SUPPLEMENTARY REPORT | MANAGEMENT REPORT | FINANCIAL STATEMENTS

ANNUAL REPORT 2006

BAVARIAN NORDIC

SUPPLEMENTARY REPORT

MANAGEMENT REPORT

FINANCIAL STATEMENTS

Supplementary Report

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BAVARIAN NORDIC
BAXTER
NOVARTIS SOLVEY SANOFIAVENTIS
GLAXOSMITHKLINE
VAXGEN NOVAVAX ACAMBIS WYETH
CRUCELL MERCK

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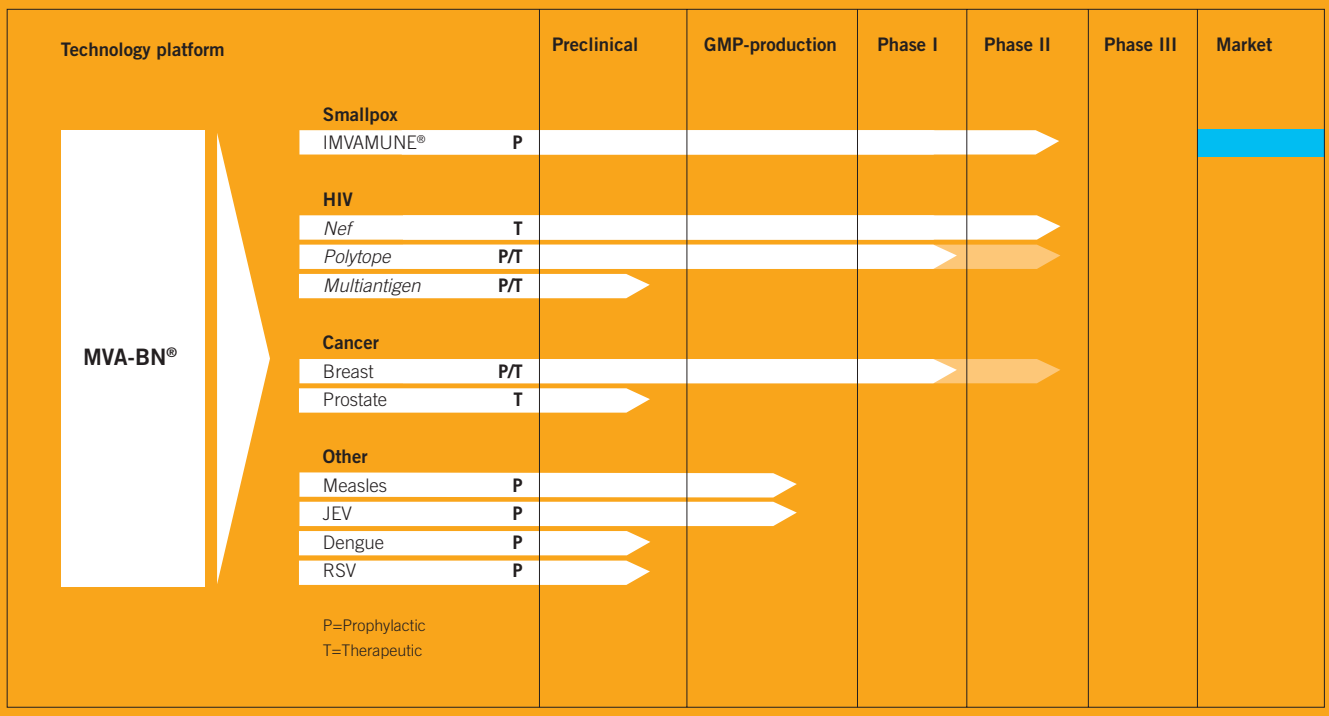
Pipeline



Technology

Bavarian Nordic's technology platform is based on the patented MVA-BN® virus.

The MVA-BN® technology has a number of characteristics that makes it ideal for use as a therapeutic or prophylactic immunotherapy. The main characteristics are:

MVA-BN®

- is a safe, non-replicating vaccine vector. This has been documented in the company's studies of IMVAMUNE® involving more than 1,500 patients.
- elicits strong expression of own and transgenic proteins
- has a strong immunostimulatory and adjuvant effect (production of secondary immune cells)
- accelerates the maturation of dendritic cells (antigen-presenting cells)

MVA-BN® is a further development of MVA (Modified Vaccinia Ankara), which was developed by the German Professor Anton Mayr and used for pre-vaccination against smallpox in Germany in the 1970's. Bavarian Nordic's first MVA-based programme was launched in 1995. Today the company has several MVA-BN®-based programs in clinical Phase I and Phase II development against smallpox, HIV and cancer.

Group Key Figures 2002-2006

	2006	2005	2004	2003	2002
Amounts in DKK millions All figures are as of December 31					
Income statements					
Revenue	175.3	247.6	164.8	524.5	121.1
Production costs	136.3	132.2	70.3	206.5	56.5
Development and Research costs	118.4	114.4	120.4	61.0	59.9
Sales expenses and Administrative costs	124.4	75.4	56.4	43.0	31.4
Other costs	-	45.4	-	-	-
Income before company tax	(204.8)	(116.4)	(76.7)	217.6	(25.7)
Net income for the year	(160.9)	(94.7)	(53.0)	150.6	70.1
Balance sheet data					
Total non-current assets	568.2	472.4	291.8	71.0	111.5
Total current assets	386.2	456.2	310.3	358.2	206.2
Shareholders equity	691.4	630.1	315.4	347.0	196.4
Long-term current liabilities	150.6	212.2	149.1	2.9	3.6
Short-term current liabilities	112.4	86.3	137.6	79.3	117.7
Cash Flow Statements					
Net cash including bonds	332.7	269.0	56.6	198.7	93.2
Cash flow from operating activities	(194.1)	(58.2)	(76.6)	209.3	(13.7)
Cash flow from investment activities	(177.2)	(177.2)	(214.8)	(33.2)	(10.7)
Cash flow from financing activities	203.7	447.8	148.6	3.1	84.8
Financial Ratios (in DKK)					
Earnings per share					
- basic earnings, per share of DKK 10,00	(25.8)	(17.6)	(11.5)	33.4	17.6
- diluted earnings, per share of DKK 10,00	(25.8)	(17.6)	(11.5)	32.9	17.6
PE, price/earnings ratio	108.4	108.7	68.0	76.9	43.5
Share price at the year-end	582	476	539	251	107
Share price/Net assets value per share	5.4	4.4	7.9	3.3	2.5
Shareholders equity share	72%	67%	52%	81%	62%
Number of employees (full-time positions) at the end of the year	233	224	145	87	62
Number of employees (full-time positions), yearly average	223	206	117	82	72

The financial ratios have been calculated in accordance with "Anbefalinger og Nøgletal 2005" (Recommendations and Financial ratios 2005), published by the Danish Society of Financial Analyst, 2005

A stronger platform for the future

The year 2006 was in many ways a landmark year for Bavarian Nordic. In several areas, our company today holds a significantly stronger position than a year ago.

Our pipeline was strengthened in all our areas of strategic focus: smallpox, HIV and cancer. Our third-generation smallpox vaccine, IMVAMUNE®, has now been tested in more than 1,500 persons without serious or unexpected adverse side effects, and it has now been demonstrated that the vaccine induces a more rapid immune response than traditional smallpox vaccines. In 2007 we expect to report the first data from our Phase II studies, which are pivotal for obtaining an Emergency Use Authorisation (EUA) for the vaccine, and in 2008 we expect to commence important Phase III registration studies. This means that we are well underway towards final registration of the vaccines which will provide opportunities for broad commercialisation in the years to come.

In the field of HIV, we again achieved favourable results with our MVA HIV *nef* vaccine, and also started clinical trials with another one of our three vaccine candidates, MVA-BN® HIV *polytope*.

The approval to start clinical trials with our vaccine candidate against breast cancer brings us into the new year on an even stronger platform for the future development of Bavarian Nordic.

We also strengthened our position in manufacturing in 2006. In August, the Danish Medicines Agency authorised our Kvistgård production facility for manufacturing sterile vaccines for use in humans. The authorisation covers the company's need for manufacturing smallpox vaccines for the expected RFP-3 order for the United States and for emergency stockpiles of smallpox vaccines in other markets. This also paves the way for commercial use of our production facility in other areas.

We intend to continuously evaluate potential opportunities for production agreements with other companies.

Bavarian Nordic is now the only remaining participant in the RFP-3 tender process for the production and delivery of an MVA-based smallpox vaccine for the U.S. market. This has created a favourable position for Bavarian Nordic, and enhances our opportunities of achieving an even stronger position on the global market.

The favourable developments in the price of our shares in 2006 clearly demonstrate how we are perceived by society. The long period of uncertainty on the patent situation and postponement of RFP-3 has been replaced by stronger confidence in Bavarian Nordic's results and prospects in the global vaccine market. We are on our way to cementing our role as an international player, which will open new doors for our continuing commercialisation of IMVAMUNE® and our patented MVA-BN® technology. We will continue to develop. With the expected award of the RFP-3 order, Bavarian Nordic will undergo a challenging and positive transition from a biotech company into a fully integrated biopharmaceutical company.

We would like to thank all the employees of Bavarian Nordic for their valuable efforts and commitment during the past year. Each employee has contributed with their professional skills to the company's success. Moreover, we would like to thank both the many new and existing shareholders for their continuing support of Bavarian Nordic.

In this year's supplementary report, we have set focus on developments in the vaccine market and the related commercial opportunities and challenges to Bavarian Nordic in the years ahead.

Asger Aamund
Chairman

Peter Wulff
President & CEO

BAVARIAN NOR
BAXTER INTERCELL
NOVARTIS SOLVEY SANOFI

GROWTH IN THE **VACCINE MARKET**

The global vaccine industry is going through a process of revitalisation that many experts anticipate will continue to facilitate long-lasting investment, stability and future growth. The renewed focus and positive outlook for the industry can largely be attributed to the re-establishment of public health as a high priority.

The unfortunate reality of insufficient vaccine manufacturing capacity, recent supply disruptions and increased regulations have made governments progressively more aware that re-establishing their vaccine infrastructure and the maintenance of a healthy industry is a critical element to protecting public health and averting a national/global security crisis. Vaccines are again being recognised as the most important solution to prevent human infectious diseases

The vaccine market continues to experience impressive growth, driven by childhood and adult immunisation campaigns and improved efficacy and safety. Vaccines that are effective in infants and show cost-benefit advantages are set to experience the greatest success. Also, biotech companies have addressed the need for innovative approaches to vaccination of particular diseases that have so far eluded traditional approaches. These companies will benefit from working with larger pharmaceutical companies.

The global market is beginning to turn around after a period of low prices and slow growth. Recently published estimates show that the vaccine market revenue will grow about 10.5% a year - from more than $11 billion in 2006 to about $20 billion in 2012[1]. Vaccines are expected to outperform the wider pharmaceutical market, which is also expected to grow about 7% a year. Growth will be driven principally by the adolescent and adult vaccine segment of the market as well as the development of therapeutic vaccines. As a consequence, vaccines development has become a focus area for a number of new pharma players.

"Vaccines continue to be one of the best health investments for various reasons, including their safety, sustainability and high cost effectiveness…."

Dr. Jean-Marie Okwo-Bele,
the Director of WHO Department of Immunisation, Vaccines and Biologicals, Geneva, CH

Today, there are only five major vaccine producers worldwide (GlaxoSmithKline, Sanofi Pasteur, Merck, Wyeth, Sanofi Pasteur MSD). "The top five vaccine manufacturers account for 85% of vaccine revenues globally in 2005, a large share of revenues come from developed markets that account for 80% of the global vaccine revenues"[2]. But the emerging markets represent a large

[1,2] Frost & Sullivan

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GLAXO**SMITH**KLINE
ACAMBIS **WYETH**

untapped potential that is assisted by aid agencies and public-private partnerships.

As a result, both large and small companies are focusing more of their attention and resources to the vaccine industry. In this positive environment, pricing has improved, vaccine research and development is intensifying and a number of novel vaccines are becoming more prevalent as effective vaccines focused on protecting both children and adults. These environmental developments are having a significant impact in helping to rejuvenate the global vaccine market.

IMPROVED CORPORATE ECONOMY IN VACCINES AS A MAIN DRIVER

As always, corporate profitability plays an important role in the development of the market.
The vaccines market is among other things characterised by the following:

- High barriers to entry (complex manufacturing, large capex, tangled IP)
- Long product cycles (rigorous approval process – extensive safety data, no generics)
- Opportunity in the developing world

In terms of profitability, the vaccines business tends to have higher production costs, lower sales and administration costs, and comparable research and development costs, which result in comparable operating margins to the 'mainstream' pharma business.

Once vaccines get into the early stage clinical trials, they tend to show higher success rates than those of chemical compounds (70% after proof of concept)

INCREASED AWARENESS AND FUNDING

As governments have developed policies to re-build a more robust vaccine infrastructure, the private sector, through a coalition of international donors, bilateral aid programs, private philanthropists, charities and foundations, have also become a major force in funding research and providing access to affordable and effective vaccine products.

The Bill & Melinda Gates Foundation, with an estimated financial base of about $60 billion, is broadly known to be a strong partnership in this private philanthropic trend with the formation of GAVI (Global Alliance on Vaccines and Immunizations) in 2000. Private/public funding has also been increased through the Global Fund and President Bush's recently announced Millennium Challenge Account. With more public and private funding for HIV/AIDS and other infectious diseases on the rise, the foundation for a more stable and attractive vaccine market, has been created.

Development of the best and cheapest products is driven by open competition. However this is not true for example, when it comes to protecting against potential outbreaks of serious diseases by developing new vaccines. That is why the U.S. Government initiated Project BioShield. ➤

PROJECT BIO$HIELD

Project BioShield established a funding source through which the US government could buy medical countermeasures from private companies. The budget of $5.6 billion over a 10 year period (2004-2014) was allocated for buying "next-generation" countermeasures against anthrax, smallpox, and other infectious agents, as well as antidotes against chemical and radiological threats.

In response to the events of September 11, 2001 and the anthrax attacks, President Bush proposed Project BioShield in his 2003 State of the Union address. Legislation was introduced that year in Congress, and in 2004 President Bush signed Project BioShield into law.

Project BioShield also provided more money to support research and development on medical countermeasures through the National Institute of Allergy and Infectious Diseases (NIAID), an institute under the National Institutes of Health (NIH).

The highest priority for developing countermeasures was placed on "Category A" agents which include those organisms that among others cause smallpox.

Project BioShield also gave the U.S. Food and Drug Administration the authority to make promising drugs, biologics, diagnostics, or devices quickly available in emergencies (Emergency Use Authorization) as well as to expedite the regulatory review process (Fast-track status).

Building upon BioShield

During 2005-2006, legislation was introduced in Congress to expand the BioShield mandate into infectious diseases.

In December 2006, Congress passed and President Bush signed into law the "Pandemic and All-Hazards Preparedness Act" which continues focus on the development and acquisition of countermeasures against radiological, nuclear, chemical and biological threats and expands funding to include infectious diseases.

BioShield and BARDA

While the Act addresses many issues to improve the US overall preparedness capabilities, one section in particular strengthens the BioShield mandate. The Act reorganised and enhanced activities in the U.S. Department of Health and Human Services (HHS) into the Biomedical Advanced Research and Development Authority (BARDA).

The Act authorised USD 1 billion to BARDA to support advanced development and innovation of medical countermeasures as well as:

- Provide direct investment in medical countermeasure advanced research and development to bridge the funding "valley of death" where most products fail.
- Promote innovation to reduce the time and cost of medical countermeasure and pandemic product development.
- Lead and enhance collaboration among the federal government, relevant industries, academia and other entities through a straight-forward, transparent and unclassified process.

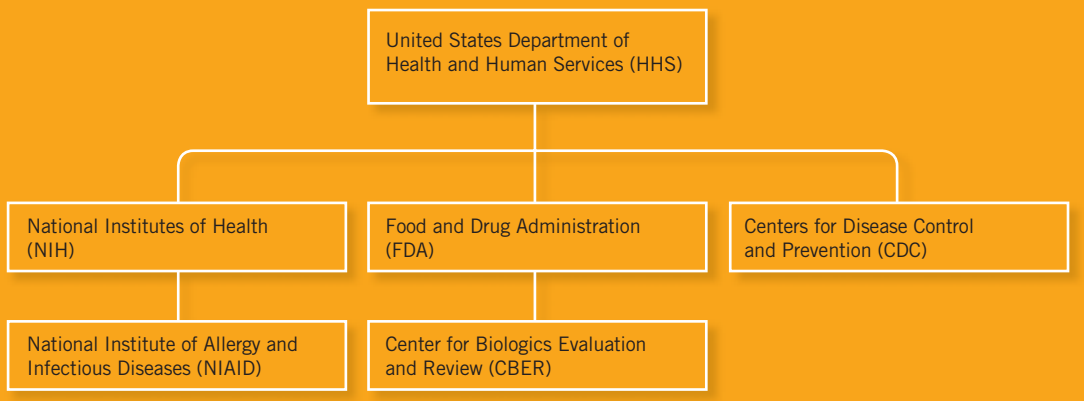
Furthermore, the Act affords greater flexibility in BioShield transactions by:

- Permitting the Secretary to make partial payments for significant milestones or payment to increase manufacturing capacity not to exceed 10% of the contract price.

Bavarian Nordic is participating in the BioShield programme through the RFP process and the contracts that have been awarded to the company. ➤

TO BE FURTHER EXPLAINED

A number of departments under the United States Department of Health and Human Services (HHS) such as the **NIH, FDA, CBER, CDC and others** are involved in the US government's RFP process to develop, approve, acquire and store an MVA-based smallpox vaccine. Each of these departments and agencies play a key role in the emergency management response that the US Government would mobilise in the event of a potential outbreak of smallpox in the US population.



RFP contracts
RFP-1, which was awarded in 2003 and comprises the development and testing of an MVA-based smallpox vaccine, and RFP-2, which was awarded in 2004 and comprises production and testing of the vaccine, were both entered into with the National Institutes of Health (NIH).

The RFP-3 contract, expected to be awarded during the first half of 2007, comprises the delivery of up to 20 million doses of MVA-based smallpox vaccine to the national emergency stockpile, the Strategic National Stockpile (SNS). Negotiations on the contract are conducted directly with the HHS.

Use of IMVAMUNE® in an emergency situation (Emergency Use Authorization)
IMVAMUNE® is not a registered vaccine, but could be used in an emergency situation under an Emergency Use Authorization (EUA), if such an order were issued.

An EUA is a new allowance created by Project BioShield which permits the US Food and Drug Administration (FDA) to authorize the use of an unlicensed product in an actual or potential public health emergency. The EUA allows that unlicensed products, having been delivered to the US strategic national stockpile (SNS), can be used in case of an emergency.

