ANNUAL REPORT
2012

BAVARIAN NORDIC

CONTENTS

A YEAR OF CONSIDERABLE ACHIEVEMENTS

For a decade we have enjoyed an excellent business relationship with the U.S. Government from whom we received our first contract to develop IMVAMUNE® as a modern and safer smallpox vaccine back in 2003. Since then we have obtained a series of new contracts and contract expansions based on our successful performance and ability to deliver and in 2013, ten years after initiating the development program, we will finalize the delivery of the first 20 million doses of IMVAMUNE®.

Along the way, we have succeeded in building and streamlining our manufacturing capabilities and broadening the scope of our business to include a cancer vaccine division with a pipeline including therapeutic cancer vaccines with significant commercial opportunity. We are pursuing this actively through the PROSPECT study – our ongoing Phase 3 study of PROSTVAC® in metastatic prostate cancer.

In 2012, we signed new contracts and expanded existing contracts with the U.S. Government. Our IMVAMUNE® contract was significantly expanded to support the Phase 3 program and we received two contracts to develop our MVA-BN® platform for other purposes. These new contracts recognize the potential of our vaccine platform technology and have expanded our biodefense pipeline and business opportunities beyond the smallpox vaccine business.

2012 was also a turning point for our Infectious Disease division, as it became profitable after substantial efforts to optimize the efficiency of manufacturing IMVAMUNE® and delivering more doses than originally anticipated to the U.S. Strategic National Stockpile.

In 2013 and ahead, we will face new important milestones in the company. We have recently initiated the first of two Phase 3 trials of IMVAMUNE® that will provide the basis for approval in the U.S., and we may already gain approval of the vaccine in Canada and Europe in 2013.

We will continue to optimize our manufacturing capabilities at the Kvistgaard facility which will be prepared for the future commercial production of PROSTVAC® and will assume the production of clinical trial material from the Berlin facility, while also continuing to make improvements in the

IMVAMUNE® manufacturing to accommodate the current and future expected orders. We have finalized the negotiations with the U.S. Government on a contract to continue the supply of IMVAMUNE® and expect the formal award shortly, pending final approvals.

Within a few years' time we expect to have final PROSTVAC® Phase 3 data. Meanwhile we continue to move the pipeline forward by expanding the platform to develop immunotherapies for other major cancers than prostate cancer, benefitting from the expertise we obtain through the collaboration with the National Cancer Institute.

Our efforts to move both divisions forward and successfully to deliver on our promises have positioned us favorably for the years to come. And our recent internal focus on leadership and values during the past years further positions us for success.

With two development projects in Phase 3, continued deliveries of IMVAMUNE® to the U.S., anticipated market approvals of IMVAMUNE® in Canada and Europe, as well as continued profitability in the Infectious Diseases division, the outlook for 2013 and beyond looks very promising.

Anders Hedegaard
CEO

OUR COMPANY

Bavarian Nordic is a vaccine-focused biotechnology company developing and producing novel vaccines for the treatment and prevention of life-threatening diseases with a large unmet medical need.

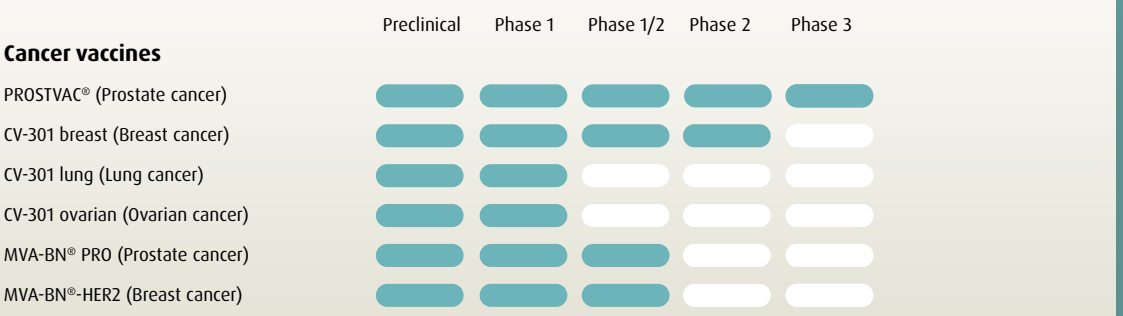
The company is organized in two divisions: Cancer Vaccines and Infectious Diseases. Although different in business models, they share the company's expertise in vaccine development and manufacturing capabilities. Whereas the Cancer Vaccine division is a traditional developmental biotech structure that addresses clear unmet medical needs with a high commercial potential, the Infectious Disease division is a profitable industrialized business that serves the full value chain from early research and development, through large scale manufacturing to business to government sales.

Cancer Vaccines

Our Cancer Vaccines division comprises a research and development center in Mountain View, California, USA. A total of 103 people were employed in the division at year-end 2012. Consolidation of manufacturing activities at the Kvistgaard facility, which will be completed during 2013, will result in approximately one third reduction in workforce and closure of the Berlin facility.

The cancer division is focused on the development, manufacturing and commercialization of therapeutic cancer vaccines. The lead program is PROSTVAC®, an immunotherapy product candidate for advanced prostate cancer that is the subject of an ongoing pivotal Phase 3 trial and is being developed in collaboration with the National Cancer Institute.

Pipeline

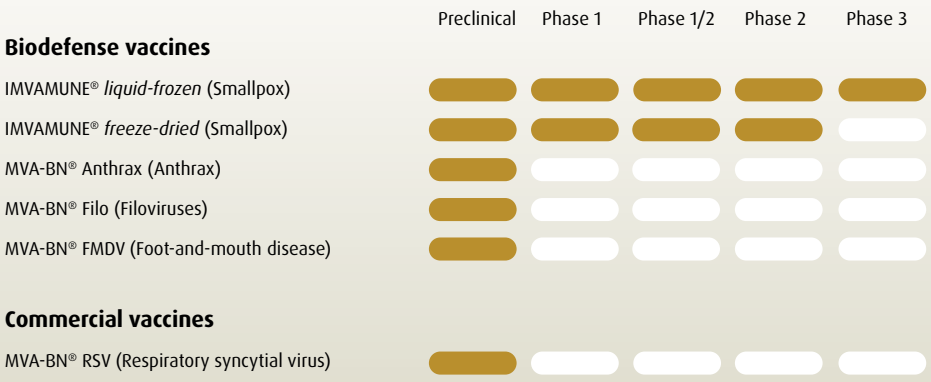


Infectious Diseases

Our Infectious Disease division comprises our research facility in Martinsried, Germany; a manufacturing facility in Kvistgaard, Denmark; a government relations office in Washington, USA; and an office in Singapore. A total of 325 people were employed in the division at year-end 2012.

