237,023**	**258,489**
Derivative financial instruments	5,607	-	-	5,607	-	-
Financial liabilites through profit and loss measured at fair value	**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.

Notes

Amounts in DKK thousands	Other provisions	2008 Total	2007 Total	2006 Total
			Group	

Note 19 Provisions

There are no provisions in Parent company in 2007 and 2008

Provisions as of 1 January	670	670	4,302	6,867
Additions during the year	-	-	-	-
Disposals during the year	(670)	(670)	(3,632)	(2,557)
Exchange rate adjustments	-	-	-	(8)
Provisions as of 31 December	**-**	**-**	**670**	**4,302**

Other provisions	**Due within 1 year**	**Due between 1 and 5 years**	**Due after 5 years**	**Total**
2008	-	-	-	-
2007	670	-	-	670
2006	2,682	1,620	-	4,302

Other provisions cover remaining rent obligations for premises.

	Parent Company and Group			
Amounts in DKK thousands	Due within 1 year	Due between 1 and 5 year	Due after 5 years	Total
Note 20 Credit Insitutions				
2008				
Mortgage, DKK, fixed interest	1,448	6,473	36,981	44,902
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**	**15,678**	**36,981**	**134,771**

a) Through SWAP, the variable loan has been refinanced to a fixed interest rate loan of 2.79% p.a. until maturity of the loan on 16 July 2009.

2007				
Mortgage, DKK, fixed interest	1,386	6,195	38,707	46,289
Financial leasing, variableinterest interval 2.2-7.6% p.a.	13,775	21,771	-	35,546
Construction loan, variable interest a)	-	68,000	-	68,000
Interest carrying obligations, total	**15,161**	**95,966**	**38,707**	**149,835**

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.

2006				
Mortgage, DKK, fixed interest	1,327	5,929	40,359	47,615
Financial leasing, variableinterest interval 2.2-7.6% p.a.	15,412	34,688	-	50,100
Construction loan, variable interest a)	-	68,000	-	68,000
Construction loan, variable interest 3.315% p.a.	35,000	-	-	35,000
Interest carrying obligations, total	**51,739**	**108,617**	**40,359**	**200,715**

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.

Minimum financial lease payements	Due within 1 year	Due between 1 and 5 year	Due after 5 years	Total	Future interest rate on lease	Present value of payments
2008	13,127	9,307	-	22,434	(565)	21,869
2007	14,664	22,336	-	37,000	(1,454)	35,546
2006	16,133	36,825	-	52,958	(2,858)	50,100

Notes

	Parent Company			Group		
Amounts in DKK thousands	2008	2007	2006	2008	2007	2006
Note 21 Prepayment from customers						
Pre-payment 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 fullfill the RFP-3 contract the company has a repayment obligation.

Amounts in DKK thousands	**2008**	**2007**	**2006**
Note 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	109,118	109,898	104,613
Bavarian Nordic A/S purchase of services from Bavarian Nordic Inc	10,143	7,392	3,643
Management fee (income)			
BN ImmunoTherapeutics Inc. purchase of management services from Bavarian Nordic A/S	254	244	272
Leasing (income)			
Bavarian Nordic GmbH rents equipment from Bavarian Nordic A/S	874	1,498	1,485

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 (note 3), and the warrants programme (note 23), there are no signifivant transactions with related parties.

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

Note 23 Incentive plans

Share-based payment

In order to motivation 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 Corporate Management, other management employees and other employees.

Warrants

In August 2006, August 2007, November 2007 and October 2008, the board of Directors granted warrants to the Company´s Management, selected management 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, 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 subject to the provisions of the Danish Public Companies Act regarding termination of employees prior to their exercise of warrants in the case of recipients who are subject to the act.

The terms of the warrant plans are included in the Articles of Association (Articles 5 c, d, e and g).

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

Phantom shares

The Company has previously established a three-year phantom share programme under which alle employees of the Company and Bavarian Nordic GmbH receive up to three phantom shares per month free of charge during the period 1 November 2006 to 31 October 2009. Each employee who is a full-time empolyee during the entire term of the plan will be eligible to receive a maximum of 108 phantom shares.

With effect from 1 November 2008, the Company has established an additional three-year phantom share programme. The plan applies to all employees of the Company, Bavarian Nordic GmbH and Bavarian nordic Inc. Under the programme, all eligible employees will 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.

On expiry of the programmes in 2009 and 2011 respectively, the employees may exercise the phantom shares granted to them and thus be entitled to a cash bonus calculated based on 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 in 2009 and 2011 respectively than the exercise price of the relevant programme.

The exercise prices are DKK 394 for the programme expiring in 2009 and DKK 156 for the programme expiring in 2011.

Under certain circumstances, the programmes furthermore include an option for or a duty of extraordinary settlement of the phantom shares in the event of a merger, demerger, delisting, change of control or liquidation.