Before an EUA may be issued, the Secretary of the Department of Health and Human Services (HHS) must declare an emergency based on the event of an actual outbreak of smallpox and/or if there is reasonable suspicion that a bioterrorism attack might occur, leading to a raised level of preparedness.

The Centers for Disease Control and Prevention (CDC) are the authority handling EUA applications. Likewise, the CDC will have the ownership of an EUA, once approved.

The requirements to the drugs used under an EUA are regulated by the FDA, the United States regulatory authority approving all drugs. In the vaccine field, the Center for Biologics Evaluation and Research (CBER) coordinates the review of documentation on whether a drug meets the requirements for an EUA to be granted as set by the FDA.

The RFP contracts have contributed towards financing the development of IMVAMUNE®. Bavarian Nordic will strive to ensure that IMVAMUNE® becomes the choice for governments and the vaccine that should be an essential part of the national preparedness plan in all countries in the event of a smallpox outbreak. We are intensifying our marketing efforts in parallel with product approval activities - first for use in emergencies (EUA) and later when it is finally registered.

SETTING THE COURSE TOWARDS NEW OPPORTUNITIES

Bavarian Nordic is currently in an ongoing dialogue with national authorities in a number of countries. The company intend to increase investments in market development and sales efforts in various regions around the world. In this effort, experience and knowledge of governmental decision-making processes is pivotal to success.

In 2005, the United States conducted the Atlantic Storm exercise based on a fictitious outbreak of smallpox in Europe. Eleven former international ministers and senior officials from the UN, the WHO and other organisations simulated a summit meeting to identify the key issues that would come up in an international emergency situation of this kind. In the real-time exercise, new information came in requiring new and quick decisions on the priorities in the emergency situation.

One of the conclusions from the exercise was that there is not enough smallpox vaccine in the national stockpiles around the world. It is estimated that there is only enough vaccine to cover about 10% of the global population in the event of a potential outbreak of smallpox. Atlantic Storm simulated an outbreak of smallpox as a result of a bioterrorism attack but it might also be a result of a leak from a laboratory working with genetic modification of smallpox-like virus.

"The new threats are not of a kind that can be handled by one country alone as the threats do not know national boundaries. The question is whether international organisations and the different mechanisms are prepared to handle this."

Madeleine Albright (former US Secretary of State and Ambassador to the UN)

Developments in the market for smallpox vaccines depend on the priorities governmental authorities give to this risk relative to other emergency priorities. Factors such as SARS, bird flu, and an influenza pandemic may cause a change in priorities in certain periods but illustrate the need for emergency preparedness. If countries respond only when there is a smallpox outbreak in the world, it will be too late. At short notice, Bavarian Nordic's production capacity could cover only a limited part of the demand that would arise. There is a recognised risk and an inadequate level of preparedness. Several organisations, including Interpol, the WHO, NATO and the EU, have put bioterrorism high on their agendas and regularly review developments in the area.

Existing stockpiles of smallpox vaccines consist of first- and second-generation vaccines, which may potentially lead to serious adverse side effects. As much as 25% of the population should not receive these vaccines, so the actual coverage with existing supplies is therefore limited. During a crisis situation, it would be problematic to spend time screening everyone to be vaccinated. Moreover, the existing vaccines are expensive to use. The total cost of using a first- or second-generation smallpox vaccine is estimated to be USD 204[1] since special vaccination clinics are needed and extensive follow-up required with an unsafe smallpox vaccine.

Bavarian Nordic's clinical studies have documented that IMVAMUNE® provides protection against the smallpox virus significantly faster than first- and second-generation vaccines. In a crisis situation, it is crucial to provide early protection. Initially it is important to protect 'first-liners', i.e. hospital staff, the military, the police, the fire service, etc. Better preparedness can be achieved if it is decided to give preventive vaccination to 'first-liners'. Once a crisis has arisen, there are plenty of complex challenges for authorities to overcome such as: logistics, communications, health-preventive activities, etc. If a well-functioning emergency response capacity does not exist, it may lead to panic and chaos among citizens and bring a society to its knees.

This creates a substantial market potential for IMVAMUNE®, which has been demonstrated to be free of serious adverse side effects, also in risk populations. The expected award of the RFP-3 order will be a seal of approval on Bavarian Nordic's smallpox vaccine programme and provide a unique position for IMVAMUNE®. In the longer term, it is likely that the existing stockpiles of smallpox vaccines will gradually be replaced by new, safe smallpox vaccines.

[1] NACCHO (National Association of County and City Health Officials) The National Association of County and City Health Officials Research Brief, March 2003, Number 10


Gates A
Gates B-C-D
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Billund
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Walking distances from here

CRITICAL SUCCESS FACTORS IN ENTERING NEW MARKETS WITH IMVAMUNE®

Bavarian Nordic is currently in an ongoing dialogue with national authorities in a number of countries. The company intend to increase investments in market development and sales efforts in various regions around the world. In this effort, experience and knowledge of governmental decision-making processes is pivotal to success.

Our approach is to familiarise ourselves with the authorities' situation and their evaluation of different emergency response priorities. Our task is to contribute with specific information for their decision-making processes to establish an emergency response capacity and alert levels. Various organisations, universities and authorities have defined a number of scenarios highlighting the consequences of an outbreak of smallpox and the corresponding obligation of national decision-makers. We do not run scare campaigns but rather encourage a sensible approach, and suggest that, initially, 'first-liners' should be protected.

Cultural differences require flexibility in the process. We have built a solid network of national and regional collaborative partners who are familiar with the decision-making processes in relevant countries. Having the right partners with the right networks in the sales process cannot be under-estimated. This allows us to target the sales process and make it as focused and brief as possible.

"When I saw the list of vaccine stockpiles, I was shocked to see how ill prepared many countries, including rich western countries, are for a problem like this."

Klaas de Vries – former Dutch Minister of the Interior

Collaboration with the authorities

In 2006, a collaboration was established between Bavarian Nordic and the authorities in a country in South East Asia which has shown interest in IMVAMUNE® with a view to – initially – protect its military personnel. Bavarian Nordic was invited to conduct workshops with decision-makers from the ministry of defence in this country. During these workshops, emergency response plans were reviewed, including the problems a society would face in the event of a vaccine shortage if there was an outbreak of smallpox. A number of meetings were held with leading experts in vaccines and emergency response planning and with the intelligence service.

Bavarian Nordic has prepared a training package together with experts in bioterrorism in order to ensure that the vaccines are in line with the emergency response plans and infrastructure in place.

In the course of the project, the Minister of Defence in the Southeast Asian country became convinced that Bavarian Nordic is a good collaborative partner and in turn initiated a procurement process for third generation smallpox vaccines.

"Current analysis indicates that the potential for terrorist use of biologic agents represents a real threat. The timing of events is difficult, if not impossible, to predict, and the threat is summarized by the statement: "not if, but when."

Bioterrorism Incident Pre-planning & Response Guide, Interpol, October 2006

Since IMVAMUNE® is not a licensed vaccine yet, the process takes longer because of the need to provide extensive documentation and the long product approval procedures. Therefore, it is important to build strong relationships. Decisions to invest in upgrading an emergency vaccine preparedness response are only made after a long period of deliberation.

Bavarian Nordic collaborates with international organisations and leading experts, including in the healthcare sector. The priority given to an emergency response against a smallpox outbreak depends on the knowledge of national decision-makers and experts on the adverse side effects of first- or second-generation smallpox vaccines compared to IMVAMUNE® along with the fact that Bavarian Nordic has its own dedicated production facility.

In addition to discussions with specific countries, we have presented IMVAMUNE® and Bavarian Nordic's competencies to experts and decision-makers in international organisations such as the WHO, the EU, NATO and ASEAN. Often, the decision-making powers and budgets for emergency vaccine preparedness rest at the national level, but it is very useful to meet with large groups of experts who contribute to a qualified dialogue and a broader affirmation on the need for emergency response preparedness.

The decision-making processes are often confidential because authorities do not want to make public their emergency response priorities. This is due to a combination of not wanting to create unnecessary concern among citizens and the fact that in many countries emergency vaccine preparedness is considered as the same level as military resources and plans, which are not disclosed to the public.

WE HAVE A STRONG PRESENCE IN ASIA

During the period until the award of the RFP-3 order, many countries have been in a "waiting position" to see which vaccine the US authorities would choose before they make their own decision on which new vaccine to buy. Bavarian Nordic expects that the award of the RFP-3 order will have a favourable domino effect, and we therefore set up a regional office in Singapore in late 2005 to prepare for the future market opportunities in Asia. The office is headed by a former executive of a large vaccine company with many years' experience in running an operational, commercial organisation in the region. In 2006, Bavarian Nordic succeeded in establishing many strong local and regional contacts, especially in South East Asia.

Bavarian Nordic has gone through a transformation process from being a research and development-based biotech firm to become a biopharmaceutical company with its own production,sales and marketing capabilites. Such a transformation requires that the organisation is prepared for the various new tasks that follow. ➤

Bavarian Nordic's staff has grown by more than 400% in just five years. Two locations have grown to six, and the company is now represented in Europe, the United States and Asia. Although Bavarian Nordic has also experienced downturns over the years, the overall picture has been one of exceptional growth. The transformation from a research company into a fully integrated commercial vaccine company is almost complete and reflects the commitment that lies within the organisation in recent years. Just as it has been important to generate results and strengthen the company's external profile, it has also been important to strengthen the organisation and team spirit internally. Bavarian Nordic's employees are one of the company's key resources and the key to the company's future development and success.

The organisation has become international as evidenced by the establishment of a representative office in Singapore, a new subsidiary in California and an office in Washington DC. In growing the company Bavarian Nordic has not only looked outside to find new staff but looked within its staff to exploit the potential that exists within the organisation.This provides new opportunities for a number of our employees and is an expansion of the flexibility we find so important.

The positive, international reputation Bavarian Nordic has achieved over the past many years is not the only driver in attracting competent employees. The local presence and our strong profile in the media ensure that there is broad awareness of our company which has been an important factor in our successful recruitment of skilled personnel at a time when it is difficult to find qualified staff in the market.

"High professional skills among our employees are key to operating a knowledge-based company such as Bavarian Nordic, but we also put great emphasis on having flexible employees who are able to adapt to the various tasks. Our responsibility is to continuously train and develop the staff to ensure that they are prepared for the many different challenges they face."

Tina Ilsted Terkelsen
Human Resources Director

GROWTH ACTIVITIES UNDER FULL CONTROL

3 CONTINENTS
6 LOCATIONS
MORE THAN 200 EMPLOYEES

In a short period, Bavarian Nordic has grown from a small European research business into a vaccine company with manufacturing capabilities and activities in three continents: Europe, the United States and Asia. **The choice of locations reflects the company's global expansion strategy: Bavarian Nordic wants to be where the competencies and opportunities are.** The recent establishment of the company's cancer immunotherapy subsidiary in California and an office in Washington, DC to build up and maintain relations with the US authorities and potential partners reflect this policy.

Kvistgård, Denmark
Headquarters and production
Bavarian Nordic's headquarters and manufacturing facility are located in Kvistgård in Northern Zealand. The facility houses administration, quality control, quality assurance and a unit for bulk vaccine production with an annual production capacity of a minimum of 40 million doses.

Martinsried, Germany
Research and development
All of Bavarian Nordic's research and development programmes, except for cancer immunotherapy, are based in Martinsried which is one of the leading biotech regions in Europe – the "Biotech Region of Munich". This location houses approximately 3,300 square metres of offices and state-of-the-art laboratories approved under European regulations.

Berlin, Germany
Production of vaccines for clinical trials
Vaccines for Bavarian Nordic's clinical trials are produced at the facility in Berlin, which is located in the Max-Delbrück-Center biotech area. The facility has been approved for the production of MVA-BN® recombinant vaccines for clinical trials. In addition to the actual production section, the facility houses a quality control laboratory and an administrative section.

Mountain View, California, USA
Research and development – cancer immunotherapy
Bavarian Nordic's research activities in cancer immunotherapy are conducted by its US subsidiary, BN ImmunoTherapeutics. This company is based in Mountain View, California, an area with highly recognised universities that are leaders within cancer immunology.

Washington, DC, USA
Collaboration and relations
Bavarian Nordic Inc. was founded in June 2006. The office was established to ensure efficient communications with and servicing of the US health authorities and other collaborative partners with the intent to develop the US market for the company's products and research.

Singapore
An entry point to Asia
This representative office was set up in 2005 to strengthen Bavarian Nordic's marketing efforts in Southeast Asia.

WASHINGTON, DC

The United States is important to Bavarian Nordic's commercial success. The U.S. government, as a funding source for research and development projects and purchaser of products, **represents a large market with tremendous financial potential.** Equally important, however, and more far-reaching is the U.S. government's influence on global markets and international policy

The United States is important to Bavarian Nordic's commercial success. The U.S. government, as a funding source for research and development projects and purchaser of products, represents a large market with tremendous financial potential. Equally important, however, and more far-reaching is the U.S. government's influence on global markets and international policy. Decisions by the U.S. government to develop, or approve, or purchase a product, can separately or collectively lead to the creation of new markets and change in other countries.

Unlike the private market, there is no single entry point for doing business with the U.S. government. It is a broad customer base and a process that must be continuously managed by a company. To ensure success, participating businesses must regularly educate and update all of the relevant departments, agencies, committees, bureaus, commissions, and officials, etc. that have important roles in the process.

Companies that have been successful in contracting with the U.S. government are often those that have established a strong and integrated communications program and physical presence in the Washington DC area. These companies also greatly benefit from being in close proximity to a vibrant and resourceful public and private research and development infrastructure, which often leads to new and strategically important business development opportunities.

BAVARIAN NORDIC INC.

In 2006 Bavarian Nordic increased its investment in the US with the establishment of Bavarian Nordic Inc. Located in Washington DC, the primary role of the office is to serve as the company's liaison with government decision-makers and opinion-leaders, to provide commentary on legislative and regulatory proposals and to maximise company outcomes on relevant US-based business opportunities. Furthermore, given the vast array of critically important international organisations based in and around Washington DC, Bavarian Nordic Inc. is ideally positioned to facilitate the communication and analysis of appropriate private/public strategic opportunities that are critical to securing the company's long-term success.

Bavarian Nordic's key objectives for 2007 are to keep government decision-makers and other pertinent private and public sector stakeholders aware of the company's increasingly promising vaccine pipeline and biopharmaceutical capabilities. The identification, analysis and implementation of business development opportunities is another important operational focus area. Furthermore, the Washington office will work to improve the company's general profile by developing effective marketing, communications and public relations programs.

"Our presence in Washington helps to strengthen and maintain the critically-important strategic partnerships we have established with the US Government and its many agencies. Our office aims to build on these relationships to ensure continued success in the US market-place."

Espen D. Kateraas
General Manager & Vice President
Bavarian Nordic Inc., Washington


BAVARIAN NORDIC

Strategy

Bavarian Nordic's strategy is to develop, produce and market vaccines that improve the treatment or prevention of infectious diseases and cancer. With this strategy, the company strives to build shareholder value over the medium and long-term, while spreading risk in the development portfolio and across company operations.

The company's strategy has three main components:

Production and sale of MVA-BN® as a smallpox vaccine
Based on the expected RFP-3 order, Bavarian Nordic will seek to enter into sales and production agreements with other countries for IMVAMUNE® smallpox vaccine for replacement of emergency stocks and for vaccination of first-line responders. The company's objective is that IMVAMUNE® sales will fund the development of other products until they are capable of generating a profit.

Use of MVA-BN® as a new delivery method
Bavarian Nordic will continuously seek to develop products in which the use of MVA-BN® can lead to an improvement of recognised vaccination strategies. These activities will focus on market segments where there exists a clinical need and significant profit potential. In order to market itself towards potential partners in this field, Bavarian Nordic will continually strengthen research and development activities that are crucial to document the improved use that MVA-BN® may offer for already marketed vaccines and drugs.

Use of MVA-BN® as a new treatment method
Bavarian Nordic will continue to expand its activities within the development of products in which MVA-BN® is used in its recombinant form as a new treatment method. The company has identified a number of disease areas, including HIV and cancer, in which MVA-BN® may be used as a new treatment form, and will continually identify and evaluate other opportunities for developing novel products with a considerable commercial potential. The company's goal is to develop such products through clinical Phase II, after which time it may seek to enter into an agreement on continual development and marketing with other companies.

A key prerequisite for meeting its strategic targets is Management's ongoing focus on building Bavarian Nordic's clinical and regulatory functions to ensure targeted development strategies through to product registration. Equally important is Bavarian Nordic's routine maintenance of its expertise and capacity in clinical batch production, maturing of industrial production lines and actual industrial production and quality assurance. The company will continually evaluate how to optimise the use of its production plant commercially, which could include contract manufacturing in collaboration with other companies.

2006 Highlights

Bavarian Nordic recorded solid progress in its pipeline in 2006. Consistent positive results were achieved in the development programme for a safe third-generation smallpox vaccine, IMVAMUNE®. With the initiation of clinical studies on the company's second vaccine candidate against HIV, and following approval of the commencement of clinical studies with a breast cancer vaccine at the end of the year, the pipeline is now strongly anchored in all of the company's primary focus areas. Strong preclinical development progress was also recorded in the other programmes which will lead to Bavarian Nordic expectations to initiate clinical studies in additional three programmes in 2007.

The production facility in Kvistgård obtained approval by the Danish Medicines Agency for the manufacturing, analysis and release of sterile vaccines for use in clinical studies and emergency situations. The authorisation covers the need for manufacturing MVA-based smallpox vaccine under the expected RFP-3 order and for emergency use of smallpox vaccines in other markets.

Due to the delay of the RFP-3 order for up to 20 million doses of IMVAMUNE® for the United States, the company launched a cost-reduction programme which included a comprehensive cutback in the number of employees, particularly in the production area.

During the course of the year, the production process was considerably optimised resulting in an increased yield of production batches.

In the spring, Bavarian Nordic successfully completed a capital increase, obtaining net proceeds of DKK 230 million.

IMVAMUNE® smallpox vaccine
The clinical database for IMVAMUNE® was significantly expanded and now more than 1,500 subjects have been vaccinated in nine completed or ongoing studies. Bavarian Nordic is the only company to-date having clinically tested an MVA-based smallpox vaccine in subjects who are contra-indicated to traditional smallpox vaccines, such as DryVax®. Results showed that IMVAMUNE® was safe and well-tolerated in the subjects with HIV-infection or atopic dermatitis.

HIV vaccines

MVA HIV *nef*
Positive results from a clinical Phase II study with MVA HIV *nef* were presented at the AIDS Vaccine 2006 Conference in Amsterdam.

MVA-BN® HIV *polytope*
A Phase I and a Phase I/II clinical study were initiated in Europe with the company's vaccine candidate MVA-BN® HIV *polytope.*

Cancer vaccines
Preclinical studies with the company's breast cancer vaccine candidate have shown exceptional and significant efficacy, both in terms of inducing a broad immune response as well as anti-tumour activity.