The pipeline is focused on preventive vaccines for biodefense under fully funded government programs and commercial targets. The lead biodefense program is IMVAMUNE®, a non-replicating smallpox vaccine candidate in Phase 3 trials, which is being developed and supplied for emergency use to the U.S. Strategic National Stockpile under a contract with the U.S. Government.

Pipeline



MILESTONES 2012 AND 2013

The PROSPECT Phase 3 trial of PROSTVAC® began enrollment in Europe
After initiating the PROSPECT study in USA in late 2011, the first clinical trial sites in Europe and Canada were opened in 2012.

Data from two combination studies of PROSTVAC® presented
In February, Phase 1 data from a clinical study combining PROSTVAC® and ipilimumab was published in The Lancet Oncology. The data indicated potential synergy from the combination treatments and adding PROSTVAC® to ipilimumab did not appear to exacerbate the immune-related adverse events associated with ipilimumab.

Data from a Phase 2 combination study of PROSTVAC® and Quadramet® were presented at the 2012 American Society of Clinical Oncology (ASCO) Annual Meeting in June. The interim analysis of the trial suggested that the combination of PROSTVAC® and Quadramet® in patients with metastatic castration-resistant prostate cancer was well-tolerated and indicated a prolonged progression-free survival for the combination as compared to Quadramet® alone.

Promising Phase 2 data for CV-301 breast cancer immunotherapy candidate presented
Preliminary data from a randomized Phase 2 trial of CV-301 in combination with docetaxel in patients with metastatic breast cancer was presented at the European Society of Medical Oncology (ESMO) 2012 Congress in Vienna in October. These clinical trial results are encouraging and have led to positive considerations to continue the clinical development of CV-301 in metastatic breast cancer.

Productivity and profitability of the IMVAMUNE® manufacturing significantly improved
Through ongoing effort to optimize processes in the manufacturing of IMVAMUNE®, the Infectious Disease division became profitable.

Delivered 8.3 million doses of IMVAMUNE® to the U.S. Strategic National Stockpile
2012 deliveries were 1.3 million doses above the original target, contributing to an improved financial result for the year.

U.S. Government expanded the population eligible to receive IMVAMUNE® in an emergency
Based on data from a large Phase 2 trial of IMVAMUNE® in people with compromised immune systems, the U.S. Government expanded the population that is eligible to receive IMVAMUNE® during an emergency to include individuals of all ages with HIV infection or atopic dermatitis, thus significantly increasing the vaccine's future business potential.

Marketing application for IMVANEX® (IMVAMUNE®) submitted to the European Medicines Agency
In February, Bavarian Nordic submitted a marketing authorization application to the European Medicines Agency for IMVAMUNE® that will be marketed under the trade name IMVANEX® in Europe. Decision on approval is anticipated during 2013.

Additional USD 55 million in funding awarded by the U.S. Government
The existing IMVAMUNE® contract was expanded by USD 37 million, primarily to support the Phase 3 development of IMVAMUNE® that is expected to commence in 2013. These funds also support our initiatives to improve storage of the bulk vaccine aimed at a greater flexibility in the manufacturing process.

A new contract valued at USD 17.9 million was awarded to support the development of technologies to accelerate and/or enhance the immune response to a recombinant MVA-BN® based Marburg vaccine.

Finally, a small contract was awarded for the development of a veterinary MVA-BN®-based vaccine against Foot-and-mouth disease.

New order for IMVAMUNE® from Canada
In November, the Canadian Government ordered additional 20,000 doses of IMVAMUNE® to replace the old stockpile that was delivered in 2009. A marketing authorization application was submitted to Health Canada in 2011 with anticipated decision on approval during 2013.

Significant milestones in 2013 up to the reporting date

Kvistgaard turns into a multipurpose manufacturing facility
In January 2013, the Company announced that it will consolidate its manufacturing activities at the Kvistgaard facility, which in recent years has been optimized and is capable of managing additional tasks, beyond the production of IMVAMUNE®. The facility will assume the production of clinical trial material from the Berlin facility and it will be prepared for the future commercial production of PROSTVAC®. As part of this consolidation, the Berlin facility will close during 2013.

New Division President of the Cancer Vaccine division
Following the resignation of Reiner Laus in January 2013, the Company appointed James B. Breitmeyer to the position as Division President of its Cancer Vaccine division. He furthermore joined the executive management team. James B. Breitmeyer joins Bavarian Nordic from the position as Executive Vice President of Development and Chief Medical Officer of Cadence Pharmaceuticals Inc. He has more than two decades of clinical development experience from research through commercialization in the pharmaceutical industry.

OUR FOCUS AND SHORT-TERM OBJECTIVES

After substantial efforts throughout 2012 to further optimize processes in the manufacturing of IMVAMUNE®, the Infectious Disease division became profitable and will continue to work on activities and initiatives to improve the profitability.

To fully benefit from the in-house expertise in poxvirus-based vaccine manufacturing as well as to optimize the use of the Kvistgaard facility, Bavarian Nordic will prepare the facility for the future commercial production of PROSTVAC® and transfer its production of clinical trial material for the company›s preclinical development projects from the facility in Berlin, which will be shut down. The transformation of the Kvistgaard facility into a multipurpose manufacturing facility will allow Bavarian Nordic to take a more flexible manufacturing approach and reduce dependence upon subcontractors, thus providing the company greater control of pre-launch manufacturing activities for PROSTVAC®.

Transfer of the manufacturing of clinical trial material from the Berlin facility and preparation of the Kvistgaard facility to manufacture PROSTVAC® will occur throughout 2013 in parallel with manufacture of IMVAMUNE® for the U.S. Strategic National Stockpile under a new contract for which an award is anticipated shortly.