Notes

Note 23 Incentive plans – continued

	Outstanding as of 1 January	Addition during the year	Options exercised	Annulled	Terminations	Outstanding as of 31 December
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 management	117,484	-	-	(14,502)	-	102,982
Other employees	10,861	60,000	-	-	-	70,861
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						-
2007 DK programmes						
Board of Directors	42,708	20,000	(21,592)	-	-	41,116
CEO & President	16,195	30,000	(16,195)	-	-	30,000
Group Management	64,191	70,000	-	(15,000)	-	119,191
Other management	116,405	61,000	(59,921)	-	-	117,484
Other employees	40,879	4,000	(34,018)	-	-	10,861
Retired employees as of 31 December	65,386	15,000	(32,426)	-	(11,844)	36,116
Total	**345,764**	**200,000**	**(164,152)**	**(15,000)**	**(11,844)**	**354,768**
Numbers of warrants which can be exercised as of 31 December 2007						-

a) Including retired board member.

2006 DK programmes						
Board of Directors	21,592	21,116	-	-	-	42,708
CEO & President	16,195	-	-	-	-	16,195
Group Management	-	79,191	-	(15,000)	-	64,191
Other management	59,921	56,484	-	-	-	116,405
Other employees	34,018	6,861	-	-	-	40,879
Retired employees as of 31 December	44,270	21,116	-	-	-	65,386
Total	**175,996**	**184,768**	**-**	**(15,000)**	**-**	**345,764**
Numbers of warrants which can be exercised as of 31 December 2006						-

Specification of parametres for BlackScholes model	2006 programme	2007 programme	2007 programme	2008 programme
Avearge share price (DKK)	433.00	436.50	410.00	156.00
Average share exercise price (DKK)	542.00	549.00	505.00	156.00
Expected volatility rate	36.00%	31.00%	30.00%	39.00%
Expected life – number of years	3.3	3.3	3.1	3.0
Expected dividend per share				
Risk-fee interest rate	3.00%	4.00%	4.50%	4.50%
The fair value of the warrants on grant has been determined applying the BlackScholes model in DKK.	49	65	97	49

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

Recognised costs were 2008: DKK 5,769 thousand, 2007: DKK 3,749 thousand, 2006: DKK 1,100 thousand.

Note 23 Incentive plans – continued

Exercise periods

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).

Phantom shares – 2008 programme	**2008**
Outstanding as of 1 January	-
Granted during the year	1,539
Outstanding phantom shares as of 31 December	**1,539**
Avearge share price (DKK)	156
Average share exercise price (DKK)	156
Expected volatility rate (% p.a.)	39.00%
Expected life – number of years	3.0
Expected dividend per share	-
Risk-fee interest rate (% p.a.)	3.90%

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

The recognised cost in 2008 was DKK 8 thousand.

Liability in DKK thousand as of 31 December relating to phantom shares	8

Phantom shares – 2006 programme	**2008**	**2007**	**2006**
Outstanding phantom shares as of 1 January	8,807	1,216	-
Granted during the year	8,404	7,591	1,216
Outstanding phantom shares as of 31 December	**17,211**	**8,807**	**1,216**
Avearge share price (DKK)		515	
Average share exercise price (DKK)		394	
Expected volatility rate (% p.a.)		54.00%	
Expected life – number of years		1.9	
Expected dividend per share		-	
Risk-fee interest rate (% p.a.)		3.00%	

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

Recognised income was 2008: DKK 996 thousand, 2007: cost of DKK 868 thousand.

Notes

Note 23 Incentive plans – continued

	2008	2007	2006
Liability in DKK thousand as of 31 December relating to phantom shares	59	1,064	196

Warrants USA	2008	2007	2006
Outstanding warrants as of 31 December 2006	190,500	-	-
Lapsed	(10,400)	-	-
Granted during the year	62,500	190,500	-
Outstanding warrants as of 31 December 2007	**242,600**	**190,500**	**-**

The programme deviates from the Danish programme. Each warrant is valued at USD 1 as per the information available to the Company´s Board of Directors.

The programme covers employees in the USA.

Recognised costs were 2008: DKK 352 thousand, 2007: DKK 340 thousand, 2006: DKK 0 thousand.

	Parent Company and Group		
Amounts in DKK thousands	2008	2007	2006

Note 24 Contingent liabilities, contractual obligations

The Parent Company stands surety for a credit facility to the subsidiary of a maximum of:	1,267	1,267	10,000
Bank guarantees issued as deposits for laboratory and office buildings in Martinsried, Germany.	2,054	2,054	2,054
Guarantee issued in connection with sale of IMVAMUNE® to Asia.	59	-	-
Operational leasing			
Leasing obligations for cars.			
The rental agreements are irrevocable up to 35 months.			
– Due during the next year	2,510	1,544	2,312
– Due between 1 and 5 years	2,573	2,620	2,286
– Due after 5 years	-	-	-
Rental commitments			
Rental agreements for laboratory and offices facilities.			
The rental agreements are irrevocable from 6 to 72 months.	52,261	27,750	35,696
The above-mentioned rental agreements have bound payment obligations as follows:			
– Due during the next year	18,571	11,068	10,596
– Due between 1 and 5 years	33,690	16,682	22,285
– Due after 5 years	-	-	2,815
Collaborative agreements:			
The company has contractual obligations with research partners for long-term research projects.			
– Due during the next year	22,064	16,124	8,833
– Due between 1 and 5 years	5,167	8,190	1,599
– Due after 5 years	-	-	-
Other contractual obligations a):			
– Due during the next year	88,808	10,386	3,753
– Due between 1 and 5 years	261,314	914	2,480
– Due after 5 years	100	100	2,160

a) Other obligations include among other things purchase commitments related to filling of vaccines.

Lawsuits

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.