The company has received FDA approval to initiate clinical trials with the vaccine which are expected to commence in the beginning of 2007.

Production

Kvistgård
In August 2006, the production facility in Kvistgård 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. Bavarian Nordic can now commence commercial manufacturing of vaccines including the expected RFP-3 order.

Berlin
The Berlin facility released three batches of vaccines for clinical trials; MVA-BN® HIV *polytope*, MVA-BN®-HER-2 (for use against breast cancer) and MVA-BN® Measles vaccine.

Intellectual Property Rights
The United States Patent and Trademark Office (USPTO) issued a new patent to Bavarian Nordic further strengthening its intellectual property position on MVA.

Enforcement of Intellectual Property Rights
Bavarian Nordic filed a patent infringement action against Acambis at the Commercial Court in Vienna, Austria.

In the patent infringement action filed by Bavarian Nordic against Acambis at the U.S. International Trade Commission (ITC) in 2005, a hearing was held in the spring of 2006. Later in the year, the administrative law judge rendered his initial determination concluding that Acambis infringes two of Bavarian Nordic's patents, but that the patents are invalid. Subsequently Bavarian Nordic filed a petition to have the full Commission review the finding of invalidity due to the presence of clear legal and factual errors in the initial determination. On 21 February 2007 the ITC issued an order vacating the initial determination, including its finding of patent invalidity. The entire investigation will be heard again before the Administrative Law Judge with a new target completion date of 19 October 2007.

Status of the RFP programme

RFP-2
Bavarian Nordic supplied half a million doses of IMVAMUNE® to the National Institutes of Health (NIH) in 2006, as agreed under the current RFP-2 contract.

RFP-3
In November 2006, Acambis announced that they had been excluded from further participation in the RFP-3 process by the U.S. authorities. This has created a favourable position for Bavarian Nordic, which now is the only company capable of supplying third-generation smallpox vaccines for the important U.S. market.

In 2006 and 2007, Bavarian Nordic has been in negotiations with the U.S. authorities. It is expected that an award of an RFP-3 contract will be made in the first half of 2007.

Strategic development
Bavarian Nordic established a new company, Bavarian Nordic Inc., in Washington DC, USA, in order to expand and strengthen company activities in the United States, with particular focus on providing efficient service to the U.S. authorities and for developing the market for Bavarian Nordic's vaccines in the United States.

Bavarian Nordic is experiencing increased interest in third-generation smallpox vaccines such as IMVAMUNE® outside the United States as well. After a number of years with intense focus on bird flu and influenza, the focus is now more differentiated, and other threats such as smallpox and anthrax are back on the list of governmental priorities. During 2006, Bavarian Nordic had discussion with the authorities in a South East Asian country which has led to the initiation of a procurement process with a view to buying third-generation smallpox vaccines, initially to safeguard its 'first-line responders'.

Outlook for 2007

The expected award of the RFP-3 contract for IMVAMUNE® by the U.S. health authorities will play a major role for the continued clinical development of the entire Bavarian Nordic pipeline. The company's other projects are based on the same vaccine technology and thereby will benefit from the current experience and future results of the IMVAMUNE® programme. In 2007 Bavarian Nordic expects significant favourable developments in the pipeline.

FINANCIAL FORECASTS

Bavarian Nordic expects revenue in 2007 of approximately DKK 130 million, and a pre-tax loss of approximately DKK 350 million. The projected loss is attributed to that the company does not expect to recognise income for 2007 relating to the expected RFP-3 order. Income recognition requirements of IAS 18 will not be met until the EUA has been granted.

For 2007, research and development costs are expected to amount to DKK 230 million.

Only minor investments in plant and equipment are scheduled for 2007.

The forecasts are based on the assumption that the company's strategy is implemented as planned. The realisation of this strategy is subject to uncertainties and contingencies, and there can be no assurance that the strategy will not be changed as the company becomes aware of new circumstances. Projected financial results may vary materially from the actual results. The following factors regarding projected financial results in 2007 are assumed:

- That the RFP-3 order is awarded during the period from the beginning of March 2007 until the end of the first half of 2007.
- That revenue in 2007 is derived from the already signed RFP-2 contract.
- That no revenue recognition is budgeted on the RFP-3 contract, until an EUA has been granted. Only then will the income recognition criteria of IAS 18 be considered to have been fulfilled. Costs incurred in this connection will be capitalised.
- That production is scheduled to continue at a low level throughout 2007
- That the company's production facility will have the approvals necessary to commence delivery to the U.S. authorities under the expected RFP-3 order
- That the approval procedure with the health authorities for initiating clinical trials will progress as planned
- That the company's preclinical and clinical trials proceed as planned. In this context, it is assumed that the company's present intention is to seek external funding for its MVA HIV *nef* programme. Consequently, no income or expenses have been recognised to advance the MVA HIV *nef* programme
- That the exchange rates (especially of DKK/USD and DKK/EUR) do not change materially as compared with the exchange rates applied on 31 December 2006.
- That future income in USD to some extent will be hedged
- That sub-contractors are able to live up to the assumptions as planned by the company
- That no income is recognised from the supply of smallpox vaccines to the governments of other countries.

COMMERCIAL ACTIVITIES

Bavarian Nordic expects that the award of RFP-3 order for 20 million doses of IMVAMUNE® will occur in the first half of 2007. It is expected that the order will generate revenues of up to DKK 3 billion. The company expects that an Emergency Use Authorization (EUA) will be granted in mid-2008 whereby delivery of vaccines can begin and operations are expected to contribute to a cash in-flow from late-2008. In addition, it is the company's goal to achieve a substantial part of the maintenance contract associated with RFP-3 valued at up to approximately USD 1 billion in the period after delivery to replace existing vaccine stockpiles with IMVAMUNE®.

Bavarian Nordic is in discussion with authorities in a number of countries regarding the supply of IMVAMUNE® as a vaccine for emergency stockpiles in these countries. The company expects that the award of the RFP-3 contract will have a pivotal effect on the decision by these countries to establish emergency stockpiles of third-generation smallpox vaccines. For example, the ministry of a defence in a South East Asian country has initiated a procurement process for third-generation smallpox vaccines.

RESEARCH AND DEVELOPMENT

IMVAMUNE® – third-generation smallpox vaccine

Based on the results from the current Phase II studies with IMVAMUNE® expected to be available in early 2007, the company plans to discuss the design of Phase III studies and the terms and conditions for registration of the vaccine with the U.S. Food & Drug Administration (FDA). On this background, the company expects to initiate Phase III registration studies in 2008.

In addition, Bavarian Nordic expects to obtain an Emergency Use Authorization for IMVAMUNE® in the USA in 2008 and to file an application for registration in the United States in 2009.

HIV

MVA HIV *nef*

Bavarian Nordic expects to start Phase II/III clinical trials with the MVA HIV *nef* vaccine in 2008.

MVA-BN® HIV *polytope*

Bavarian Nordic expects in late 2007 the first results from the recently-initiated Phase I/II trials with MVA-BN® HIV *polytope*. Furthermore, the company expects to start up an additional Phase I trial with MVA-BN® HIV *polytope* in 2007.

MVA-BN® HIV *multiantigen*

Bavarian Nordic expects to release the vaccine from the Berlin facility in 2007 and to start Phase I trials in 2008.

Cancer immunotherapy

Based on FDA-approval of an Investigational New Drug (IND) application on the company's vaccine candidate against breast cancer, MVA-BN®-HER-2, Bavarian Nordic expects to start Phase I/II clinical trials in early 2007.

Bavarian Nordic expects to start up Phase I clinical trials with the company's vaccine candidate against prostate cancer in late 2007.

Immunotherapy

The company's immunotherapy activities have been suspended until the expected award of the RFP-3 order by the U.S. government is made.

Other development programmes

Measles

Bavarian Nordic expects to start Phase I clinical trials with its vaccine candidate against measles in late 2007.

RSV

Preclinical safety and efficacy studies are expected to be completed in 2007. The vaccine is expected to be released for clinical trials to start in 2008.

Dengue fever and Japanese encephalitis

The company's two projects in tropical diseases, dengue fever and Japanese encephalitis, have been temporarily discontinued pending discussions with a potential external party on clinical development and funding.

PRODUCTION

The company intends to evaluate the potential of entering into agreements on contract production for other companies in order to ensure optimal exploitation of the company's production capacity for bulk production of MVA-based vaccines as well as for production of recombinant vaccines for clinical trials.

The RFP programme for an MVA-based smallpox vaccine

Since 2003 Bavarian Nordic has received financial support for the development of IMVAMUNE® as a safe MVA-based smallpox vaccine through the RFP-1 and RFP-2 contracts as awarded by the National Institutes of Health (NIH).

RFP-1
In February 2003, Bavarian Nordic was one of two companies to be awarded Part A of the RFP-1 contract for the early development of IMVAMUNE®. In addition to the clinical studies already scheduled to be funded by NIH, Part A of RFP-1 provides funding for further clinical and technical development of IMVAMUNE®. In September 2003, Bavarian Nordic was the only company to be awarded Part B of the RFP-1 contract, which provided funds for further clinical testing of IMVAMUNE®. The RFP-1 contract has a combined value of approximately USD 29 million.

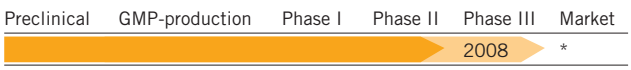
RFP-2
In September 2004, Bavarian Nordic was awarded funds under RFP-2. This RFP provides funds for further preclinical and clinical development of IMVAMUNE®, requiring the vaccination of more than 2,000 persons in three clinical trials. Furthermore, the funds are used to test the robustness of the bulk manufacturing process and a validation of the industrial process according to GMP requirements. The contract encompasses the delivery of half a million doses of IMVAMUNE® produced according to Bavarian Nordic's validated manufacturing process. The RFP-2 contract has a value of USD 100 million.

RFP-3
Bavarian Nordic submitted in October 2005 its proposal to the U.S. health authority, the Department of Health and Human Services (HHS), to manufacture and supply up to 20 million doses of the company's MVA-based IMVAMUNE® smallpox vaccine to the strategic national stockpile. The RFP-3 tender also includes an option for the U.S. Government to acquire an additional 60 million doses of MVA-based smallpox vaccine.

In November 2006 the only competitor for the RFP-3 order, Acambis was excluded from the RFP-3 process by the U.S. authorities. This has created a strong position for Bavarian Nordic to be awarded the full contract which the company expects to be awarded in the first half of 2007.

RFP: Request for Proposals

IMVAMUNE® Smallpox Vaccine programme



* Bavarian Nordic has supplied IMVAMUNE® as a vaccine under development to several governments.

Bavarian Nordic is developing IMVAMUNE® as a stand-alone third-generation smallpox vaccine. IMVAMUNE® has unique advantages compared to traditional smallpox vaccines. The vaccine has been demonstrated safe in more than 1,500 subjects including persons who are contraindicated to traditional smallpox vaccine. Furthermore, clinical studies have shown that IMVAMUNE® elicits an immune response faster than traditional smallpox vaccines.

The development programme was initiated in 1999. Since 2003 Bavarian Nordic has collaborated with the National Institutes of Health (NIH) concerning the clinical development of IMVAMUNE® under the RFP programme for the development and stockpiling of an MVA-based smallpox vaccine.

Bavarian Nordic's goal is to register IMVAMUNE® as a safe smallpox vaccine – including persons who are contraindicated to traditional smallpox vaccines.. The first step in this process is to obtain an Emergency Use Authorization (EUA) for IMVAMUNE® in the USA.

Clinical development

During 2006, Bavarian Nordic has made significant progress in the IMVAMUNE® development programme. The company has 9 completed or on-going clinical studies and has vaccinated more than 1,500 persons with IMVAMUNE®.

Bavarian Nordic is the only company having clinically tested an MVA-based smallpox vaccine in people that are contraindicated to traditional smallpox vaccines, (e.g. DryVax®), which include those diagnosed with atopic dermatitis or HIV.

Three Phase II trials, which are pivotal not only for an application of Emergency Use Authorization in the USA, but also registration of IMVAMUNE® are currently on-going and include:

- A double-blinded randomised and placebo-controlled study in more than 700 healthy subjects in Germany.
- A multi-center study in the USA to investigate the safety and immunogenicity of IMVAMUNE® in HIV- infected people with a more advanced stage of the disease.
- A multi-center study in Mexico and the USA investigating the safety and immunogenicity of IMVAMUNE® in people diagnosed with atopic dermatitis.

Enrolment of all 745 healthy subjects in the first study was completed during 2006 without any unexpected serious adverse events recorded which continues to confirm the excellent safety profile of IMVAMUNE®. The final report is expected during the third quarter of 2007, which will trigger discussions with the FDA on the Phase III programme design and clinical requrements for regeristering IMVAMUNE® in the USA.

The other two Phase II studies in persons with HIV and people diagnosed with atopic dermatitis were initiated during 2006 and are expected top complete enrolment during 2007.

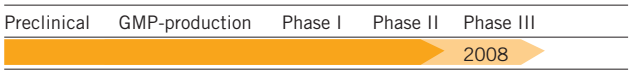
During 2006 Bavarian Nordic completed a Phase II study that investigated the safety and immunogenicity of IMVAMUNE® in 151 HIV-infected subjects. No unexpected serious adverse events were recorded.

Results of an NIH-sponsored clinical study in 90 subjects confirmed the immunogenicity and safety profile of IMVAMUNE® when directly compared to a traditional smallpox vaccine. The study also as expected demonstrated that vaccination of subjects with IMVAMUNE® prior to DryVax® resulted in a weakened DryVax® virus replication at the site of vaccination and a faster time to healing, suggesting that IMVAMUNE® is protective against vaccinia virus infections. Moreover, the study provided the first results in humans demonstrating an immune response 14 days after vaccincation with IMVAMUNE®. DryVax® generates an immune response 28 days after vaccination. This data confirms the company's preclinical findings which show a more rapid onset of protection with IMVAMUNE® when compared to traditional smallpox vaccines.

HIV vaccine programme

Bavarian Nordic is pursuing a three-path strategy in the development of therapeutic and prophylactic HIV vaccines.

MVA HIV *nef* vaccine



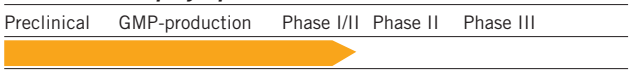
Bavarian Nordic is developing MVA HIV *nef* as a therapeutic HIV vaccine. MVA HIV *nef* is based on an MVA-recombinant vaccine expressing the HIV *nef* protein. The company believes that the vaccine has the potential to counteract HIV replication and slow disease progression in persons already infected with HIV.

To date, Bavarian Nordic has completed four clinical studies with the vaccine. Further development is based on promising results obtained in one of these studies. Results from this study showed that the vaccine was able to control HIV replication after interruption of highly active antiretroviral therapy (HAART) in 7 out of 14 subjects for up to 11 months and in 4 of these 7 subjects for almost 5 years since the study start early in 2002.

Clinical development

Interim data from a single-blind, randomized, controlled clinical Phase II study with MVA HIV *nef* in 77 HIV-infected subjects undergoing HAART therapy showed that both MVA HIV *nef* and IMVAMUNE® (used in the control group) are safe in HIV-infected subjects with an advanced stage of infection (CD4 > 250 cells/µl). A strong vaccinia-specific immunity confirmed the potential of IMVAMUNE® as a safe and effective smallpox vaccine in this population. Meanwhile, 37 out of the 77 subjects in the study have interrupted their HAART therapy and are being closely monitored. Analyses of HIV-specific immunogenicity and viremia during therapy interruption are ongoing and will provide valuable information on the vaccine's ability to help control HIV infection.

MVA-BN® HIV *polytope* vaccine



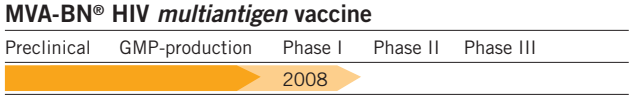
MVA-BN® HIV *polytope* is based on an MVA-BN® virus expressing 21 killer T-cells and 18 helper T-cell epitopes. The vaccine is being developed as both a therapeutic and a prophylactic vaccine. The vaccine is being developed in partnership with Pharmexa A/S. The vaccine is tested in a safety study in which the MVA-BN® vaccine is administered after priming with a DNA vaccine. This research programme is supported by the NIH under an RFP granted to Pharmexa where Bavarian Nordic is a sub-contractor.

Clinical development

A Phase I and a Phase I/II clinical study was initiated in Europe with the MVA-BN® HIV *polytope* vaccine candidate. The purpose of these studies is to evaluate the safety and immunogenicity of the vaccine in healthy and HIV-infected subjects. Results from both studies are expected in the second half of 2007.

Bavarian Nordic expects to initiate an additional Phase I study with MVA-BN® HIV *polytope* in the USA in 2007.

MVA-BN® HIV *multiantigen* vaccine



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

The manufacturing of a cGMP batch of the MVA-BN® HIV *multiantigen* vaccine for clinical trials is on schedule with an anticipated release during the first half of 2007. Preclinical safety and immunogenicity studies are also proceeding as planned and will support a Phase I study planned for 2008.

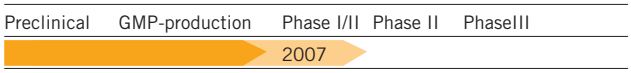
Cancer Immunotherapy

Bavarian Nordic's activities in the field of cancer immunotherapy are conducted by its U.S. subsidiary, BN ImmunoTherapeutics Inc., established in 2005. The subsidiary was founded based on positive findings from Bavarian Nordic's previous studies with a vaccine candidate targeted against melanoma cancer.

The most recent drugs for the treatment of cancer diseases are based on immunotherapy. Several new drugs are based on passive immunotherapy (antibody therapy) such as HER-2/Neu antibody (Herceptin®) for the treatment of breast cancer. The drawback of passive immunotherapy is that it uses only one arm of the immune system (the humoral arm) based on antibodies. Research has shown that controlling cancer will largely depend on a T-cell response (the other arm of the immune system).

BN ImmunoTherapeutics' vaccination strategy for developing vaccines against cancer is based on activating both a humoral and a cellular immune response. The company has two vaccine candidates under development, one against breast cancer and the other against prostate cancer.

MVA-BN® Breast Cancer Vaccine



BN ImmunoTherapeutics' first project is the development of an MVA-BN®-based vaccine against breast cancer based on a HER-2/Neu antigen, in-licensed from the Danish biotech company, Pharmexa A/S.

Preclinical development

Preclinical studies with the vaccine candidate have shown exceptional and significant efficacy, both in terms of inducing a broad immune response as well as in anti-tumour activity. In addition, the vaccine induced an antigen-specific Th1-type CD4 T-cell response, HER-2 specific CD8 cytotoxic T-lymphocyte response, and anti-HER-2 antibodies.