The Infectious Disease division expects to finalize the recruitment of 4,000 subjects in the Phase 3 lot consistency study and initiate the second Phase 3 study comparing IMVAMUNE® and ACAM2000® in a military setting.

Also, as part of the strategy to market IMVAMUNE® globally, Bavarian Nordic has already filed for market authorization in Canada in 2011 and in Europe (filed with IMVANEX® as trade name) in 2012, with decisions anticipated on both applications during 2013.

The Cancer Vaccines division is focused on the recruitment of patients for the ongoing PROSPECT trial.

Short-term objectives

Cancer

- Report data from NCI-sponsored clinical trials of PROSTVAC®
- Report data from NCI-sponsored clinical trials of CV-301 and determine future development strategy
- Prepare the Kvistgaard facility for commercial manufacturing of PROSTVAC®
- Transfer production of clinical trial material from Berlin facility to Kvistgaard facility

Infectious diseases

- Obtain new IMVAMUNE® delivery contract with the U.S. Government
- Deliver 7 million doses of IMVAMUNE® to the U.S. Strategic National Stockpile in 2013
- Ensure sustainable and growing profitability in division
- Complete enrolment in the IMVAMUNE® Phase 3 lot consistency trial
- Initiate Phase 3 non-inferiority trial of IMVAMUNE®
- Obtain marketing authorization for IMVAMUNE® in Canada
- Obtain marketing authorization for IMVANEX® (IMVAMUNE®) in the EU
- Initiate Phase 2 study with the freeze-dried version of IMVAMUNE® to support emergency use
- Transfer production of clinical trial material from Berlin facility to Kvistgaard facility

KEY FIGURES

Group key figures 2008-2012

DKK million	2012	2011	2010	2009	2008
Income statement					
Revenue	1,016.6	523.6	314.1	74.8	208.8
Production costs	513.6	403.4	444.5	140.1	196.7
Research and development costs	357.4	261.7	188.6	164.0	129.6
Distribution and administrative costs	177.3	166.8	155.1	111.9	92.0
Income before interest and tax (EBIT)	(31.7)	(308.3)	(474.1)	(341.2)	(209.5)
Financial items, net	(17.0)	11.9	(9.4)	10.1	26.2
Income before company tax	(48.7)	(296.4)	(483.4)	(331.1)	(183.3)
Net profit for the year	(240.0)	(268.4)	(389.9)	(266.3)	(150.4)
Balance sheet					
Total non-current assets	644.3	865.2	850.6	715.1	594.2
Total current assets	894.9	1,111.4	616.5	556.0	1,100.0
Total assets	1,539.2	1,976.6	1,467.1	1,271.1	1,694.3
Equity	999.7	1,207.6	810.4	704.2	1,015.1
Non-current liabilities	54.2	105.4	106.5	113.0	52.7
Current liabilities	485.3	663.6	550.2	453.9	626.5
Cash Flow Statement					
Securities, cash and cash equivalents	549.9	584.0	355.7	185.0	795.9
Cash flow from operating activities	20.1	(375.2)	(239.9)	(484.0)	(22.4)
Cash flow from investment activities	71.0	(261.8)	(45.8)	26.1	(81.5)
Investment in tangible assets	20.9	31.2	45.7	50.6	12.0
Cash flow from financing activities	(9.6)	642.4	471.0	(30.8)	(15.1)
Financial Ratios (in DKK) [1)]					
Earnings (basic) per share of DKK 10 [2)]	(9.2)	(10.3)	(14.9)	(10.2)	(5.8)
Net asset value per share (historical)	38.3	46.3	62.5	88.6	129.9
Net asset value per share (adjusted) [3)]	38.3	46.3	31.1	27.0	38.9
Share price at year-end (historical)	50	38	245	144	132
Share price at year-end (adjusted) [3)]	50	38	190	94	86
Share price/Net asset value per share (historical)	1.3	0.8	3.9	1.6	1.0
Share price/Net asset value per share (adjusted) [2) + 3)]	1.3	0.8	6.1	3.5	2.2
Number of outstanding shares at year-end	26,094	26,094	12,962	7,952	7,816
Equity share	65%	61%	55%	55%	60%
Number of employees, converted to full-time, at year-end	450	439	402	354	294

1) Earnings per share (EPS) is calculated in accordance with IAS 33 "Earning per share". The financial ratios have been calculated in accordance with "Anbefalinger og Nøgletal 2010" (Recommendations and Financial ratios 2010).

2) Due to rights issue in 2011 earnings per share and net asset value per share for 2008-2011 have been recalculated based on the average number of shares for 2012/outstanding shares at year-end 2012.

3) Year-end share prices for 2008-2010 have been adjusted for subsequent capital increases.

FINANCIAL REVIEW 2012

Unless otherwise stated, the financial review is based on the Group's consolidated financial information for the year ended December 31, 2012, with comparative figures for the Group in 2011 in brackets.

A pre-tax loss of DKK 49 million (DKK 296 million) was recorded for the year, compared with the latest guidance from November 28, 2012 of DKK 50 million.

The Group's cash preparedness was DKK 670 million at the end of the year (DKK 704 million), compared with the latest guidance of DKK 540 million.

Equity stood at DKK 1,000 million as of December 31, 2012 (DKK 1,208 million).

Income statement

Revenue
Bavarian Nordic generated revenue of DKK 1,017 million in 2012 (DKK 524 million), compared with the latest guidance of DKK 1,000 million. The revenue consisted primarily of revenue from deliveries of IMVAMUNE® to the U.S. Strategic National Stockpile. The remaining revenue mainly came from ongoing development contracts with the U.S. Government, including the contract for freeze-dried IMVAMUNE®.

Production costs
Production costs amounted to DKK 514 million (DKK 403 million), of which DKK 499 million (DKK 318 million) was directly related to revenue. Other production costs decreased from DKK 85 million in 2011 to DKK 15 million in 2012 (note 4). This improvement was primarily due to the continuing optimization of the production process. The total write-down for 2012 was DKK 19 million (DKK 16 million). The development in write-downs is shown in note 15.

The reduction in other production costs improved the gross margin on revenue.