The vaccine showed activity in both preventive as well as therapeutic settings in multiple animal models with HER-2 tumours. In a study with highly aggressive lung metastasis, the vaccine nearly eradicated the tumour after 14 days. The model also showed that a single injection of the vaccine administered as late as three days after the intravenous induction of the lung metastasis resulted in the same effect – near eradication of the metastasis. Moreover, the vaccine induced an extremely rapid antigen-specific immune response.

Clinical development

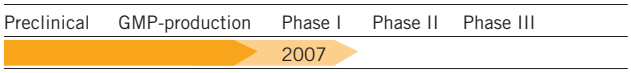
Based on these preclinical results, BN ImmunoTherapeutics filed an Investigational New Drug (IND) application with the U.S. Food and Drug Administration (FDA) in 2006. At the end of the year the company received approval of the IND to start clinical trials with the vaccine.

Enrolment of subjects for a Phase I/II study in USA will begin in 2007.

In addition to the U.S. study, BN ImmunoTherapeutics is also planning to start a Phase I/II study with the vaccine in Europe. The two studies are expected to enrol up to 60 subjects.

The studies are designed to evaluate the safety and tolerability of the vaccine. The studies will also evaluate the biological activity of the vaccine by measuring HER-2 specific immune responses patients undergoing other treatment. In addition, the effect of the vaccine on the disease progress of patients and on tumor growth will also be explored. The vaccine will be tested in different clinical models to determine how to best incorporate it into standard therapy for the treatment of metastatic breast cancer. This will include treatment with the vaccine in combination with Herceptin® and chemotherapy. In Europe, the vaccine will furthermore be tested in standard therapy in subjects that have not received other treatment for metastatic breast cancer.

MVA-BN® Prostate Cancer Vaccine

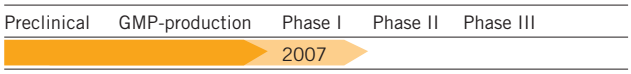


BN ImmunoTherapeutics' second project is the development of a vaccine for the treatment of prostate cancer. The company is developing MVA-BN® to express sequences that control immunity to the Prostate-Specific Antigen (PSA) and Prostatic Acid Phosphatase (PAP).

Preclinical studies were initiated in 2006 and preceeding as planned. The vaccine candidate is ready to be produced for clinical use at the company's facility in Berlin, and a Phase I study is scheduled to commence in the second half of 2007.

Other development programmes

MVA-BN® Measles Vaccine

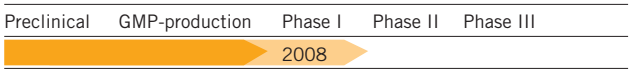


Measles is one of the most frequent causes of death among children below the age of 5 in the developing countries, where approximately 500,000 children die every year from the disease. Current vaccines are not very effective in children under 1 year of age, mainly due to inactivation of the vaccine by antibodies (maternal antibodies) derived from their mother while breastfeeding.

Bavarian Nordic's goal is to develop a new, safe and effective measles vaccine based on MVA-BN® expressing three measles virus antigens.

The vaccine has been cloned, and during 2006 Bavarian Nordic produced a clinical batch and completed preclinical safety and efficacy studies. The company expects to initiate a Phase I study in Africa in 2007.

MVA-BN® RSV Vaccine



Respiratory Syncytial Virus (RSV) is the most prevalent cause of bronchiolitis and pneumonia and is often the cause for children below the age of 1 to be 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 lead to severe cases of pneumonia. The lack of effective treatment results in approximately 64 million RSV infections every year, causing approximately 160,000 deaths.[1]

Bavarian Nordic's strategy is to develop a recombinant MVA-BN® vaccine encoding two surface proteins of RSV. It has been demonstrated that encoding of these surface proteins has a protective effect and that they do not accelerate the disease in animal models.

In 2007 Bavarian Nordic expects to conclude preclinical safety and efficacy studies and to release the vaccine for use in clinical trials. Phase I trials are expected to commence in 2008.

[1)] World Health Organisation

Tropical diseases

Bavarian Nordic's two projects in tropical diseases, dengue fever and Japanese encephalitis, have been temporarily discontinued pending discussions with a potential external partner on clinical development and funding.

MVA-BN® with immune-stimulating effect

In 2004, Bavarian Nordic established a research group to conduct research in vaccines for infants and the adjuvant and immunostimulatory effects of MVA-BN®-based vaccines. Research results have since showed that vaccination of new-born mice was safe and generated an overall stimulating effect on the immune system. The investigation also showed that the vaccinated mice were protected against other infections, such as Herpes simplex virus. Moreover, it was shown that MVA-BN® accelerates the maturation of the immune system in new-born mice, to a level similar to that of a grown mouse just one week after their birth. It has since been demonstrated that these effects of MVA-BN®-based vaccines are caused by the affect of MVA-BN® on the formation of a specific immune cell growth factor, which leads to an increase in the number of dendritic cells, helper T-cells and killer T-cells. During the last couple of years, Bavarian Nordic's scientists have worked to elucidate the therapeutic potential of these results.

In animal studies, Bavarian Nordic has shown that MVA-BN® has a potent vaccine adjuvant effect. There are only a few effective and approved vaccine adjuvants without side-effects available. The most frequently used vaccine adjuvants are all based on aluminium, which has a number of drawbacks, including potential side effects such as aluminium poisoning. Other vaccine adjuvants are based on lipopolysaccharide, bacteria, liposomes or immunostimulatory complexes. Research and development of new and effective vaccine adjuvants without side effects is one of the areas in vaccine development to which significant resources are allocated.

Bavarian Nordic has also shown that the immunostimulatory effect of MVA-BN®' has an exceptional and significant effect on the healing of large, deep wounds in pigs. Bavarian Nordic plans to further investigate these effects in clinical trials in animals and humans.

The company will continually allocate resources to evaluate the opportunities for using MVA-BN® for immunotherapy in different indications, including in inflammatory conditions, infectious diseases and cancer.

Intellectual Property Rights (IPR)

Bavarian Nordic has successfully built its patent portfolio on and around its core technology; MVA-BN®. The patent portfolio has been developed to ensure that Bavarian Nordic can optimise the commercial value of the discoveries in the company's research and development activities. In addition the portfolio will ensure protection against competitors' use of similar products and technologies within Bavarian Nordic's core business areas.

Bavarian Nordic's patent portfolio consists of 30 patent families. Each patent family consists of numerous corresponding issued/granted foreign patents, pending applications, continuations and divisional applications. The patent portfolio consists of over 350 pending patent applications and more than 400 granted/issued patents.

A strong patent portfolio underpins Bavarian Nordic's competitive position in MVA-based vaccines.
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 from other patent holders.

In 2006 the company's intellectual property position on MVA was further strengthened. The United States Patent and Trademark Office (USPTO) issued a new patent to the company. The new patent ("Modified vaccinia virus Ankara for the vaccination of neonates" - US Patent No. 7,097,842) covers use of MVA derived vaccinia viruses for inducing a general immune stimulation, including the use of MVA-BN® used for protection against smallpox in neonates, i.e. young children with an immature immune system.

Furthermore, the United States Patent and Trademark Office (USPTO) issued a notice of allowance on one of the company's patent applications on MVA. The notice of allowance is significant because it issued after the Examiner in charge of reviewing the merits of the application was provided with the arguments of invalidity and inequitable conduct made against the U.S. patents in the case filed by Bavarian Nordic at the U.S. International Trade Commission (ITC). In issuing the notice of allowance, therefore, the Examiner has properly considered and rejected the principal arguments made against the validity and the specific allegations made with respect to the procurement of the patents.

Enforcement of intellectual property rights
Bavarian Nordic has initiated three separate legal actions, to enforce its proprietary rights for MVA against Acambis plc and/or Acambis Inc. Two litigations are pending in the USA and one in Austria.

Bavarian Nordic has filed a patent infringement action against Acambis plc's MVA-based smallpox vaccine products at the U.S. International Trade Commission (ITC) based in Washington DC. Furthermore, Bavarian Nordic has filed a patent infringement action against Acambis plc and Acambis Inc. at the Commercial Court in Vienna, Austria.

The third action was launched at the U.S. District Court for the district of Delaware in August 2005. This action does not concern patent litigation but, instead, misappropriation of biologic material, unfair competition and unfair trade acts.

ITC
In 2005 Bavarian Nordic filed a patent infringement action against Acambis plc's MVA-based smallpox vaccine products at the ITC. Bavarian Nordic launched the action alleging infringement of its U.S. patent rights, i.e. an unauthorised use of the invention described and claimed without proper licence or consent by the patent owner Bavarian Nordic. The asserted patents are U.S. Patent No. 6,761,893 and U.S. Patent No. 6,913,752.

A hearing, in the form of an evidentiary hearing, was held on 8–15 May 2006, during which the parties presented their evidence. During the hearing, Bavarian Nordic put on its evidence that Acambis's products infringed Bavarian Nordic's patent, that Bavarian Nordic had established a "domestic industry" within the USA (a jurisdictional prerequisite), and that Bavarian Nordic

was entitled to an exclusionary order keeping all infringing products out of the USA. Acambis, on the other hand, put on its evidence that the patents were invalid and had been procured with inequitable conduct, which made the patents unenforceable. On 7 September 2006, the administrative law judge rendered his initial determination concluding that:

- Bavarian Nordic has a domestic industry
- Bavarian Nordic's patents have not been procured with inequitable conduct
- Acambis plc's smallpox vaccine product (MVA3000) infringes two of Bavarian Nordic's patents, but that the patents are invalid.

Also, the administrative law judge found that there would be a remedy available to Bavarian Nordic if the finding of invalidity would be reversed. Bavarian Nordic filed a petition to have the full Commission review the finding of invalidity due to the presence of clear legal and factual errors in the initial determination.

On 22 November 2006, the ITC granted Bavarian Nordic's petition, and agreed to review all findings of the administrative law judge in his initial determination. On 21 February 2007 the Commission issued an order vacating the Initial Determination including its finding of patent invalidity. The entire investigation will be heard again before the Administrative Law Judge with a new target completion date of 19 October 2007. Once a final determination issues, both parties can appeal the decision to the U.S. Court of Appeals for the Federal Circuit.

While Bavarian Nordic is confident that the full Commission or the appellate court will find its patents valid, a final adverse decision will have no impact on the validity of the patents, since decisions of the ITC or the appellate court are not considered binding on a U.S. Federal Court, which ultimately rules on the validity of patents. A final determination of invalidity by the ITC or the appellate court would only mean that Acambis will not be barred from importing the MVA 3000 product to the U.S.

Austria

In February 2006 Bavarian Nordic filed a patent infringement action against Acambis plc and Acambis Inc. at the Commercial Court in Vienna, Austria.

The action was initiated to enforce the Austrian patent based on Bavarian Nordic's patent (1 335 987) granted by the European Patent Office (EPO), which covers the company's MVA-BN® technology. As can be expected in a patent infringement case, Acambis has filed a counterclaim of invalidity of the Austrian patent. If successful, Bavarian Nordic can stop Acambis' manufacturing of MVA3000 in Austria, including any manufacturing for export.

In September 2006, an oral hearing was held to consider whether the case should continue to stay pending given the pending opposition proceeding at the European Patent Office (EPO), or whether it should continue at the Austrian court in parallel. The court has not yet decided on this issue.

Delaware

In the lawsuit against Acambis in the Federal District Court in Delaware, which was filed in 2005, Bavarian Nordic alleges misappropriation of biologic material Acambis has used to manufacture the MVA3000 smallpox vaccine product it sells and offers to sell to the U.S. government within the RFP programme, unfair competition, and unfair trade acts.

The trial has been scheduled for June 2007. While there have been no substantive decisions on the merits, the judge denied Acambis' motion to amend its answer to include several counterclaims against Bavarian Nordic. The discovery phase has been completed.

Production

Bavarian Nordic has two high-technology production facilities. One of the facilities, located in Kvistgård in Denmark, is designed for the commercial production of IMVAMUNE® and MVA-BN® recombinant vaccines. The other facility, located in Berlin, Germany, is designed for the production of recombinant MVA-BN® vaccines for clinical trials.

In 2006, Bavarian Nordic delivered half a million doses IMVAMUNE® to the National Institutes of Health (NIH) in accordance with the RFP-2 contract. The vaccines were produced, filled and packed at Impstoffwerk Dessau-Tornau (IDT) in Germany, Bavarian Nordic's contract manufacturing partner in 2005 and in the beginning of 2006. The vaccines were released by Bavarian Nordic and shipped for NIH in the first half of 2006.

Kvistgård

The Kvistgård facility is designed, built and qualified to manufacture IMVAMUNE® and MVA-BN® recombinant vaccines for the European and U.S. markets.

The facility was taken over by the company in the spring of 2004. Re-construction of the production facility was completed in the spring of 2005. Since then, production equipment has been installed, tested and qualified in accordance with GMP requirements. The technical organisation has been expanded to the level necessary to ensure timely delivery of 20 million doses under the expected RFP-3 order. With the existing equipment and the current process, a minimum of 40 million doses per year can be produced at the facility.

In connection with the production of half a million doses of IMVAMUNE® at IDT, bulk vaccine production and finished vaccine production processes were completely validated at IDT under current European GMP rules. The bulk vaccine production process was developed by Bavarian Nordic in close collaboration with IDT in Germany in 2004 and 2005 and later transferred to Bavarian Nordic's production facility in Kvistgård. The process has now been further optimised and standardised at the Kvistgård facility and forms the basis for large-scale production of IMVAMUNE® for the supply of vaccines as required under the expected RFP-3 order.

During the last quarter of 2005 and in the course of 2006, a number of full-scale test runs were conducted.The ventilation systems, the water system and other technical installations of the production plant were also tested and approved in 2006. Actual production equipment for the production of MVA-BN® vaccines were also subjected to functional testing and approved. Bavarian Nordic expects that the transferred process will be fully validated by early 2007.

In April 2006, the facility at Kvistgård was inspected by high-ranking U.S. security personnel in order to confirm that Bavarian Nordic security measures are adequate.

Bavarian Nordic expects that the facility will be inspected by the U.S. Food and Drug Administration (FDA) in connection with the award of the RFP-3 order. Bavarian Nordic therefore arranged for an inspection on its own to determine whether the facility and the quality assurance systems comply with the expected standard. The investigation was carried out by two former FDA inspectors, each with more than 30 years' experience in the pharmaceutical industry, and showed that the facility complies with expected levels.

In August 2006, the production 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 smallpox vaccine under the expected RFP-3 order and for emergency use of smallpox vaccines in other markets. Bavarian Nordic can now start commercial manufacturing of vaccines.

Vaccine filling

After the expected award of the RFP-3 order, it is anticipated that a separate and individually adapted contract will be concluded between Bavarian Nordic and IDT on the filling and packing of up to 20 million doses of IMVAMUNE®. Negotiations on the final terms and conditions for this contract are underway.

Berlin

The Berlin facility houses a production section as well as a quality control laboratory and an administrative section. In 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 expected to be capable of manufacturing a minimum of eight production batches per year.

In 2006, the Berlin facility moved to routine production and the first production series for use in clinical trials were produced and released. The production includes MVA-BN® HIV *polytope* vaccine, MVA-BN®-HER-2 vaccine (for use against breast cancer) and MVA-BN® vaccine against measles.

Production carried out in 2006 at the Berlin facility was completed satisfactorily with production routines and output now fully optimised.

Environment

Bavarian Nordic complies with all environmental regulations and standards that relate to the current level of operations across its sites. Bavarian Nordic will also continuously improve environmental efforts by:

- promoting environmentally-conscious behaviour and preventing pollution throughout the company
- reducing environmental impact by:
  - developing and applying environmentally-friendly processes
  - optimising the utilisation of materials and energy
  - reducing emissions and waste
- complying with environmental legislation and relevant requirements
- developing an environmental management system in accordance with the principles of the ISO standard.

Bavarian Nordic's procedures and organisation for the manufacture of vaccines ensures that there is no risk whatsoever of the vaccine virus escaping into the environment through atmospheric emissions, wastewater, or waste in general.

Kvistgård and the environment
When planning the Kvistgård factory, Bavarian Nordic concentrated on introducing clean technology by developing and adapting the technology utilised. The company has worked on reducing environmental impact by decreasing energy consumption and the use of additives.

In 2006 the facility was inspected by the County of Frederiksborg (Frederiksborg Amt) and the Municipality of Helsingør (Helsingør Kommune). The inspections did not cause any regulations.

Kvistgård – Employee involvement
The company's day-to-day environmental work is carried out by the line organisation performing duties such as waste management, replacement of filters, maintenance of environmental records etc. These activities are described in the procedures and instructions employees receive and are trained in as required.

Environmental Report
In May 2006 Bavarian Nordic issued its first environmental report (Grønt Regnskab) on the Kvistgård facility. The report can be downloaded from the company's website: www.bavarian-nordic.com

In April 2007 the company will issue its second environmental report.

Kvistgård – 2006/2007 objectives

The status for the company's target/objectives are:

Target 2006/2007	Status
Level 1 company Due to the high level of legal compliance and middle or high-level systems/information for the environmental area, the company will endeavour to be categorised as a Level 1 enterprise at all times by authorities. (The Level 1 category includes those companies at the forefront of environmental matters).	The company will be categorised in 2007. The County (Frederiksborg Amt) has concluded that the company will be categorised as a Level 1 enterprise once selected procedures have been demonstrated.
Noise monitoring No later than 30 June 2006, the company will appoint an approved firm to complete noise measurements/calculations to document that the limit values in the surrounding area for noise impact set by the company are being met.	Measurements were concluded in 2006 and resulted in noise reduction of two sources. Since then the noise limit values have been met.
Packaging of raw materials No later than 1 June 2007, the company will prepare a report on how it may be possible to limit the amount of packaging materials. This report will be based on data for waste from packaging materials for 2006.	Data from 2006 is being collected and analysed.
Energy No later than 1 May 2007, the company will prepare a report on limiting energy consumption. This report will be based on energy data for 2006.	Data from 2006 is being collected and analysed.

Documentation of the targets and the corresponding action plan have been contracted to a consulting firm with expertise on environmental matters.

Organisational development

Bavarian Nordic's employees are one of the company's most important resources and the key to Bavarian Nordic's future success. Employee efforts and abilities give the company its dynamics and growth.

Bavarian Nordic must be able to attract the very best people in the industry. The company 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.

The establishment of the production facility is the primary reason for the increase in the number of employees in the Group in recent years. In 2006, employee growth was not as high as in the previous years. At the end of August 2006, a strong increase in production output, continuing uncertainty about the exact time of award of the RFP-3 order and other efficiency enhancement issues caused Bavarian Nordic to initiate cost saving measures in order to align its resource consumption to operating and cash flow conditions. In this connection, the number of employees was considerably reduced so that by the end of the year, the company had 233 employees.

Employee breakdown by function

	2006	2005	2004	2003
Corporate Management and staff functions	25	20	12	12
Research and development	84	72	62	54
Financial and commercial affairs	21	28	30	21
Technical operations	103	104	41	0
Total	233	224	145	87

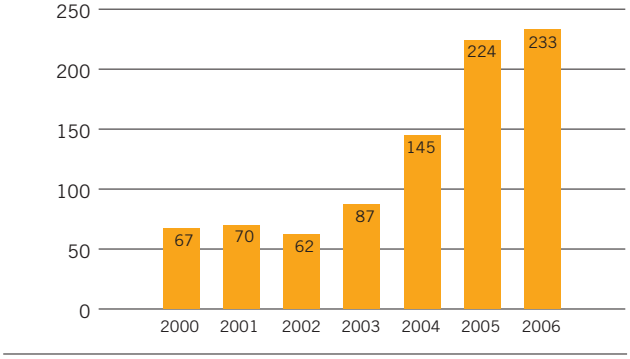
Employee breakdown by geography

	2006	2005	2004	2003
Denmark	105	121	66	34
Germany	107	99	79	53
USA	20	3	0	0
Singapore	1	1	0	0
Total	233	224	145	87

New company in Washington DC, USA

In 2006, Bavarian Nordic established a new company in Washington DC, USA, Bavarian Nordic Inc., to broaden and strengthen the company's business activities in the U.S., with focus on providing efficient service to U.S. governmental authorities and to develop the market for Bavarian Nordic's vaccines in the USA. Bavarian Nordic Inc. will also play an important role in the process of registering IMVAMUNE® smallpox vaccine with the U.S. Food and Drug Administration (FDA).

Development in the number of employees



Corporate Governance at Bavarian Nordic

Bavarian Nordic continuously evaluates developments in corporate governance and best practice in relation to the company's business areas.

The Copenhagen Stock Exchange recommends that listed companies comply with the Corporate Governance principles recommended by the Copenhagen Stock Exchange's committee on Corporate Governance in 2001 and as revised in 2005.

Management believes that the company is operated in compliance with guidelines and recommendations that support Bavarian Nordic's business model and which can create value for Bavarian Nordic's stakeholders. This Annual Report contains, for the first time, a report in relation to the Copenhagen Stock Exchange corporate governance recommendations based on the "comply or explain" principle.

Management of the company
Bavarian Nordic is managed under a two-tier structure composed of the Board of Directors and the Corporate Management.

The Board of Directors consists of four external members elected by the shareholders at the Annual General Meeting for terms of one year. The Board elects a Chairman from among its members. The Board is responsible for the overall management of the company, which includes appointing the Corporate Management, ensuring responsible organisation of the company's business, establishing the corporate strategy and evaluating the company's financial situation. The Board plans to hold five or six meetings each year. In 2006, the Board held seven meetings. Corporate Management and certain senior employees of Bavarian Nordic usually attend the Board meetings. The Board receives continuous reporting from the Corporate Management on the status of the company's operations and business. The Chairman of the Board and the company's legal advisor evaluate on an annual basis, the performance of the Board and Corporate Management. The result is presented to and discussed by the Board Members.

The Corporate Management consists of Peter Wulff, the company's President & CEO. Moreover, there are four Executive Vice Presidents who assist the Corporate Management in the day-to-day operations of the company. Corporate Management is responsible for the day-to-day management of the company, observing the guidelines and recommendations issued by the Board of Directors. The Corporate Management holds monthly meetings with the Executive Vice Presidents to coordinate the day-to-day management activities. Monthly meetings are also held with the management teams of the subsidiaries. One or more members of the Corporate Management, Executive Vice Presidents or senior employees of the company are represented on the board of directors of the company's subsidiaries.

Other recommendations
The company has chosen to include other information according to the recommendations, to be an integral part of the other sections of this Annual Report. Supplementary information is available on the company's corporate website. Below are explanations on issues for which the company has chosen or considers it feasible to deviate from the recommendations.

The company does not comply with the following corporate governance recommendations:
The company has not fixed an age limit for the Board members, The Board is composed of competent and experienced persons who each contribute to the company's growth and management. The Board members are elected by the company's shareholders. The other members of the company's management do not have any objections to the way the Board members handle their work, and the shareholders demonstrate their confidence in the Board by electing/re-electing them. Consequently, the company has found no reason to fix an age limit. This issue is evaluated regularly as part of the overall assessment of the Board's and the management's work.

The Board of Directors has currently not established any separate sub-committees. The company's rules of procedure allow for the potential establishment of sub-committees, which have previously been used.

The company has not established an audit committee. The company has considered whether an audit committee should be established to prepare the Board's handling of audit and accounting matters. The Board believes that the company's accounting and audit matters are not of a nature that would necessitate such a committee. The need for such a committee is evaluated regularly as part of the company's assessment of the relationship between the auditors and the company.

The company does not have a formalised remuneration policy and has not yet deemed it necessary to have such a policy. The company has separate guidelines for pension, health insurance, incentive plans, etc. With a few exceptions, all employees are employed as salaried employees as defined in the Danish Salaried Employees Act or on similar terms, with the exception that part of the production staff are employed under a collective agreement with the Danish labour union 3F. The company endeavours to maintain uniformity in the terms of employment and the assessment of remuneration for all employees. Based on these principles, remuneration is negotiated individually within a framework set up by the management. The shareholders approve the remuneration of the Board of Directors at the annual 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.

Risk management

It is company strategy with respect to risk management to continuously work on identifying material risks that could affect the company's work, future performance, goals and the interests of the shareholders, in order to operate the company in accordance with best practice within the company's area of business. The company has set up internal systems for this purpose and also uses external advisers to assist in the continuous assessment and updating work. The Board of Directors continuously monitors reporting on these initiatives, which is then included in the Board's assessments and decisions about the company's activities and future.

Risk factors

Expectations and assumptions in the Annual Report concerning Bavarian Nordic's business, the market for smallpox vaccines, and Bavarian Nordic's revenue, accounting results and expected market share are subject to substantial uncertainty. There is no guarantee that Bavarian Nordic will wholly or partly achieve its expectations for revenue or its accounting result. The major uncertainties include, but are not limited to:

- Bavarian Nordic's possibility of entering into an agreement with the U.S. authorities to supply IMVAMUNE®, the group's third-generation smallpox vaccine (specifically the delivery of vaccine under the RFP-3 programme which was issued in August 2005).
- Developments in demand and prices for smallpox vaccine.
- Bavarian Nordic's production capacity and subcontractors.
- Government approval of the required licenses and permits necessary for vaccine production at the Kvistgård facility.
- Developments in the competition environment.
- Maintenance of the existing patent protection.
- Ability to obtain future funding for investments.
- Results of clinical trials.
- Demands on the vaccine specifications and the end product.
- Liability/indemnification from governments.
- Bavarian Nordic's ability to enter into cooperation agreements with other pharmaceutical corporations, biotechnology companies and production partners.

Bavarian Nordic's operational risks include, but are not limited to, the ability to enter into collaborations with partners for development, manufacture, marketing and financial resources. There are additional risks related to sales contracts and the related production.

Liquidity risks include the possibility that Bavarian Nordic is not able to generate adequate liquidity to continue operations.

Currency risks include the risk arising because sales and production contracts are executed in EUR, USD and that the cost base is primarily in DKK. Contracts made in other currencies than EUR and USD do not incur significant currency risks.

Bavarian Nordic is primarily exposed to interest rate risks through interest-bearing assets and obligations. The liquidity surplus is primarily invested in short-term solid credit-rated bonds in DKK or EUR or by fixed-deposits in DKK. The interest rate risk in investments is managed based on the duration of a pre-defined benchmark determined in Bavarian Nordic's investment policy and approved by the Board of Directors.

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

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

Shareholder Information

Bavarian Nordic's core data as of 31 December 2006

Stock Exchange	Copenhagen Stock Exchange
Share capital	DKK 63,761,800
Number of shares	6,376,180
Class of shares	One class
Nominal value	DKK 10
Bearer security	Yes
Ownership and voting right restriction	No
ID code	DK0015998017

Capital increase

The number of company shares increased from 5,797,055 shares to 6,376,180 shares in March 2006 as a result of a private placement.

In March 2007 the company succesfully completed a rights issue adding 1,275,236 new shares to the share capital and increasing the equity and cash preparedness with DKK 443 million.

The new shares were offered with pre-emption rights to the existing shareholders at the ratio of 1:5 with a subscription price of DKK 365 per share.

The share capital after the rights issue comprises of 7,651,416 shares with a nominal values of DKK 10.

Ownership

As of 31 December 2006, Bavarian Nordic had 8,080 registered shareholders owning 4,882,419 shares, which corresponds to approximately 77 percent of the share capital. The following shareholders had publicly informed Bavarian Nordic that they owned 5 percent or more of the company's shares:
A.J. Aamund A/S
PKA
Bavarian Nordic does not hold any of its own shares.

Bavarian Nordic included in trading indices

As of 1 January 2006, Bavarian Nordic was included in the Copenhagen Stock Exchange MidCap+ segment.

In addition, Bavarian Nordic is included in Morgan Stanley International's Smallcap Index.

Figures and facts about Bavarian Nordic's shares in 2006

	2005	2006	Change
Bavarian Nordic's share price, year-end	476	582	+ 22%
MidCap+ (DK)			+ 49%
OMX C20 (DK)			+ 11%
Nasdaq Biotech (USA)			+ 1%

Technology value

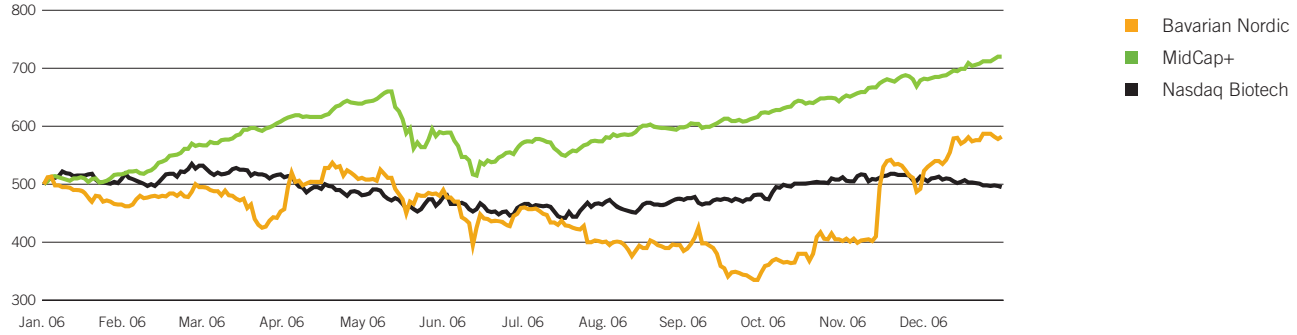
The 22% appreciation in Bavarian Nordic's shares in 2006 lifted the company's market capitalisation by more than 35% from DKK 2,759 million at year-end 2005 to DKK 3,711 million at year-end 2006. The increase in market capitalisation exceeded the increase in the price of the shares because of a capital increase made in early 2006.

Another way of assessing the value increase in 2006 is to look at the development in the company's technology value or the equity market's opinion of the company's pipeline and potential. The technology value is calculated by deducting the company's cash and cash equivalents and securities from the market capitalisation. The technology value grew by 42% in 2006.

Bavarian Nordic's technology value

	2005	2006	Change
Market capitalisation (DKK million), year-end	2.759	3.711	+ 35%
Cash and cash equivalents and securities (DKK million), year-end	383	333	
Technology value (DKK million), year-end	2.376	3.378	+ 42%

Performance of Bavarian Nordic's shares in 2006



Trading volume
An increase by 82% from 2005 to 2006 was seen in the trading volume of the shares. The increase in the trading volume in the shares on the Copenhagen Stock Exchange was most pronounced during the second half of 2006, with an increase of more than 100%. This occurred after the U.S. authorities informed Acambis that they had been excluded from further participation in the RFP-3 process.

Internal Rules and definition of insiders
In compliance with Danish securities legislation, Bavarian Nordic has adopted four sets of internal rules governing inside information, the obligation for disclosure, and trading in Bavarian Nordic shares. The internal rules are drafted in accordance with the regulations for Internal Rules set out by the Copenhagen Stock Exchange. The company's rules have been extensively updated in 2005 and are continously being evaluated.

Bavarian Nordic maintains a record of Bavarian Nordic insiders and has established procedures for registering and monitoring insider's trading in the company's shares.

Bavarian Nordic defines its insiders as members of the Board of Directors, Corporate Management Group, directors, and other employees in Denmark as well as persons who, by virtue of their attachment to the company, are considered to have access to inside information about Bavarian Nordic.

Dividend policy
Bavarian Nordic does not expect to declare dividends until the company has achieved a sufficient capital base. However, the company continues to strive towards securing a sufficient capital base for future dividend payments. The Board of Directors will propose that no dividends are paid at the Annual General Meeting on 26 April 2007.

Annual General Meeting
The 2007 Annual General Meeting will be held on Wednesday, 26 April 2007 at 4 pm. at the Radisson SAS Scandinavia Hotel, Amager Boulevard 70, 2300 Copenhagen S, Denmark.

Proposals for Annual General Meeting 2007
Proposals to be made by the Board of Directors include among others:

- Re-election of the existing members
- Re-election of one auditor
- Authorisation to the Board of Directors on behalf of the company to acquire its own shares in the company.

INVESTOR RELATIONS

Through its investor relations policy, the company wishes to comply with the Copenhagen Stock Exchange's overall requirements and recommendations. The company seeks to do so among other things by providing timely and correct communication about relevant economic and financial as well as operational and scientific affairs of the company.

Bavarian Nordic wishes to continue to develop the dialogue with the company's shareholders, analysts, prospective investors and other stakeholders by providing open, honest and accessible information. In 2006, the company appointed Rolf Sass Sørensen to the position of Vice President, Investor Relations and Communications in order to focus and intensify the efforts to service the various players in the equity market.

Roadshows and investor meetings abroad

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

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

To ensure that an efficient and suitable dialogue is maintained with the shareholders, Bavarian Nordic invites its shareholders to have their shares registered with the company.

Contact

The company's investors and other stakeholders are always welcome to contact Investor Relations at Bavarian Nordic's headquarters or via e-mail at the following address: investor@bavarian-nordic.com. Bavarian Nordic aims to answer all relevant queries within two working days.

Additional information on the company is available at the corporate website, www.bavarian-nordic.com, which contains relevant financial reports, stock exchange announcements, the day's share price and information on company products, technologies and subsidiaries. In connection with the presentation of quarterly financial statements, a webcast presentation is recorded, which can later be viewed on the website. The latest investor presentation can also be downloaded from the website.

Moreover, the website contains a financial calendar for 2007 and a list of the analysts who monitor and report on Bavarian Nordic.

E-mail service

Bavarian Nordic invites investors and other stakeholders to register for the company's e-mail service at the corporate website: www.bavarian-nordic.com under "Investor Relations". As a subscriber to this service, you will automatically receive Bavarian Nordic's announcements as soon as they have been announced through the Copenhagen Stock Exchange.

Outstanding warrants (as of 31 December 2006)

Programme	Exercise Price (DKK)	Exercise period	Board of Directors (warrants)	Corporate Management (warrants)	Other senior executives (warrants)	Other employees (warrants)	Former employees (warrants)	Total
2004	299	See note 18	21.592	16.195	48.585	34.018	44.270	164.660
2004	461	See note 18			8.097			8.097
2004	623	See note 18			3.239			3.239
Total 2004 programme			**21.592**	**16.195**	**59.921**	**34.018**	**44,270**	**175.996**
2006	572	See note 18	20.000	15.000	133.500	6.500		175.000
Total			**41.592**	**31.195**	**193.421**	**40.518**	**44.270**	**350.996**

Financial calendar 2007

30 March	2006 Annual Accounts
26 April	Annual General Meeting
26 April	Q1 report for the three-month period ended 31 March 2007
9 August	Half-year report (Q2) for the six-month period ended 30 June 2007
6 November	Q3 report for the nine-month period ended 30 September 2007

INCENTIVE PROGRAMMES

As of 1 November 2006 Bavarian Nordic introduced a long-term incentive plan for Corporate Management and all employees in Bavarian Nordic A/S and Bavarian Nordic GmbH. The incentive programme consists of the award of phantom shares. At the end of the relevant month, each full-time employee will be awarded, free of charge, three phantom shares per month during the period from 1 November 2006 to 31 October 2009. Accordingly, each full-time employee may be awarded up to a maximum of 108 phantom shares.

Employees employed during the term of the programme will be awarded phantom shares from the time of employment. The phantom shares may be sold in a two-week period which starts the day after the publication of the company's third quarter report for 2009. Upon settlement, the holder of the phantom share will receive the difference between the purchase price of DKK 422, and the weighted average price (exercise price) of the company's shares on the Copenhagen Stock Exchange during a period of 10 business days prior to the first day of the exercise period, always provided that the exercise price is at least 10% higher than the purchase price. If the exercise price is not at least 10% higher than the purchase 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 purchase price in case of changes to the company's capital position, including capital increases at a discount to the market price. 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.

Note 18 contains an overview of the phantom share programme.

Warrants

In 2004, the company launched a warrant programme for the Board of Directors, Corporate Management, senior executives and other employees. The exercise of the vested warrants under the 2004 programme may be exercised in whole or in part in one exercise issue during the period from 18 April 2007 to 2 May 2007. The warrants cannot be assigned or pledged to any third parties.

The programme contains a provision to the effect that if a resolution is adopted to effect a capital increase in the company whereby shares are subscribed at a price lower than the market price of the company's shares, the number of shares that can be subscribed by exercising the warrants and the exercise price shall be adjusted to position the warrant holders, in relation to their interest in the company and the exercise price, as if the warrants had been exercised immediately prior to the capital increase.

In addition to the phantom share program and the above, in 2006 the company issued warrants to the Board of Directors, Corporate Management and certain employees of Bavarian Nordic. Vested warrants under the 2006 programme may be exercised in whole or in part during a two-week period immediately after the release of the company's quarterly report for the third quarter of 2009 and/or during a two-week period after the release of the company's full-year announcement for 2009 (in 2010). Warrants issued under the 2006 programme contain the same adjustment mechanism as the 2004 programme in case of a capital increase at a discount to the market price.

Pursuant to Article 5b of the company's Articles of Association, the Board of Directors is authorised, until 1 May 2008, to issue up to 25,000 warrants in one or more portions. The warrants may be issued to the company's management, employees of the company or its subsidiaries, including consultants and the company's Board of Directors, for subscription of shares with a nominal value of up to DKK 250,000 by cash payment at a price and on terms and conditions determined by the company's Board of Directors. However, warrants may only be issued up to DKK 0 nominal value to the members of the company's Board of Directors.

The warrant holders will have pre-emption rights to the shares subscribed on the basis of the warrants issued, to the effect that the pre-emption rights of the company's existing shareholders to warrants and new shares are deviated from.