Research and development costs
Research and development costs totaled DKK 357 million (DKK 262 million) excluding capitalized costs of DKK 15 million (DKK 7 million) and DKK 82 million (DKK 68 million) in costs related to contract income; the latter are included in production costs. Thus, research and development costs amounted to DKK 454 million (DKK 337 million). The increase was mainly due to the Phase 3 study of PROSTVAC®.

Distribution costs and administrative costs
Distribution costs and administrative costs in 2012 totaled DKK 177 million (DKK 167 million). The increase was primarily due to increased costs related to delivery of IMVAMUNE® and extension of administrative functions in the Cancer Division.

Financials
For 2012, Bavarian Nordic posted net financial expense of DKK 17 million (net income DKK 12 million). The negative change is primarily attributable to fair value adjustments of financial instruments (see note 9). The fair value adjustments were recognized in equity in previous years as the financial instruments were used to hedge future cash flows. From 2012 most of the financial instruments have been transferred to the trading portfolio (see note 20 for further details).

Tax
Income taxes represented an expense of DKK 191 million (income of DKK 28 million), primarily attributable to a write-down of the deferred tax asset (DKK 182 million) as a result of stricter regulations on tax losses carried forward.

Net profit
A net loss of DKK 240 million after tax was posted in 2012 (a loss of DKK 268 million). It is proposed that the loss be transferred to free reserves.

Balance sheet

The balance sheet total was DKK 1,539 million as of December 31, 2012 (DKK 1,977 million).

Assets
Non-current assets stood at DKK 644 million (DKK 865 million). The fall was primarily due to the write-down of the tax asset by DKK 182 million. As of December 31, 2012, the tax asset amounted to DKK 175 million (DKK 367 million). To realize the entire deferred tax asset in a foreseeable period of time – while the Phase 3 study of PROSTVAC® runs – Bavarian Nordic is, in addition to known and anticipated revenue from the sale of IMVAMUNE®, dependent on FDA and EMA approvals of PROSTVAC® so that PROSTVAC® can be commercialized in both the United States and Europe. The write-down of the tax asset will be reassessed at least once a year.

Development costs for IMVAMUNE® related to registration of the vaccine were capitalized in the amount of DKK 123 million (DKK 108 million) and posted under intangible assets as an investment in progress. The additions for 2012 amounted to DKK 15 million (DKK 7 million).

Inventories amounted to DKK 229 million (DKK 219 million). Write-downs amounted to DKK 31 million (DKK 55 million) as of December 31, 2012 and related to the full or partial write-down of inventories that are pending final quality control. Invento-

ries comprise raw materials for production, work in progress and manufactured goods and commodities.

Receivables stood at DKK 116 million (DKK 308 million). Most of these receivables were trade receivables of DKK 57 million (DKK 188 million) and pre-payments for future filling of vaccines of DKK 35 million (DKK 110 million).

Bavarian Nordic's cash and cash equivalents are primarily invested in deposit accounts with highly rated banks and in short-term Danish government and mortgage bonds.

As of December 31, 2012, cash and securities stood at DKK 550 million (DKK 584 million).

Equity

After the transfer of the loss for the year, equity stood at DKK 1,000 million (DKK 1,208 million).

Creditors
The Group's borrowings dropped to DKK 89 million (DKK 99 million) in connection with ordinary repayment of debt. Trade payables amounted to DKK 104 million (DKK 84 million). Other creditors totaled DKK 116 million (DKK 163 million) and included DKK 19 million in negative fair value of financial instruments (DKK 51 million).

In connection with the award of the RFP-3 contract in 2007, an advance payment of DKK 277 million (USD 50 million) was received; in 2010, the Company received a milestone payment of DKK 148 million (USD 25 million), and in 2011 DKK 136 million (USD 25 million). These payments are subject to a repayment obligation if Bavarian Nordic does not meet its obligations under the contract, including delivery of 20 million IMVAMUNE® doses. Both the prepayment and the milestone payments are recognized as liabilities and will be recognized as revenue as doses are delivered. At year-end 2012, 14.4 million doses had been delivered, and the original prepayments were thus reduced by DKK 398 million (note 23).

OUTLOOK FOR 2013

In 2013, Bavarian Nordic expects to deliver and recognize as revenue 7 million doses of IMVAMUNE® comprising of the last 5.6 million doses under the base contract with the U.S. Government and doses under a new contract to continue supply of IMVAMUNE®. The Company has finalized its negotiations with the U.S. Government on the new contract, for which the formal award is anticipated shortly, pending final approvals.

The Company expects revenue at the level of DKK 1,100 million and a break even result before tax. The revenue will primarily be generated from deliveries of IMVAMUNE® to the U.S. Strategic National Stockpile, including milestone payments related to development costs incurred previously, along with ongoing research and development contracts, including the contract for freeze-dried IMVAMUNE® and additional funding awarded for the Phase 3 trial of IMVAMUNE®.

The cash preparedness at year-end is expected to be roughly DKK 600 million.

Once the development milestones are obtained, we will initiate the expense of the capitalized RFP-3 development costs.

Investments are expected to be at the same level as depreciations and amortizations.

Research and development costs are expected to total approximately DKK 460 million, excluding expense of capitalized RFP-3 development costs, of which approximately DKK 110 million are contract expenses that will be stated under production costs in the profit and loss statement. Research and development costs include the further development of IMVAMUNE® and PROSTVAC®.

Provided that the deliveries and development of IMVAMUNE® proceed according to plan, the Infectious Disease division is expected to generate an EBIT of DKK 360 million, after expense of capitalized RFP-3 development costs of approximately DKK 150 million.

Provided that the Phase 3 study for PROSTVAC® and the development of the other cancer programs proceed according to plan, the Cancer Vaccine division is expected to generate a negative EBIT of DKK 325 million.

For the divisions, EBIT has previously been stated before allocation of internal charges, but is now stated after allocation of internal charges.

2013 outlook in short

- Revenue:
  DKK 1,100 million
- Result before tax:
  DKK 0 million
- Cash preparedness at year-end:
  DKK 600 million

Assumptions

- Deliver 7 million doses of IMVAMUNE® to the U.S. Strategic National Stockpile
- Research and Development costs:
  DKK 460 million (excluding expense of capitalized RFP-3 development costs)
- Infectious Disease Division, EBIT:
  DKK 360 million
- Cancer Vaccines Division, EBIT:
  DKK 325 million (loss)

OUR STRATEGY

The goal of Bavarian Nordic is to become a leading developer and supplier of innovative vaccines for the treatment and prevention of life-threatening cancer and infectious diseases.

The Company's overall strategy to become a successful and profitable pharmaceutical company is based on the following main parameters:

- License IMVAMUNE®
- Build a long-term biodefense revenue stream
- Build a commercial pipeline in infectious diseases
- License and commercialize PROSTVAC® globally
- Build a cancer vaccine pipeline

Through our commitment to the development of safer vaccines for the protection of the public against potential bioterrorism agents, we have established a successful business in biodefense, encompassing a full value chain of research and manufacturing facilities. All biodefense product candidates are based on our patented and proven technology platform, the viral vector MVA-BN®, suitable for developing new vaccine targets in both preventive and therapeutic settings.

Leveraging these competencies, we have expanded our business with the establishment of a cancer business unit focused on the development of new and improved therapies for the treatment of cancer to fulfill unmet medical needs.

Cancer vaccines

Bavarian Nordic is pursuing the development of active immunotherapies targeting solid tumors for which few satisfactory treatments exist.

Utilizing recombinant poxvirus vectors (MVA-BN® and VF-TRICOM), the Company is developing improved therapies for the treatment of cancers in which current approved therapies are limited in terms of efficacy and safety. Currently, recombinant MVA-BN® vaccine candidates are being investigated in clinical Phase 1/2 studies for the treatment of breast and prostate cancer, and VF-TRICOM is the backbone of PROSTVAC® and CV-301, both in-licensed from the National Institutes of Health and being developed in collaboration with the National Cancer Institute. PROSTVAC® is the subject of an ongoing global pivotal Phase 3 clinical trial in metastatic, castration-resistant prostate cancer.

It is the Company's mid to long-term strategy to license and commercialize PROSTVAC® globally through partnerships.

Infectious diseases

Our infectious disease strategy is threefold: 1) Establishing a flexible manufacturing facility and competences to meet the company's manufacturing requirements in the short, medium and long-term; 2) To build upon our highly successful relationship with the U.S. Government and expand the biodefense pipeline, through fully supported government contracts; and 3) To utilize the flexible MVA-BN® platform to develop commercial vaccines against infectious diseases for high unmet medical needs.

Biodefense pipeline
Our long-standing partnership with the U.S. Government on the development of and supply contracts for IMVAMUNE® as a safer smallpox vaccine has facilitated the establishment of both a highly specialized organization and a manufacturing infrastructure with the ability to produce and deliver commercial-scale quantities of MVA-BN®-based vaccines. This focus on delivering biodefense vaccines for governments has created opportunities for a sustainable business, allowing Bavarian Nordic to retain and increase value in the Company.

Over the next few years, Bavarian Nordic will work closely with the U.S. Government to address the requirements they have with respect to a safer smallpox vaccine. This work is aimed at maintaining a stockpile of IMVAMUNE® in its current liquid-frozen formulation until a freeze-dried version has been developed and accepted for emergency use, after which the company aims to receive orders to replace and expand the current stockpile.

Concurrently, the Company will conduct the pivotal Phase 3 trials of IMVAMUNE® to form the basis for licensure in the U.S.

The continued support and dedication from the U.S. Government in spurring the development of medical countermeasures through early research funding and procurement contracts has proven a good fit with our business model. We will continue to pursue opportunities in this field to further expand our pipeline and maximize our manufacturing capabilities.

Commercial pipeline
The smallpox contract awards show that the U.S. Government recognizes the potential value of MVA-BN® as a safer smallpox vaccine, but the recent contract awards by the U.S. Government for Marburg and Foot-and-mouth disease vaccines are further recognition that MVA-BN® offers numerous advantages as a vaccine vector to develop new and/or improved vaccines against infectious diseases. Bavarian Nordic plans to expand the commercial pipeline and company investments into the platform by developing vaccines against diseases that represents commercially attractive targets.

OUR TECHNOLOGIES

Bavarian Nordic is highly specialized in the research, development and manufacturing of vaccines based on viral vectors for the delivery of antigens targeting infectious diseases and cancers.

The Company has developed its proprietary MVA-BN® technology and established a manufacturing infrastructure and competencies to produce MVA-BN® vaccines at a commercial scale.

Through the in-licensing of other technologies, the Company continues to build expertise in viral vector-based vaccines in order to enhance and further develop other emerging technologies such as VF-TRICOM, which in clinical trials has demonstrated potential clinical benefit, was well-tolerated and offered the advantage of ease of administration.

Viral vector-based vaccines offer the advantage of the virus inducing both a strong humoral and a cellular immune response, thus activating both arms of the immune system.

The MVA-BN® platform

MVA-BN® is a further attenuated version of the Modified Vaccinia Ankara (MVA) virus, which is itself a highly attenuated strain of the poxvirus Chorioallantois Vaccinia virus Ankara (CVA). MVA-BN® is under clinical evaluation in a total of 16 completed or ongoing trials as a smallpox vaccine (IMVAMUNE®). More than 3,600 individuals, including nearly 1,000 immunocompromised, have been vaccinated with MVA-BN®-based vaccines, showing the virus displays high immunogenicity and, at the same time, no serious adverse reactions.

Furthermore, recombinant MVA-BN®-based vaccine candidates have undergone clinical Phase 1 and Phase 2 trials in breast and prostate cancer, as well as various infectious diseases.

An advantage of MVA-BN® is the virus' inability to replicate in a vaccinated individual. The replication cycle is blocked at a very late stage, which ensures that new viruses are not generated and released. This means that the virus cannot spread in the vaccinated person and none of the side effects normally associated with replicating vaccinia viruses have been seen with MVA-BN®.

In studies with MVA-BN® in immunocompromised individuals, the vaccine has also been well tolerated and has shown an attractive immunogenicity profile, making MVA-BN®-based vaccines suitable for the development of vaccines for immunocompromised populations.