Financial review 2006

Unless otherwise stated, the financial review is based on the consolidated financial information for the year ended 31 December 2006 as included in this Annual Report with comparative figures for 2005 in brackets. No changes have been made in the layout of the financial statements. The accounting policies are unchanged from the Annual Report for 2005.

A net loss of DKK 160.9 million was recorded for the year (a loss of DKK 94.7 million).

The fall was due to a lower gross profit as a result of lower revenue and the costs incurred to start up the production facility at Kvistgård. Furthermore, sales costs and administrative expenses rose as a result of higher costs of legal advice in connection with pending litigation and patents.

In March, the company made a successful issue of shares, and the company's equity was increased by the net proceeds of DKK 230 million. The capital increase was carried out via the book-building method. 579,125 new shares were subscribed at a price of DKK 410 per share.

This brought equity to DKK 691.4 million at 31 December 2006 (DKK 630.1 million).

Group structure

The Bavarian Nordic Group comprises the parent company, Bavarian Nordic A/S, and its subsidiaries: Bavarian Nordic GmbH (wholly owned), Bavarian Nordic Holding Inc. (wholly owned), which is the holding company of Bavarian Nordic Inc (wholly owned) and BN ImmunoTherapeutics Inc (90% owned).

INCOME STATEMENT

Revenue

Bavarian Nordic generated revenue of DKK 175.3 million in 2006 (DKK 247.6 million). This revenue was primarily generated from current contracts with the U.S. health authorities (development contracts RFP-1 and RFP-2).

Production costs

Production costs, which amounted to DKK 136.3 million (DKK 132.2 million), related to the RFP-1 and RFP-2 programmes, which include costs of external suppliers, salaries and wages, and depreciation. Moreover, costs continued to include start-up costs for the production facility. The relatively high production costs compared to revenue were due to costs incurred to start up the Kvistgård facility.

Research and development costs

Research and development costs totalled DKK 118.4 million (DKK 114.4 million). The activities in research and development were at the same level as in 2005. The development costs primarily consisted of in-house payroll costs and costs related to the projects.

Sales costs and administrative expenses

Sales costs and administrative expenses in 2006 totalled DKK 124.4 million (DKK 75.4 million). The increase was due to increased costs of legal advice in connection with litigation.

Financial items

During 2006, Bavarian Nordic posted net financial expenses of DKK 1.0 million (net income of DKK 3.4 million). The fall was mainly attributable to lower cash and cash equivalents than in 2005.

Income before tax

Bavarian Nordic recorded a loss before tax of DKK 204.8 million (a loss of DKK 116.4 million). This was an improvement compared to the guidance in Bavarian Nordic's announcement no. 24-06 of 7 November 2006 due to lower activity, deferred costs and an earlier-than-expected effect of the cost-saving measures implemented.

Tax

Bavarian Nordic posted a tax loss in 2006, which increased the group's tax asset and resulted in the recognition of an income amount under the line item tax on income for the year.

Net profit

A net loss of DKK 160.9 million after tax was posted in 2006 (a loss of DKK 94.7 million). It is proposed that the loss be transferred to free reserves.

Balance sheet

The balance sheet total was DKK 954.4 million at 31 December 2006 (DKK 928.6 million). The change was primarily the effect of an increase in non-current assets and tax assets, whereas cash and cash equivalents, including securities, were reduced.

Assets

Non-current assets totalled DKK 568.2 million (DKK 472.4 million). The increase was primarily attributable to the continuing establishment of the production facility at Kvistgård. The aggregate investment in the Kvistgård facility was DKK 402.6 million at 31 December 2006 (DKK 335.4 million).

Based on contracts already entered into and the projected growth in revenue, positive taxable income is expected in the years ahead. On the basis of these projections, the tax assets at the end of 2006 are included in the balance sheet in the amount of DKK 146.9 million (DKK 107.5 million).

Inventories amounted to DKK 12.9 million (DKK 9.6 million), consisting of raw materials.

Receivables stood at DKK 40.6 million (DKK 42.5 million), which were mainly composed of receivables from the U.S. health authorities.

In 2006, Bavarian Nordic's cash and cash equivalents were invested in short-term government and mortgage bonds denominated in Danish kroner and euros, and ordinary or fixed-term bank deposits. As of 31 December 2006, net cash and cash equivalents stood at DKK 101.4 million (DKK 290.6 million). To this should be added the company's holdings of securities with maturities of more than three months, totalling DKK 231.3 million (DKK 113.5 million).

The fixed-term deposits are denominated in Danish kroner and are at interest rates reflecting bond yields. The bonds were also denominated in Danish kroner at year-end 2006.

Out of the total cash and cash equivalents and securities, DKK 115 million has been provided in security of loans with banks.

Equity
After the transfer of the loss for the year, equity stood at DKK 691.4 million (DKK 630.1 million). The DKK 61.3 million increase was due to the net proceeds of DKK 230 million from an equity issue.

Creditors
The Group's borrowings fell by DKK 32.1 million in connection with ordinary repayment of debt.

Trade creditors amounted to DKK 19.7 million (DKK 28.7 million). Other creditors totalled DKK 38.1 million (DKK 23.9 million).

Board of Directors

Asger Aamund
Founder and Chairman of the Board of Bavarian Nordic A/S since establishment in 1994. From 1981-1988, Mr. Aamund was CEO of Ferrosan, a Danish pharmaindustrial group. From 1988-1992, he was Chairman of DanoChemo A/S, an international manufacturer of vitamins. Mr. Aamund is President and CEO of A. J. Aamund A/S, an industrial holding company focusing on the field of biotechnology. He is Chairman of the Board of NeuroSearch A/S, and Chairman of BankInvest Biomedical Venture Advisory Board. Mr. Aamund is member of the boards of A. J. Aamund A/S, Modern Times Group MTG AB, Stockholm, and the World Wildlife Foundation (WWF).

Eigil Bjerl Nielsen
Served as a member of the Board of Directors of Bavarian Nordic A/S since 1994. Mr. Nielsen is Chairman of the Board of Vipergen ApS. Mr Nielsen is a co-founder and has been Chairman of the Board of several biotechnology companies in the USA, Australia and the UK, including Cambridge Antibody Technology Ltd. in the UK. From 1972 to 1989, Mr. Nielsen was Group Executive Vice President at Carlsberg A/S responsible for research, development and worldwide production.

Erling Johansen
Served as a member of the Board of Directors of Bavarian Nordic A/S since 2000. In 2002, Mr. Johansen retired as President and CEO of BASF Health and Nutrition A/S after serving 10 years in this position. From 1987 to 1992, he was President of DanoChemo A/S. Mr. Johansen worked in various management positions for Ferrosan, DITZ Schweitzer A/S and Oticon A/S. Mr. Johansen is a member of the board of Cyncron A/S.

Flemming Pedersen
Elected as a member of the Board of Directors of Bavarian Nordic A/S in 2006. Mr. Pedersen is President & CEO of Neurosearch A/S. Before joining Neurosearch as Chief Financial Officer (CFO) in 2000, Mr. Pedersen worked as CFO and Vice President of Maersk Medical A/S (now UnoMedical A/S). He is Chairman of the Board(s) of Atonomics A/S, Azign Bioscience A/S. He is member of the board in MBIT A/S and President & CEO of Naapster Aps.

Group Management

Hans Christian Teisen | Paul Chaplin | Peter S. Wulff | René Djurup | Morten Max Rasmussen

Peter S. Wulff
President & CEO of Bavarian Nordic A/S since its foundation in 1994. Mr. Wulff is Chairman of the Board of Bavarian Nordic Inc., Bavarian Nordic Holding Inc. and BN ImmunoTherapeutics Inc. He is also a member of the board of Asah Medico A/S and a co-founder of NeuroSearch A/S. Mr. Wulff received his Master of Science degree in Chemistry form the University of Copenhagen.

Paul Chaplin
Executive Vice President of Research and Development & Chief Scientific Officer. Dr. Chaplin is Managing Director of Bavarian Nordic GmbH and serves as a member of the Board of Directors of Bavarian Nordic Inc. and BN ImmunoTherapeutics Inc. Before joining Bavarian Nordic A/S in 1999, Dr. Chaplin worked for several years at the Institute for Animal Health in the UK in the areas of cytokine and dendritic cell biology and in the research and development of veterinary vaccines at the Cooperative Research Centre for Vaccine Technology (CSIRO) in Australia. Dr. Chaplin received his PhD from Bristol University.

René Djurup
Executive Vice President of Technical Operations & Chief Technical Officer. Before joining Bavarian Nordic A/S in 2003, Dr. Djurup was CEO of Leukotech A/S, a Danish biotech company. Prior to this position, he worked for several years at Novo Nordisk A/S holding management positions in the areas of development, production, quality assurance and business operations. Dr. Djurup received his Medical Degree from the University of Copenhagen. He has written more than 30 scientific articles published in reputable international journals and has filed two patent applications. He has a business degree from the Copenhagen Business School and is a certified ISO Lead Auditor.

Hans Christian Teisen
Executive Vice President, Finance and Commercial Affairs & Chief Business Officer. Mr. Teisen is Chief Executive Officer of Bavarian Nordic Holding Inc. Before joining Bavarian Nordic A/S in 2004, Mr. Teisen worked for several years in management positions at Rockwool International A/S and Rockwool A/S, departing as the Vice President of Finance, Strategy, IT and Procurement. Mr. Teisen previously served in the Danish Ministry of Foreign Affairs. Mr. Teisen received his E*MBA from the Scandinavian International Management Institute and a Master of Science degree in Economics from the University of Copenhagen.

Morten Max Rasmussen
Executive Vice President, Transactions, Legal and Intellectual Property Rights. Mr. Rasmussen serves as a member of the Board of Directors of Bavarian Nordic Inc. Before joining Bavarian Nordic A/S in 2001 as Head of Legal Affairs, Mr. Rasmussen worked for several years at Danisco A/S, as attorney-at-law. During the latter part of his career at Danisco he was based in London acting as General Counsel UK, responsible for the company's legal activities in the United Kingdom. Mr. Rasmussen worked previously as a lawyer in private practice and received his Law Degree from the University of Copenhagen.

Statement from the Board of Directors and Corporate Management

The Board of Directors and the President of the company have approved and submitted the Annual Report of Bavarian Nordic A/S for the year 2006. The Annual Report has been prepared in accordance with International Financial Reporting Standards (IFRS) and the additional Danish reporting requirements. In our opinion, the accounting policies applied are appropriate and the Annual Report gives a true and fair view of the company's and the group's assets, liabilities, financial position, results and cash flow.

The supplementary report on pages 4 to 17 gives a true and fair view within the framework of general established guidelines hereof.

We recommend that the Annual General Meeting approve the Annual Report.

Kvistgård, 30 March 2007

Corporate Management

Peter S. Wulff
President & CEO

Board of Directors

Asger Aamund
Chairman

Eigil Bjerl Nielsen

Erling Johansen

Flemming Pedersen

Independent auditor's report

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 to 31 December 2006, pages 18 to 77, 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 the accounting policies, for the Group as well as the Parent. Our audit did not comprise the supplementary report on pages 4 to 17. The annual report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed companies.

Management's responsibility for the annual report
Management is responsible for the preparation and fair presentation of an annual report in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed companies. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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 judgement, 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 entity's preparation and fair presentation of an annual report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the 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 2006, and of their financial performance and their cash flows for the financial year 1 January to 31 December 2006 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed companies.

Copenhagen, 30 March 2007

Deloitte
Statsautoriseret Revisionsaktieselskab

Jens Rudkjær	Jørgen Holm Andernsen
State Authorised	State Authorised
Public Accountant	Public Accountant

Income statements 1 January to 31 December

Note	Amounts in DKK thousands	Parent Company 2006	Parent Company 2005	Group 2006	Group 2005
2.3	Revenue	175,292	247,596	175,292	247,596
	Production costs	127,611	132,226	136,285	132,226
	Gross profit	**47,681**	**115,370**	**39,007**	**115,370**
2.3	Research and Development costs	117,539	122,863	118,405	114,382
2,3,4	Sales and Administrative costs	112,916	64,744	124,368	75,387
5	Other operating expenses	-	45,371	-	45,371
	Total operating costs	**230,455**	**232,978**	**242,773**	**235,140**
	Income before interest and tax	**(182,774)**	**(117,608)**	**(203,766)**	**(119,770)**
6	Financial income	14,770	19,710	14,978	19,671
7	Financial expenses	15,592	16,458	16,005	16,317
	Income before company tax	**(183,596)**	**(114,356)**	**(204,793)**	**(116,416)**
8	Tax on income for the year	46,730	24,950	43,856	21,686
	Net profit for the year	**(136,866)**	**(89,406)**	**(160,937)**	**(94,730)**
	Distribution of result				
	Parent Company's part of the result			(158,040)	(94,075)
	Minority interest			(2,897)	(655)
				(160,937)	**(94,730)**
	Distribution of earnings:				
	Proposal for distribution of earnings				
	Retained earnings	**(136,866)**	**(89,406)**		
	Earnings per share (EPS), DKK.				
9	- basic earnings per share of DKK 10.00			**(26)**	**(18)**
	- diluted earings, per share of DKK 10,00			**(26)**	**(18)**

Balance sheet – Assets

Note	As of 31 December, amounts in DKK thousands	Parent Company 2006	Parent Company 2005	Group 2006	Group 2005
10	Purchased rights	3,586	4,233	3,586	4,233
10	Software	9,193	14,030	9,383	14,497
	Intangible assets	**12,779**	**18,263**	**12,969**	**18,730**
11	Land and buildings	164,332	169,533	164,332	169,533
11	Leasehold improvements	-	-	2,511	3,837
11	Plant and machinery	221,524	133,650	221,524	134,352
11	Machinery, equipment and furniture	5,294	24,813	19,690	37,837
11	Assets under construction	-	-	-	528
	Tangible non-current assets	**391,150**	**327,996**	**408,057**	**346,087**
12	Investments in subsidiaries	80,423	40,299	-	-
	Other financial non-current assets	20	-	236	-
8	Deferred tax assets	143,832	105,025	146,972	107,543
	Financial assets	**224,275**	**145,324**	**147,208**	**107,543**
	Non-current assets	**628,204**	**491,583**	**568,234**	**472,360**
	Raw materials and supply materials	11,162	7,964	12,882	9,629
	Inventories	**11,162**	**7,964**	**12,882**	**9,629**
	Trade receivables	24,257	27,872	24,257	27,872
	Receivables from subsidiaries	12,979	152	-	-
	Other receivables	6,115	9,689	7,499	11,129
	Pre-payments and accrued income	7,910	880	8,860	3,467
	Receivables	**51,261**	**38,593**	**40,616**	**42,468**
13	Securities	231,322	113,522	231,322	113,522
	Bank and cash equivalents	98,441	285,698	101,366	290,585
	Current assets	**392,186**	**445,777**	**386,186**	**456,204**
	Assets	**1,020,390**	**937,360**	**954,420**	**928,564**

Balance sheet – Equity and liabilities

Note	As of 31 December, amounts in DKK thousands	Parent Company 2006	Parent Company 2005	Group 2006	Group 2005
	Share capital	63,762	57,971	63,762	57,971
	Retained earnings	647,552	566,448	622,997	570,258
	Equity, parent company	**711,314**	**624,419**	**686,759**	**628,229**
	Equity, minority interest	-	-	4,640	1,875
	Equity	**711,314**	**624,419**	**691,399**	**630,104**
14	Other provisions	-	-	1,620	4,282
15	Credit institutions	148,976	207,918	148,976	207,918
	Non-current liabilities	**148,976**	**207,918**	**150,596**	**212,200**
14	Other provisions	-	-	2,682	2,585
15	Credit institutions	51,739	24,913	51,739	24,913
	Accounts payable	18,040	26,264	19,689	28,698
	Payables to subsidiaries	58,243	34,661	-	-
	Company tax	-	-	230	6,182
	Other debts	32,078	19,185	38,085	23,882
	Current liabilities	**160,100**	**105,023**	**112,425**	**86,260**
	Total liabilities	**309,076**	**312,941**	**263,021**	**298,460**
	Total liabilities and shareholders´ equity	**1,020,390**	**937,360**	**954,420**	**928,564**

16 Financial risks
17 Related party transactions
18 Warrant programme andd phantom share program
19 Contingent liabilities, contractual obligations

Cash flow statements

Amounts in DKK thousands	Parent Company 2006	Parent Company 2005	Group 2006	Group 2005
Earnings before interest and tax	(182,774)	(117,608)	(203,766)	(119,770)
Depreciation, amortisation and write-down	10,900	6,469	17,950	15,390
Share-based payment	1,100	-	1,100	-
Paid taxes during the year	-	-	(9,320)	3,263
Changes in inventories	(3,198)	31,222	(3,253)	31,368
Changes in receivables	(12,668)	34,191	1,852	33,526
Changes in provisions	-	30,385	(2,565)	24,058
Changes in current liabilities	28,627	(16,326)	3,913	(46,045)
Cash flow from operating activities	**(158,013)**	**(31,667)**	**(194,089)**	**(58,210)**
Investments in intangible assets	(245)	(11,798)	(245)	(12,012)
Investments in tangible assets	(68,325)	(148,806)	(73,914)	(151,206)
Investments in financial assets	(40,144)	(58,914)	(236)	(32,688)
Investments in securities	(117,800)	(949)	(117,800)	(950)
Financial income	14,770	19,710	14,978	19,671
Cash flow from investments activities	**(211,744)**	**(200,757)**	**(177,217)**	**(177,185)**
Decrease/increase of credit institions	(32,116)	65,101	(32,116)	65,101
Winding up bank overdraft	21,572	-	21,572	-
Proceeds from issue of new shares	237,441	416,726	237,441	416,726
Expenses regarding issue of new shares	(7,233)	(17,668)	(7,233)	(17,668)
Financial expenses	(15,592)	(16,458)	- (16,005)	(16,317)
Cash flow from financing activities	**204,072**	**447,701**	**203,659**	**447,842**
Net changes in cash and cash equivalents of period	**(165,685)**	**215,277**	**(167,647)**	**212,447**
Cash as of 1 January	**264,126**	**48,849**	**269,013**	**56,566**
Cash as of 31 December	**98,441**	**264,126**	**101,366**	**269,013**
Cash preparedness				
Bank and cash funds	98,441	285,698	101,366	290,585
- Bank overdraft	-	21,572	-	21,572
Net cash and cash equivalents as of 31 December	**98,441**	**264,126**	**101,366**	**269,013**
Securities - highly liquid bonds	231,322	113,522	231,322	113,522
Trusted/pledged funds	(115,000)	(115,000)	(115,000)	(115,000)
Credit lines	20,000	45,000	20,000	45,000
Cash preparedness	**234,763**	**307,648**	**237,688**	**312,535**

Statement of changes in equity – Parent Company

2006

Amounts in DKK thousands	Share capital	Retained earnings	Total
Shareholders' equity as of 1 January	**57,971**	**566,448**	**624,419**
Other adjustments		515	515
Transactions recorded on equity		**515**	**515**
Net profit		(136,866)	(136,866)
Net income		**(136,351)**	**(136,351)**
Revenue from issue of new shares	5,791	231,650	237,441
Expenses from issue of new shares		(7,233)	(7,233)
Share base payment		1,100	1,100
Adjustment on warrant programme		(8,062)	(8,062)
Other transactions	**5,791**	**217,455**	**223,246**
Shareholders´ equity as of 31 December	**63,762**	**647,552**	**711,314**

2005

Amounts in DKK thousands	Share-capital	Retained earnings	Total
Shareholders' equity as of 1 January	**46,395**	**260,475**	**306,870**
Exchange rate adjustments		(165)	(165)
Transactions recorded on equity		**(165)**	**(165)**
Net profit		(89,406)	(89,406)
Net income		**(89,571)**	**(89,571)**
Revenue from issues of new shares	11,576	405,150	416,726
Expenses from issues of new shares		(17,668)	(17,668)
Adjustment on warrant programme		9,197	9,197
Change in deferred tax regarding warrant programme		(1,135)	(1,135)
Other transactions	**11,576**	**395,544**	**407,120**
Shareholders' equity as of 31 December	**57,971**	**566,448**	**624,419**

Transactions on the share capital for the past 5 years have been the following

Amounts in DKK thousands	2006	2005	2004	2003	2002
Share capital as of 1 January	57,971	46,395	45,145	45,145	33,553
Issue of new shares	5,791	11,576	1,250	-	11,592
Share capital as of 31 December	**63,762**	**57,971**	**46,395**	**45,145**	**45,145**

The share capital comprises a total of 6.376.180 shares of DKK 10 as of 31 December 2006 (2005: 5,797,055 shares).
The shares are not divided into share classes, and each share carries one vote.