Bavarian Nordic has built a strong patent portfolio around MVA-BN® to ensure that the Company can optimize the commercial value of its research and development discoveries. The comprehensive patent portfolio comprises more than 350 pending patent applications and more than 750 granted/issued patents. This competitive IP position gives Bavarian Nordic exclusive rights to manufacture, sell and market its MVA-based technology globally and ensures protection against competitors' use of similar products and technologies within Bavarian Nordic's core business areas.

The VF-TRICOM platform

Bavarian Nordic has expanded its expertise in poxviruses by in-licensing the VF-TRICOM platform, which consists of a vaccinia virus and a fowlpox virus, administered in a prime-boost vaccination regimen.

PROSTVAC® and CV-301 are in-licensed from the NIH and developed in collaboration with NCI. These lead product candidates were developed to target specific oncology indications. While PROSTVAC® incorporates a single antigen over-expressed in prostate cancer (PSA), CV-301 incorporates two antigens (CEA and MUC-1) that are over-expressed in other major solid tumors, including breast, lung and ovarian cancer.

Tumor-associated antigens such as PSA, CEA, and MUC-1 which are unique molecules minimally expressed by normal tissue and over-expressed in cancer cells, can be used as immunologic targets. These «self»-antigens do not sufficiently activate the immune system to attack cancer cells. To overcome this poor responsiveness, recombinant poxvirus vectors, including vaccinia and fowlpox, can be genetically engineered to express one or more tumor-associated antigens along with three co-stimulatory molecules (TRIad of COstimulatory Molecules) to greatly enhance the immune system's ability to recognize and destroy cancer cells bearing any of the targeted antigens.

Bavarian Nordic has exclusively licensed patents covering PROSTVAC® and CV-301. The two portfolios comprise about 27 pending patent applications and 153 granted/issued patents. These portfolios strategically position Bavarian Nordic well for the exploitation of PROSTVAC® and CV-301 in the relatively crowded field of recombinant vaccine patents and their uses. In addition, the Company has obtained non-exclusive rights to related patents and technologies.

MANUFACTURING

Bavarian Nordic's commercial-scale manufacturing facility in Kvistgaard, Denmark is designed for the manufacture of poxvirus-based vaccines and has been dedicated for the production of IMVAMUNE® smallpox vaccine, mostly for the U.S. Strategic National Stockpile.

Over the past years, the Company has succeeded in optimizing production efficiency significantly and accordingly has turned smallpox vaccine production into a profitable business. Further work is ongoing to improve the manufacturing process and its productivity, thus seeking to further improve the profitability of the current and future expected contracts with the U.S. Government to manufacture and deliver IMVAMUNE®.

To fully benefit from the in-house expertise in poxvirus-based vaccine manufacturing as well as to optimize the use of the Kvistgaard facility, Bavarian Nordic has decided to transform the facility in into a multipurpose facility to meet the Company's manufacturing requirements in the short, medium and long-term. Specifically, the facility will be prepared for the future commercial production of PROSTVAC® and it will take over production of clinical trial material for the Company's preclinical development projects, which have previously been produced at the Company's pilot production plant in Berlin, Germany. As part of this consolidation, the Berlin facility will close during 2013.

The transformation of the Kvistgaard facility into a multipurpose manufacturing facility will allow Bavarian Nordic to take a more flexible manufacturing approach and reduce dependence upon subcontractors, thus providing the company greater control of pre-launch manufacturing activities for PROSTVAC®.

The facility already has the necessary quality systems and other support functions in place. Furthermore, it makes use of disposable technologies, which is a great advantage in the planning and execution of different manufacturing campaigns.

The preparations for commercial manufacturing of PROSTVAC® at the facility will require initial investments at the level of DKK 75 million in total over three years. These will be offset by savings in the same level.

CORPORATE SOCIAL RESPONSIBILITY

In just a few years, Bavarian Nordic has grown from a pure research company into a fully integrated company with an in-house production of vaccines. This transformation, combined with a high rate of organic growth, has required a great deal of systematic and thorough work adapting the organization to its new tasks as a production company while also taking the world around us into account in order ensure to that our operations are responsible from both a financial and a social perspective.

In extension of our annual environmental report, which we began publishing in 2005 when we started up production at our production facility, we began working systematically with several aspects concerning our surrounding world. This work is primarily concentrated on the *environment*, our *employees* and our *suppliers*. Additionally we are focusing on other key issues that are important to our business: *business ethics* and *products*.

We account annually for the development in these areas in our CSR report which constitutes an independent part of the annual report.

The report can be downloaded at:

www.bavarian-nordic.com/csr

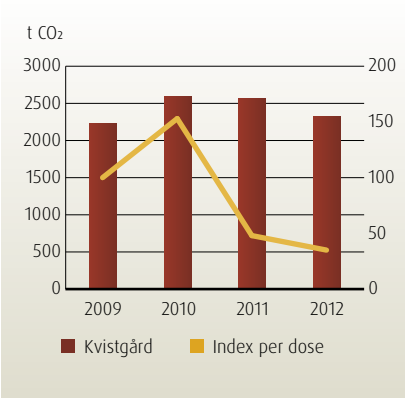
About the report
The CSR report was prepared in accordance with Danish Financial Statements Act requirements with respect to CSR reporting. The report covers the financial year 1 January to 31 December 2012 and forms part of the management's review in the annual report as signed and approved by the Board of Directors and Corporate Management on 12 March 2013.

Reporting principles
This CSR report was prepared with inspiration from the Global Reporting Initiative (GRI), a recognized framework for sustainability reporting. The GRI structure includes principles and indicators we use to measure and explain the Company's financial, environmental and social performance. We selected the areas to be reported on based on a principle of materiality: we endeavoured to include the most important ways in which the Company has an either direct or indirect impact upon the world around it. Our manufacturing facilities are one of the chief sources of our impact on the environment, and we seek to provide a high degree of transparency through our carbon footprint and reported environmental data.

The scope of the report
In our CSR report, we focus on our largest facilities: i.e. Kvistgaard (industrial production, quality control laboratories, technical services department and administration), Martinsried (research and development), Berlin (production of clinical trial materials) and Mountain View, California (research and development). Taken together, these facilities employ more than 99% of the Group's staff and are responsible for most by far of the energy and raw materials consumed.

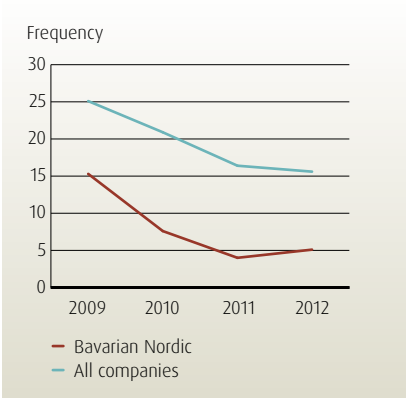
Selected data from the CSR report

Carbon footprint, Kvistgaard



CO_2 emissions for the Kvistgaard facility and indexed CO_2 emissions per dose of vaccine

Work-related accidents



Number of accidents per million working hours compared with DI (Confederation of Danish Industry) statistics for work-related accidents (all occupational groups).

Absence

Absence rate compared with DI (Confederation of Danish Industry) statistics for sickness absence (all companies).

PROSTVAC PHASE 3

After the initiation of the pivotal Phase 3 trial of PROSTVAC® in late 2011, the first clinical trial centers in Europe were opened in 2012. This global study will enroll 1,200 patients with metastatic castration-resistant prostate cancer.

CANCER VACCINES

The cancer pipeline is focused on the development of novel cancer immunotherapy candidates designed to treat major cancers with high unmet medical needs or where current treatments have significant limitations.

Targeted immunotherapy candidates for the treatment of cancer are part of a growing field in cancer research, with the objective to harness the natural power of the immune system to fight disease.

The objective is to produce a strong, tumor-specific response from the immune system in order to slow the progress of the disease, increase overall survival, and help to maintain or improve the quality of life of patients - without the side effects associated with many traditional chemotherapies and hormonal therapies.

In addition to our MVA-BN® based product candidates, Bavarian Nordic has in-licensed two product candidates (PROSTVAC® and CV-301), that are being developed under cooperative research and development agreements (CRADAs) with the National Cancer Institute (NCI).

Both PROSTVAC® and CV-301 are prime-boost vaccines sequentially combining two different poxviruses (vaccinia and fowlpox). Collectively, these two product candidates, along with earlier generations of these vaccines, have been the subject of over 30 clinical trials with more than 1,100 patients actively treated for prostate, breast, lung, colorectal, gastric, pancreatic, ovarian and other cancers. These extensive clinical studies suggest that the product candidates are well-tolerated with the ability to induce specific immune responses directed against the relevant tumor-associated antigens.

PROSTVAC® - prostate cancer immunotherapy candidate

PROSTVAC® (PSA-TRICOM) is an off-the-shelf product candidate for the treatment of prostate cancer. In 19 ongoing and completed clinical Phase 1 and Phase 2 trials, more than 600 patients have been treated with the immunotherapy candidate, which has been well-tolerated. The data from a larger Phase 2 trial demonstrated PROSTVAC®'s ability to extend the median overall survival of patients with advanced prostate cancer by 8.5 months, a nearly 50% increase compared to the placebo group. This promising data led to the initiation of a confirmatory Phase 3 trial (PROSPECT).

Overall Survival Analysis of a Phase II Randomized Controlled Trial of a Poxviral-Based PSA-Targeted Immunotherapy in Metastatic Castration-Resistant Prostate Cancer

J Clin Oncol. 2010 Mar 1; 28(7):1099-1105

The PROSPECT Phase 3 trial
The PROSPECT trial was initiated in the USA in November 2011. During 2012, trial sites were also opened throughout Europe and Canada. This global randomized, double-blind, placebo-controlled study is expected to enroll 1,200 patients with asymptomatic or minimally symptomatic metastatic castration-resistant prostate cancer.

The clinical trial is being conducted under a Special Protocol Assessment (SPA) agreement with the U.S. Food and Drug Administration (FDA). The SPA process is a procedure through which the FDA provides official evaluation and written guidance on the design and size of proposed protocols that are intended to form the basis for a Biologics License Application or New Drug Application.

Study design
PROSPECT is a three-arm study. Patients in the two active study arms will receive either PROSTVAC® alone or PROSTVAC® with adjuvant doses of GM-CSF (which was included in the Phase 2 clinical trial). Patients who have metastatic disease and have failed hormone therapy but who have not yet received other treatment options such as chemotherapy will be eligible to enroll in the study. The primary endpoint is overall survival (OS). For the study outcome to be positive, either one or both of the treatment arms must demonstrate a better overall survival than placebo.

Other PROSTVAC® studies
PROSTVAC® is currently the subject of two NCI-sponsored clinical studies in different settings, evaluating the vaccine in combination with other therapies.

One study is a Phase 2 clinical study comparing flutamide (anti-androgen therapy) with or without PROSTVAC®, planned to enroll a total of 65 patients with non-metastatic prostate cancer. Results from 41 patients indicate an improvement in time to progression (TTP) for those patients receiving PROSTVAC® in combination with flutamide (median TTP = 192 days) compared to flutamide alone (median TTP = 108 days).

The second study is a Phase 2 clinical trial in 50 patients with PSA progress after local therapy (surgery and/or radiation).

Combination of PROSTVAC® and other therapies warrant further investigation

In several completed clinical trials, PROSTVAC® has shown encouraging results when used in combination with other therapies and/or in earlier disease stages.

Most recently, interim data from an NCI-sponsored Phase 2 randomized trial of PROSTVAC® in 34 patients with metastatic castration-resistant prostate cancer were presented at the 2012 ASCO Annual Meeting in June. This trial evaluated PROSTVAC® in combination with Quadramet® (Sm-153), a commercially available radiopharmaceutical targeted against bone metastases. The interim analysis suggests that the combination of PROSTVAC® and Sm-153 is well-tolerated with similar toxicity profile to Sm-153 alone and indicate improved time-to-tumor progression (TTP). At four months, the progression-free survival (PFS) in the group receiving only Sm-153 (Arm A) was 11.8% compared to 29.4% in the group receiving both Sm-153 and PROSTVAC® (Arm B). Median PFS for patients in Arm A was 60 days compared to 117 days in Arm B.