Statement of changes in equity – Group

2006

Amounts in DKK thousands	Share capital	Retained earnings	Reserves for adjustment	Equity Group	Equity Minority	Equity Total
Shareholders´ equity as of 1 January	**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	-	(158,040)		(158,040)	(2,897)	(160,937)
Net income		**(158,040)**	**(1,014)**	**(159,054)**	**(2,897)**	**(161,951)**
Revenue from issues 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
Adjustment on warrant 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	**63,762**	**624,217**	**(1,220)**	**686,759**	**4,640**	**691,399**

2005

Amounts in DKK thousands	Share capital	Retained earnings	Reserve for adjustment	Equity Group	Equity Minority	Equity Total
Shareholders' equity as of 1 January	**46,395**	**268,995**		**315,390**	**-**	**315,390**
Exchange rate adjustments regarding foreign companies		-	(206)	(206)	-	(206)
Transactions recorded on equity		**-**	**(206)**	**(206)**	**-**	**(206)**
Net profit		(94,075)		(94,075)	(655)	(94,730)
Net income		**(94,075)**	**(206)**	**(94,281)**	**(655)**	**(94,936)**
Revenue from issues of new shares	11,576	405,150		416,726	-	416,726
Expenses from issues of new shares		(17,668)		(17,668)	-	(17,668)
Transfer to minority interest		(2,530)		(2,530)	2,530	-
Adjustment on warrant programme		9,197		9,197	-	9,197
Share based payment		1,395		1,395	-	1,395
Other transactions	**11,576**	**395,544**	**-**	**407,120**	**2,530**	**409,650**
Shareholders' equity as of 31 December	**57,971**	**570,464**	**(206)**	**628,229**	**1,875**	**630,104**

Accounting policies

1. Accounting policies

GENERAL INFORMATION

Basis of preparation
The Annual Report of Bavarian Nordic A/S for the year ended 31 December 2006, 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 Copenhagen Stock Exchange.

The accounting policies are unchanged from last year.

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.

Standards and interpretations not yet in force
At the date of the publication of this Annual Report, the following new or amended standards and interpretations have not yet entered into force, and are therefore not included in this Annual Report:

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.

Recognition and measurement
Income is recognised in the fi nancial statements as it is 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 measured reliably. Assets and liabilities are first recognised at cost. Subsequently assets and liabilities are valued as described below for each item.

Consolidation
The consolidated financial statements include Bavarian Nordic A/S and the subsidiaries in which the group owns more than 50 per cent of the voting rights or in some other way has a controlling interest.

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

Inter-company income and expenses together with all inter-company 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 are set off against the shareholders' equity of the subsidiaries.

For acquisition of companies, the acquisition method of accounting is adopted under which the identifiable assets and liabilities of the acquired company are recognised at market value at the date of acquisition, and any difference from the cost price of the acquired companies is recognised as goodwill.

Minority interests include a related portion of the result and are part of the group's annual result and shown as a separate entry under "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 on 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 non-monetary assets acquired in foreign currency and measured based on historical cost are translated at the exchange rates at the transaction date.

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.

THE 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 of the goods or right to the services are transferred. The company does not retain managerial responsibility for, or control of, the goods sold. Sales revenue also comprises receipts where it is certain that there will be no demand for these to be refunded. 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 goods, transport insurance and freight costs or salaries and external costs required to fulfil the deliveries under contract.

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 authorities' approval to initiate clinical trials. Furthermore, salaries and costs supporting direct research and development, including costs of patents, rent, leasing and depreciation attributable to the laboratories and external scientific consultancy services, are included under research and development costs. In the parent company, all inter-company purchases between the parent company and subsidiaries are included in the research and development costs, as the subsidiaries only carry out research and development for the parent company.

All research costs are written off in the year they are incurred.

Development costs relating to the clinical projects are capitalised where sufficient security has been provided in that the future earnings of the company cover not only production and direct selling and administrative costs, but also the development costs. Development costs that cover the ongoing costs of a clinical programme after the date of regulatory approval from authorities for the said clinical trial will be noted as assets. Due to the general risk relating to development of pharmaceutical products, capitalisation in the balance sheet requires that the development of the product can be completed with sufficient security. When sufficient security is not obtained, the development costs are expensed.

Sales and administrative costs
Sales and administrative costs include costs of company management and administrative personnel, office costs, rent, leasing and depreciation not relating specifically to research and development activities.

Financial items
Interest income and expense are recognised in the income statement at the amounts for the financial year. Financial items also include financial costs related to finance leases, value adjustments of financial instruments, securities and items in foreign currency.

Tax
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 tax is measured using the liability method for all temporary differences between the 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 differences for tax purposes and tax losses carried forward are recognised when it is probable that these can be realised by offsetting them against future taxable income. Unrealised temporary tax differences are disclosed in a note to the financial statements with the relevant amounts.

Minority interests
Minority interests include the part of net profit that is 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 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 effects of warrants that could have been acquired at market value on the basis of the monetary value of the rights related to the outstanding warrants. No adjustment is made in the profit or loss for the year.

THE BALANCE SHEET

Intangible assets
Intangible assets are measured at cost less accumulated amortisation. Development projects meeting the requirements for recognition as an asset are measured as direct costs plus indirect production costs relating to the development projects. Amortisation of development projects commences when the asset is taken into use and is calculated 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 an acquisition, which fulfi l the requirements for recognition, are measured at cost. An individual assessment of the useful economic life of the rights is made for purchased rights.

The expected amortisation periods are:

Rights	max.10 years
Development projects	max.10 years
Software	3 years

Tangible assets
Tangible assets include land and buildings, production equipment, leasehold improvements, office and IT equipment, and laboratory equipment, and they are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes the costs of purchase and expenses directly attributable to the purchase until the asset is ready for use. In the case of assets manufactured by the company, cost includes direct and indirect costs of materials, components, thirdpartysuppliers and labour.

Depreciation is provided on a straight-line basis over the useful economic lives of the assets.

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

Acquisitions of minor items of property, plant and equipment are written off immediately in the income statement. Depreciation and gains and losses from regular replacement of property, plant and equipment are recognised in the income statement.

Leasing
Assets under financial leases are measured in the balance sheet at the lower of fair value or the present value of the future lease payments on the date of acquisition. The capitalised remaining leasing commitments are recognised in the balance sheet as a liability and the interest part is recognised in the income statement under financial items. The interest rate implicit in the leasing agreement is used in calculations. The liability is reduced by the repayment part of the lease payments. The assets are depreciated over the expected useful lives of the assets in the same way as other similar assets. The lease payments on assets under operating leases are posted as an expense in the income statement. The total leasing commitment is disclosed in a note.

Investments
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.

Write-down of assets
The carrying values of both intangible and tangible assets as well as financial assets, which are measured at cost or amortised/depreciated cost, are assessed annually to determine whether there are indications of any impairment in excess of that expressed in normal amortisation and depreciation. If this is the case, the asset is written-down to a recoverable amount, which is the higher value of either the net sales price or the capitalised value. Impairment losses on tangible and intangible assets are recognised under the same accounting item as the associated depreciation or amortisation.

Inventories
Inventories are measured at cost as the expenses directly attributable to the purchase, or, for goods manufactured by the company, as the costs directly attributable to purchase plus indirect production costs, or net realisable value if this is lower. Net realisable value is the estimated sales price in the ordinary course of business less relevant sales costs. Cost price is set as a weighted average.

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 at subsidiaries are written-down when the receivable is recognised as having no value. In the event that the parent company has a legal or constructive obligation to cover the negative balance of the subsidiary, this amount will be set aside as a provision.

Securities - bonds
Bonds are measured at market value at the balance sheet date. The market value is measured with regard to known future gains and losses at the balance sheet date from drawing or final maturity. Bonds with a lifetime of less than three months are included under the entry, liquid funds. 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 an event in the current or previous financial years, where it is probable that the obligation will result in an outfl ow of the company's economic resources.

Pension obligations and similar
For contribution-based schemes, the group pays regular fixed contributions to independent pension funds and insurance companies. The group has no obligations to pay further contributions.

Periodical payments to contribution-based schemes are disclosed in the income statement.

Credit institutions
Loans are recognised initially at market value, net of transaction costs incurred. Loans are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs and amortised cost) is recognised in the income statement over the period 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.

The corresponding financial instruments are calculated at current value at the time of the first registration. Changes in the current value are incorporated on an ongoing basis in the income statement.

Debts
Debts are measured at the amortised cost.

Cash flow statement
The cash flow statement has been prepared in accordance with the indirect method on the basis of the group's profit/loss from operations. The statement shows the group's cash flows broken down into operating, investment and financing activities, cash and cash equivalents at the end of the year 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 (DKK) at the exchange rate on the transaction date. Cash flows from operating activities are adjusted for non-cash operating items and changes in working capital. Cash flows from investment activities include cash flows from purchases and sales of intangible, tangible and financial non-current assets, as well as investments in securities. Cash flows from financial activities include cash flows from raising and repayment of loans and capital injections as well as financial items.

Segment reporting
As the Bavarian Nordic group only operates within one business segment, and because risk and return do not diverge geographically, separate segment reports are not included in the notes to the annual financial statements.

Financial definitions

Equity, %	$\frac{\text{Total equity x 100}}{\text{Total assets}}$
Market capitalisation of shareholders	Market price at end of year x total share capital
Equity value, DKK	$\frac{\text{Equity}}{\text{Number of shares}}$
Market price/euity value	$\frac{\text{Market price per share}}{\text{Equity value per share}}$
Earnings per share, EPS	$\frac{\text{Bavarian Nordic's share of the annual result}}{\text{Number of shares (average for 4 quarters)}}$

The key figures are calculated and applied in accordance with "Recommendations and Financial Ratios 2005" issued by the Danish Society of Financial Analysts

Notes

2. Staff costs

Amounts in DKK thousands	Parent Company 2006	Parent Company 2005	Group 2006	Group 2005
Wages and salaries	59,214	57,082	107,416	100,661
Pension and social security expenses	4,488	2,452	11,798	8,464
Other staff expenses	6,961	1,811	12,642	3,958
Share-based payment	974	-	974	-
Phantom share programme	196	-	196	-
Staff costs before capitalisation	71,833	61,345	133,026	113,083
Capitalised salaries	(33,182)	(20,229)	(33,182)	(20,229)
Total staff costs	**38,651**	**41,116**	**99,844**	**92,854**
Staff expenses are distributed as follows:				
Production costs	18,498	43,944	23,995	48,833
Research and Development costs	19,387	1,519	69,203	48,368
Sales and administrative costs	33,948	15,882	39,828	15,882
Staff costs before capitalisation	71,833	61,345	133,026	113,083
Capitalised salaries	(33,182)	(20,229)	(33,182)	(20,229)
Total staff costs	**38,651**	**41,116**	**99,844**	**92,854**
Of which:				
Remuneration to the Board of Directors [1)]	526	441	526	441
Remuneration to the President of the company [1)]	1,994	1,918	1,994	1,918
Remuneration to the Managerial staff [1)]	7,288	5,092	9,161	6,611
Total management remuneration	**9,808**	**7,451**	**11,681**	**8,970**

[1)] Including share-based payment

Incentive programmes are disclosed in note 18. The share based payment to the Board of Directors, the President of the company and the Managerial Staff are respectively 126, 94 and 839 DKK thousands.

Average numbers of employees convert to full-time	104	103	225	206
Numbers of employees as of December 31 convert to full-time	105	121	233	224

3. Depreciation and amortisation

Amounts in DKK thousands	Parent Company 2006	Parent Company 2005	Group 2006	Group 2005
Share of depreciation and amortisation:				
Production costs	1,303	3,212	1,493	8,169
Research and Development costs	3,120	1,273	9,922	5,587
Sales expenses and Administrative costs	6,477	1,984	6,535	1,634
Total depreciation	**10,900**	**6,469**	**17,950**	**15,390**
Hereof profit/loss from disposed fixed assets	(28)	58	(28)	(287)

4. Fees to auditors

	Parent Company		Group	
Amounts in DKK thousands	**2006**	**2005**	**2006**	**2005**
Audit of the annual report	450	375	450	425
Other assistance	369	1,572	369	1,963
Total fees	**819**	**1,947**	**819**	**2,388**

5. Other costs

	Parent Company		Group	
Amounts in DKK thousands	**2006**	**2005**	**2006**	**2005**
Write-down of second-generation smallpox vaccines inventory	-	45,371	-	45,371

6. Financial income

	Parent Company		Group	
Amounts in DKK thousands	**2006**	**2005**	**2006**	**2005**
Financial income	13,624	16,720	14,174	16,804
Financial income from subsidiaries	347	300	-	-
Net income from exchange rate adjustments	799	3,313	804	3,490
Capitalised interest	-	(623)	-	(623)
Total	**14,770**	**19,710**	**14,978**	**19,671**

7. Financial expenses

	Parent Company		Group	
Amounts in DKK thousands	**2006**	**2005**	**2006**	**2005**
Financial expenses	9,115	16,301	9,813	16,590
Financial leasing expense	2,267	1,609	2,267	1,609
Net income from exchange rate adjustments	3,863	-	3,925	20
Financial expense to subsidiaries	347	450	-	-
Capitalised interest	-	(1,902)	-	(1,902)
Total	**15,592**	**16,458**	**16,005**	**16,317**

8. Taxation

Amounts in DKK thousands	Parent Company 2006	Parent Company 2005	Group 2006	Group 2005
Current tax	-	-	2,874	3,263
Change in deferred tax	(38,807)	(27,988)	(39,429)	(26,225)
Corrections to previous years	(139)	(8,666)	761	(9,547)
Tax for the year	**(38,668)**	**(36,654)**	**(35,794)**	**(32,509)**
Re-classification receivables at the beginning of the year	-	1,112	-	231
Tax on equity transactions	8,062	(10,592)	8,062	(10,592)
Tax on income for the year	**(46,730)**	**(24,950)**	**(43,856)**	**(21,686)**
Tax on income for the year is explained as follows:				
Calculated tax (28/30%) tax on income before tax	(51,407)	(32,020)	(56,531)	(32,413)
Tax effect on:				
Change in tax from 30% to 28%	-	4,727	-	4,954
Different percentage in foreign subsidaiaries	-	-	456	-
Not calculated tax values in foreign subsidairies	-	-	8,063	-
Loss of tax loss carry-forwards	2,330	1,782	2,330	1,782
Permanent differences	32	(715)	32	(715)
Corrections to previous year	2,315	1,276	1,794	4,706
Tax on income for the year	**(46,730)**	**(24,950)**	**(43,856)**	**(21,686)**

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	(29,564)	(12,328)	(26,424)	(12,315)
Patent costs	(85)	162	(85)	162
Provisions	-	-	-	2,505
Tax losses carried-forward	173,481	102,455	173,481	102,455
Inventories	-	12,704	-	12,704
Corresponding tax corrections relating to tax audit	-	2,032	-	2,032
Recognised tax assets	**143,832**	**105,025**	**146,972**	**107,543**

Deferred tax assets arising from temporary differences for tax purposes and tax losses carried forward are recognised as these will be offsetting them against future taxable income, primarily related to the expected RFP-3 contract as mentioned on page 22. Not calculated unlimited tax assets DKK thousands 8,063.

9. Earnings per share (EPS)

Amounts in DKK thousands	Group 2006	Group 2005
Profit for the Parent Company's shareholders	(160,937)	(94,075)
Weighted average of shares (thousand units)	6,248	5,356
Earnings per share (DKK)	(25.8)	(17.6)
Diluted earnings, per share of DKK 10,00	(25.8)	(17.6)

There is not calculated any effect on diluted earnings per share in agreement with IAS 33 because it will improve the result per share.

10. Intangible assets – Parent Company

2006 Amounts in DKK thousands	Rights	Software	2006 Total
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**

10. Intangible assets – Group

2006 Amounts in DKK thousands	Rights	Software	2006 Total
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**

10. Intangible assets – Parent Company

2005 Amounts in DKK thousands	Development projects	Rights	Software	Intangible assets under construction	2005 Total
Costs as of 1 January	6,256	6,857	4,029	388	17,530
Additions during the year	-	-	11,798	-	11,798
Transfer	-	-	388	(388)	-
Disposals during the year	(6,256)	-	-	-	(6,256)
Exchange rate adjustments	-	7	6	-	13
Cost as of 31 December	**-**	**6,864**	**16,221**	**-**	**23,085**
Amortisation as of 1 January	6,256	1,386	916	-	8,558
Amortisation during the year	-	1,242	1,273	-	2,515
Disposals during the year	(6,256)	-	-	-	(6,256)
Exchange rate adjustments	-	3	2	-	5
Amortisation as of 31 December	**-**	**2,631**	**2,191**	**-**	**4,822**
Book value as of 31 December	**-**	**4,233**	**14,030**	**-**	**18,263**

10. Intangible assets – Group

2005 Amounts in DKK thousands	Development projects	Rights	Software	Intangible assets under construction	2005 Total
Costs as of 1 January	6,164	6,857	5,043	388	18,452
Additions during the year	-	-	12,012	-	12,012
Transfer	-	-	388	(388)	-
Disposals during the year	(6,164)			-	(6,164)
Exchange rate adjustments	-	7	5	-	12
Cost as of 31 December	**-**	**6,864**	**17,448**	**-**	**24,312**
Amortisation as of 1 January	6,164	1,386	1,402	-	8,952
Amortisation during the year	-	1,242	1,551	-	2,793
Disposals during the year	(6,164)	-	-	-	(6,164)
Exchange rate adjustments	-	3	(2)	-	1
Amortisation as of 31 December	**-**	**2,631**	**2,951**	**-**	**5,582**
Book value as of 31 December	**-**	**4,233**	**14,497**	**-**	**18,730**

11. Tangible assets – Parent Company

2006 Amounts in DKK thousands	Land and buildings	Leasehold improvement	Plant and machinery	Equipment	Pre-payment of assets	2006 Total
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	-	-	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
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**

11. Tangible assets – Group

2006 Amounts in DKK thousands	Land and buildings	Leasehold improvement	Plant and machinery	Equipment	Pre-payment of assets	2006 Total
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
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 2005 mortgage deeds of total of DKK 125.000 (thousands) have been issued on the property Bøgeskovvej 9, Kvistgård, Denmark
The public value assessment of the site and building as of 31 December 2005 was DKK 65.502 (thousands)

11. Tangible assets – Parent Company

2005 Amounts in DKK thousands	Land and buildings	Leasehold improvement	Plant and machinery	Equipment	Pre-payment of assets	2005 Total
Costs as of 1 January	44,462	2,756	-	16,664	130,041	193,923
Additions during the year	63,178	-	80,009	5,611	-	148,798
Transfer	62,622	-	53,657	13,762	(130,041)	-
Disposals during the year	-	(2,756)	-	(4,542)	-	(7,298)
Exchange rate adjustments	18	-	-	-	-	18
Cost as of 31 December	**170,280**	**-**	**133,666**	**31,495**	**-**	**335,441**
Depreciation of 1 January	320	2,733	-	7,718	-	10,771
Depreciation during the year	426	-	16	3,454	-	3,896
Disposals during the year	-	(2,733)	-	(4,490)	-	(7,223)
Exchange rate adjustments	1	-	-	-	-	1
Depreciation as of 31 December	**747**	**-**	**16**	**6,682**	**-**	**7,445**
Book value as of 31 December	**169,533**	**-**	**133,650**	**24,813**	**-**	**327,996**
Book value of leased assets as of 31 December			**60,107**			**60,107**
Interest capitalised during the year						**1,902**

11. Tangible assets – Group

2005 Amounts in DKK thousands	Land and buildings	Leasehold improvement	Plant and machinery	Equipment	Pre-payment of assets	2005 Total
Costs as of 1 January	44,462	9,992	-	56,089	130,041	240,584
Additions during the year	63,178	213	80,723	6,564	528	151,206
Transfer	62,622	-	53,657	13,762	(130,041)	-
Disposals during the year	-	(2,756)	-	(4,736)	-	(7,492)
Exchange rate adjustments	18	-	-	(13)	-	5
Cost as of 31 December	**170,280**	**7,449**	**134,380**	**71,666**	**528**	**384,303**
Depreciation of 1 January	320	5,716	-	27,060	-	33,096
Depreciation during the year	426	976	28	11,459	-	12,889
Disposals during the year	-	(2,733)	-	(4,690)	-	(7,423)
Exchange rate adjustments	1	(347)	-	-	-	(346)
Depreciation as of 31 December	**747**	**3,612**	**28**	**33,829**	**-**	**38,216**
Book value as of 31 December	**169,533**	**3,837**	**134,352**	**37,837**	**528**	**346,087**
Book value of leased assets as of 31 December			**60,107**			**60,107**
Interest capitalised during the year						**1,902**

As of 31 December 2005 mortgage deeds of total of DKK 125.000 (thousands) have been issued on the property Bøgeskovvej 9, Kvistgård, Denmark
The public value assessment of the site and building as of 31 December 2005 was DKK 65.502 (thousands)

12. Investment in subsidiaires

Amounts in DKK thousands	Parent Company 2006	2005
Cost of subsidiaries as of 1 January	40,820	15,476
Additions during the year	40,121	25,296
Disposals during the year	(521)	-
Exchange rate adjustment	3	48
Cost of subsidiaries as of 31 December	**80,423**	**40,820**
Write-down as of 1 January	(521)	(521)
Disposals during the year	521	-
Write down as of 31 December	**-**	**(521)**
Book value as of 31 December	**80,423**	**40,299**

Company summary

Subsidiaries	Domicile	Ownership %	Voting rights %
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 the USA, who is secured a 10% ownership in the company as part of his employment contract. Half of this 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 Inc. will be reduced to an anticipated 80%.

13. Securities

Parent Company and Group

2006

Amounts in DKK thousands

	Currency	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
Securities	DKK	151,563	36,641	43,118	231,322
Effective interest		6.0%	4.1%	4.0%	5.7%

2005

	Currency	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
Securities	DKK	264,909	37,841	62,026	364,776
	EUR	-	10,530	-	10,530
Total		**264,909**	**48,371**	**62,026**	**375,306**
Bonds with maturity exceeding 3 months from the balance sheet date are including in bank and cash funds					(261,784)
Securities with duration over 3 months					**113,522**
Effective interest		3.0%	3.1%	4.6%	3.3%

The company´s securities are pledged for non-mortgage loans in creditinstitutes for a total of DKK 115 million for the year 2005 and 2006.

14. Provisions

Parent Company

Amounts in DKK thousands	Other provisions	2006 Total	2005 Total
Provisions as of 1 January	-	-	2,461
Additions	-	-	-
Disposals	-	-	(2,461)
Exchange rate adjustments	-	-	-
Provisions as of 31 December	**-**	**-**	**-**

Group

Amounts in DKK thousands	Other provisions	2006 Total	2005 Total
Provisions as of 1 January	6,867	6,867	11,618
Additions during the year	-	-	-
Disposals during the year	(2,557)	(2,557)	(4,631)
Exchange rate adjustments	(8)	(8)	(120)
Provisions as of 31 December	**4,302**	**4,302**	**6,867**

Other provisions	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
2006	**2,682**	**1,620**	**-**	**4,302**
2005	2,585	4,282	-	6,867

Other provisions cover remaining rent obligations for premises at Frauenhoferstrasse 18b, Martinsried, Tyskland.

15. Credit Institutions

Parent Company and Group

2006 Amounts in DKK thousands	Due within 1 year	Due between 1 and 5 year	Due after 5 years	2006 Total
Mortgage, DKK, fixed interest interval 5.26-5.33% p,a,	1,327	5,929	40,359	47,615
Financial leasing, fixed interest interval 2.2-7.6% p,a,	15,412	34,688	-	50,100
Construction loan, variable interest 2.8075% p,a,	-	68,000	-	68,000
Construction loan, variable interest 3.315% p,a,	35,000	-	-	35,000
Credit line, variable interest 3.28% p,a,	-	-	-	-
Interest carrying obligations, total	**51,739**	**108,617**	**40,359**	**200,715**

15. Credit Institutions

Parent Company and Group

2005 Amounts in DKK thousands	Due within 1 year	Due between 1 and 5 year	Due after 5 years	2005 Total
Mortgage, DKK, fixed interest interval 5.26-5.33% p,a,	1,270	5,676	41,939	48,885
Financial leasing, fixed interest interval 2.2-7.6% p,a,	2,071	57,926	-	59,997
Construction loan, variable interest 2.8075% p,a,	-	67,377	-	67,377
Construction loan, variable interest 3.315% p,a,	-	35,000	-	35,000
Credit line, variable interest 3.28% p,a,	21,572	-	-	21,572
Interest carrying obligations, total	**24,913**	**165,979**	**41,939**	**232,831**

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
2006	**16.133**	**36.825**	**-**	**52.958**	**(2.858)**	**50.100**
2005	2.071	59.681	-	61.752	(1.755)	59.997

FX Forward (Interest swap)

The Parent Company has a loan of DKK 68 million with a variable interest for the period up to 15 July 2009

The loan is changed to a loan with fixed interest via a SWAP with Nordea Bank with interest 2.79% p.a. for 2005 and 2006.

16. Financial risks – Parent Company

2006

Amounts in DKK thousands					Net position
Currency	**Due**	**Receivables**	**Liabilities**	**Cash Position**	**2006**
DKK	< 1 year	14,026	(101,857)	98,441	10,610
	< 1 year		(148,976)	231,322	82,346
EUR	< 1 year	12,123	(3,642)	-	8,481
	> 1year	-	-	-	-
USD	< 1 year	25,112	(54,601)	-	(29,489)
	> 1year	-	-	-	-
Total		**51,261**	**(309,076)**	**329,763**	**71,948**

16. Financial risks – Group

2006

Amounts in DKK thousands					Net position
Currency	**Due**	**Receivables**	**Liabilities**	**Cash Position**	**2006**
DKK	< 1 year	14,026	(102,002)	98,440	10,464
	< 1 year		(148,976)	231,322	82,346
EUR	< 1 year	1,478	(8,486)	2,393	(4,615)
	> 1year	-	(1,620)	-	(1,620)
USD	< 1 year	25,112	(1,937)	533	23,708
	> 1year	-	-	-	-
Total		**40,616**	**(263,021)**	**332,688**	**110,283**

16. Financial risks – Parent Company

2005

Amounts in DKK thousands **Currency**	**Due**	**Receivables**	**Liabilities**	**Cash Position**	**Net position 2005**
DKK	< 1 year	12,003	(70,362)	285,698	227,339
	< 1 year	-	(207,918)	113,522	(94,396)
EUR	< 1 year	1,478	(16,469)	-	(14,991)
	> 1year	-	-	-	-
USD	< 1 year	25,112	(18,192)	-	6,920
	> 1year	-	-	-	-
Other currencies	< 1 year	-	-	-	
	> 1year	-	-	-	
Total		**38,593**	**(312,941)**	**399,220**	**124,872**

16. Financial risks – Group

2005

Amounts in DKK thousands **Currency**	**Due**	**Receivables**	**Liabilities**	**Cash Position**	**Net position 2005**
DKK	< 1 year	17,400	(24,913)	285,698	278,185
	< 1 year	-	(222,959)	113,522	(109,437)
EUR	< 1 year	1,120	(28,949)	4,143	(23,686)
	> 1year	3,140	(3,140)	-	-
USD	< 1 year	20,808	(18,192)	744	3,360
	> 1year	-	-	-	-
Other currencies	< 1 year	-	(307)	-	(307)
	> 1year	-	-	-	
Total		**42,468**	**(298,460)**	**404,107**	**148,115**

Bavarian Nordic estimate continiously the requirement for currency exposure. It is the opinion of the Management and the Board of Directors that the risk at the moment is minimal.

Credit risk

Receivables from sales and other income are limited to governments and military authorities It is the opinion of the Management and Board of Directors that there is no real credit risk in relation to receivables from sale and other income.

Interest rate risk

It is the opinion of the Management and the Board of Directors that the interest rate risk on the Group loan facilities is minimal.
Fair value of the short term assets and the liabilties match the booked value in the balance.

17. Related party transactions

The Management and Board of Directors of Bavarian Nordic as well as NeuroSearch A/S are considered related parties as they have significant influence.

NeuroSearch A/S is considered to be a related party in that Mr. Asger Aamund is Chairman of the Board for both NeuroSearch A/S and Bavarian Nordic A/S.

Inter-company purchases from the subsidiaries comprise:

Amounts in DKK thousands	2006	2005
Research and Development costs		
Bavarian Nordic A/S purchase of Research and Development costs from Bavarian Nordic GmbH	104,613	98,892
Bavarian Nordic A/S purchase of Research and Development costs from Bavarian Nordic Inc	3,643	-
Management fee		
BN ImmunoTherapeutics Inc. purchase of management services from Bavarian Nordic A/S	272	152
Leasing		
Bavarian Nordic GmbH rents equipment from Bavarian Nordic A/S	1,485	1,667

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

Apart from Group inter-company transactions, renumeration of the President and the Board of Directors (note 2), and the warrants programme (note 18), there are no significant transactions with related parties.

18. Warrant programme

2004 programme

Bavarian Nordic A/S has in 2004-2005 issued warrants to employees and Management. There is no earning obligations connected to the programme.
Warrant with an average exercise price of DKK 312 per warrant, Nominal DKK 1.760 thousands is distributed as follows

Amounts in DKK thousands	Nominal value	Value warrant rights at issurance
Board of Directors	215.9	1,120.0
President of the company	162.0	840.0
Managerial staff	599.2	3,142.6
Employees	340.2	1,954.1
Former employees	442.7	2,421.9
Total	**1,760.0**	**9,478.6**

Value of warrants at issuance (DKK 56-75) are calculated using BlackScholes.
The exercise of the vested warrants under the 2004 programme may be exercised in whole or in part in one exercise issue during the period from 18 April 2007 to 2 May 2007.

2006 programme

Bavarian Nordic A/S has in 2006 issued warrants to employees and Management.
To use the warrants programme on the exercise period, the employee must not have resigned his/her position in Bavarian Nordic.
Warrant with exercise price of DKK 572 per warrant, Nominal DKK 1.750 thousands is distributed as follows

Amounts in DKK thousands	Nominal value	Value warrant rights at issurance
Board of Directors	200.0	980.0
President of the company	150.0	735.0
Managerial staff	1,335.0	6,541.5
Employees	65.0	318.5
Former employees	-	-
Total	**1,750.0**	**8,575.0**

Value of warrants at issuance (DKK 49) are calculated using BlackScholes.
On 31 December 2006 the total number of warrants was 3.510.000 equivalent to 5,5% of the current share capital

The expense om the warrants programme is in 2006 is DKK thousands 1.100 and for 2005 DKK thousands 0.

Vested warrants under the 2006 programme may be exercised in whole or in part during a two-week period immediately after the release of the company's quarterly report for the third quarter of 2009 and/or during a two-week period after the release of the company's full-year announcement for 2009 (in 2010).

18. Warrant programme – continued

The Company has introduced a long-term incentive plan for all employees in the Company and Bavarian Nordic GmbH.
At the end of the relevant month, each full-time employee will be awarded, free of charge, three phantom shares per month during the period 1 November 2006 to 31 October 2009. Accordingly, each full-time employee may be awarded up to a maximum of 108 phantom shares.

Phantom share programme Amounts in DKK thousands	**Nominal value**	**Value, phantom shares at issuance**	**Exercise period**	**Total number of phantom shares as of 31 October 2009**
President of the company	6	1.1	November 2009	108
Managerial staff	276	50.2	November 2009	4,968
Employees	934	170.0	November 2009	17,712
Total	**1,216**	**221.3**		**22,788**

Specification of issued warrants and phantom shares

	2006 programme Options Total	**Phantom share programme Phantom share Total**	**2004 programme Options Total**
Additions in 2004			175,996
Additions in 2006	175,000	1,216	-
As of 31 December 2006	**175,000**	**1,216**	**175,996**

Specification of parametres to BlackScholes model

	2006 - warrantsprogramme	**2006 - phantom shares**	**2004 - warrantsprogramme**
Average share price (DKK)	433	515	474
Average share exercise price (DKK)	572	422	312
Expected volatility rate	36% p.a.	54% p.a.	23% p.a.
Expected option life	3.3 years	2.9 years	0.3 years
Expected dividend rate share	-	-	-
Risk-free interest rate	3.00% p.a.	3.00% p.a.	3.00% p.a.
Obligation as of 31 December 2006 regarding Phantom Shares		196 t. DKK	

The expected volatility is based on the historic voliatility adjusted for the expected changes regarding public information

19. Contingent liabilities, contractual obligations

Amounts in DKK thousands	Parent Company and Group 2006	2005
On deliveries of goods, the company has given normal guarantees in the range of 2-3 years. These guarantees are mostly covered by equivalent guarantees from sub-contractors		
The Parent Company stands surety for a credit facility to the subsidiary of a maximum of EUR 1,3 million to bank	10,000	10,000
Bank guarantees issued as deposits for laboratory and office buildings in Martinsried, Germany.	2,054	2,054
Operational leasing		
Leasing obligations for cars. The rental agreements are irrevocable up to 34 months.		
- Due during the next year	2,312	871
- Due between 1 and 5 years	2,286	1,647
- Due after 5 years	-	-
Rental commitments		
Rental agreements for laboratory and offices facilities in Martinsreid and Berlin, Germany and California, USA. The rental agreements are irrevocable from 6 to 72 months.	35,696	47,961
The above-mentioned rental agreements have bound payment obligations as follows:		
- Due during the next year	10,596	12,589
- Due between 1 and 5 years	22,285	32,341
- Due after 5 years	2,815	3,031
Collaborative agreements:		
The company has contractual obligations with research partners for long-term research projects.		
- Due during the next year	8,833	13,125
- Due between 1 and 5 years	1,599	3,957
- Due after 5 years	-	-
Other contractual obligations:		
- Due during the next year	3,753	4,653
- Due between 1 and 5 years	2,480	2,294
- Due after 5 years	2,160	2,867

Legal advisor
Kromann Reumert
Sundkrogsgade 5
DK-2100 Copenhagen Ø
Denmark

Auditors
Deloitte.
Statsautoriseret Revisionsaktieselskab
Weidekampsgade 6
DK-2300 Copenhagen S
Denmark

Bank
Nordea A/S
Vesterbrogade 8
Box 850
DK-0900 Copenhagen V
Denmark

Annual Report
Bavarian Nordic's Annual Report 2006 in the Danish language is the official legally-binding document. The English version of the Annual Report 2006 is identical in content to the Danish version.

Bavarian Nordic's Annual Report 2006, in both the English and Danish language versions, are available as PDF documents on the corporate website: www.bavarian-nordic.com

Bavarian Nordic addresses

Denmark
Bavarian Nordic A/S
Bøgeskovvej 9
DK-3490 Kvistgård
Denmark
Tel: +45 3326 8383
Fax: +45 3326 8380

Germany
Bavarian Nordic GmbH
Fraunhoferstrasse 13
D-82152 Martinsried
Germany
Tel: +49 89 8565 0030
Fax: +49 89 8565 1333

Bavarian Nordic GmbH
Robert-Rössle-Strasse 10
D-13125 Berlin
Germany
Tel: +49 30 9406 3900
Fax: +49 30 9406 3999

USA
BN ImmunoTherapeutics Inc.
2425 Garcia Ave
Mountain View, CA 94043
USA
Tel: +1 650 681 4660
Fax: +1 360 838 2053

Bavarian Nordic Inc.
2900 K Street N.W., Suite # 501
Harborside, South Building
Washington DC 20007-5118
USA
Tel: +1 202 536 1581
Fax: +1 202 536 1579

Singapore
Bavarian Nordic A/S
#01-42, Jurong Town Hall
Jurong Town Hall Road
Singapore 609431
Singapore
Tel: + 65 65 64 9007
Fax: + 65 65 64 4311

Design and graphic production: Boje & Mobeck as