In February 2012, final data from an NCI-sponsored Phase 1, non-randomized combination study with PROSTVAC® and ipilimumab (anti-CTLA-4 antibody) in patients with metastatic prostate cancer was reported. An observed median overall survival of 34.4 months for the 30 patients treated in the study raises the possibility that the combination of ipilimumab and PROSTVAC® might result in prolonged overall survival.

Ipilimumab and a poxviral vaccine targeting prostate-specific antigen in metastatic castration-resistant prostate cancer: a phase 1 dose-escalation trial.

Lancet Oncol. 2012 May; 13(5):501-508.

A new clinical Phase 2 study combining PROSTVAC® with Xtandi® (enzalutamide) – an oral androgen receptor inhibitor that was approved by the FDA in 2012 – is planned for initiation during second quarter of 2013. This NCI-sponsored study will enroll 72 patients with castration-resistant prostate cancer that will be randomized to receive enzalutamide with PROSTVAC® treatment or enzalutamide only. The study's primary endpoint is progression-free survival.

CV-301 – an immunotherapy candidate targeting multiple cancers

CV-301 (CEA-MUC-1-TRICOM) is an off-the-shelf product candidate for the treatment of multiple cancers. It originates from the same poxvirus technology platform as PROSTVAC®. While PROSTVAC® incorporates a single antigen over-expressed in prostate cancer (PSA), CV-301 incorporates two antigens (CEA and MUC-1) that are over-expressed in other major cancers, including breast, lung, and ovarian, which makes CV-301 potentially applicable in various cancers.

CV-301 has been the subject of 16 ongoing or completed NCI-sponsored clinical trials in different cancers (breast, lung, ovarian and other cancers) and more than 500 patients have been treated with the vaccine.

Upon an assessment of the overall data generated for CV-301 to-date, Bavarian Nordic will determine the future development strategy for CV-301, which is expected during second half of 2013. Concurrently, the company is working to improve the CV-301 technology, through the design of new vaccine constructs based on the MVA-BN® technology.

Table: CEA and MUC-1 over-expression in selected cancers. The figures represent the percentage of instances in each cancer where the antigens are over-expressed, thus indicating an advanced stage of the disease.

	CEA+	**MUC-1+**
Breast cancer	50%	>90%
Lung cancer	70%	>80%
Ovarian cancer	15-65%	>90%

CV-301 in breast cancer

Data from a randomized Phase 2 trial of CV-301 in patients with metastatic breast cancer were met with significant scientific and clinical interest from attending oncologists, after being presented at the ESMO 2012 Congress in Vienna in October.

The study enrolled 48 patients to receive CV-301 in combination with docetaxel or docetaxel alone. Enrolment completed in February 2012 and 5 patients remained on study at the time of the analysis. The primary study endpoint was progression-free survival (PFS), while secondary endpoints included overall survival and immunologic correlative studies. Demographics were well matched and toxicity was similar in both arms. Immune analysis and correlation to patient clinical outcomes including overall survival is ongoing.

The preliminary analysis of the study showed PFS of 6.6 months in the CV-301 group versus 3.8 months among those receiving docetaxel alone (HR=0.67, p=0.12). The clear separation of the curves indicates potential clinical benefit. Because of its size the study was not designed to reach statistical significance. The study has now been completed and data is currently being analyzed.

MVA-BN®-based cancer vaccines

Two cancer vaccine candidates utilizing the MVA-BN® vector in a homologous prime-boost vaccination protocol to target cancer specific antigens have been investigated in clinical trials: MVA-BN® PRO for prostate cancer and MVA-BN® HER2 for breast cancer.

MVA-BN® HER2 expresses an immunogenic form of the self-protein HER2-neu antigen (HER2). Preliminary safety and immunogenicity data from a Phase 1/2 study in 15 patients with HER-2 over-expressing breast cancer without metastatic disease and post-adjuvant chemotherapy and Herceptin treatment suggest that MVA-BN®-HER2 is well-tolerated and immunogenic, supporting further development.

MVA-BN® PRO expresses immunogenic forms of two prostate-associated proteins: PSA and PAP. Preliminary data from a Phase 1/2 safety and tolerability study in 18 male patients with non-metastatic hormone-insensitive prostate cancer are encouraging, as they show that MVA-BN PRO-induced anti-PSA and PAP immune responses may lead to tumoricidal activity.

The future development strategy for the MVA-BN® based cancer vaccine candidates is pending data from an ongoing Phase 2 study with CV-301 and the overall assessment of the cancer vaccine portfolio, which is expected during second half of 2013.

IMVAMUNE PHASE 3

In March 2013, Bavarian Nordic initiated the first of two Phase 3 trials that will support the licensure of IMVAMUNE® in the U.S. A total of 4,000 subjects will be vaccinated in this study.

Later in 2013, the Company will finalize its deliveries of the first 20 million doses of the vaccine to the U.S. Strategic National Stockpile.

INFECTIOUS DISEASES

IMVAMUNE® - smallpox vaccine candidate

IMVAMUNE® is being developed as a non-replicating smallpox vaccine suitable for protection of individuals that are contraindicated for conventional smallpox vaccines, e.g. individuals with HIV, people with atopic dermatitis (AD) and members of their households. This typically represents approximately 25% of the general population.

In clinical trials to date, more than 3,600 individuals have been vaccinated with IMVAMUNE®, which has been well-tolerated. The vaccinated subjects include almost 1,000 individuals with compromised immune systems who are currently ineligible for conventional smallpox vaccines.

Although yet unlicensed, commercial quantities have been produced and made available for governments globally under their national emergency rules, due to the need for a safer smallpox vaccine.

The development of IMVAMUNE® is funded by the U.S. Government through contracts with the Biomedical Advanced Research and Development Authority (BARDA) and the National Institutes of Health (NIH).

Initial contracts awarded in 2003 and 2004 were aimed at the preclinical and clinical development and demonstrated Bavarian Nordic's ability to deliver commercial-scale quantities of IMVAMUNE®. In 2007, Bavarian Nordic was awarded a contract to license IMVAMUNE® in the USA and supply 20 million doses of the vaccine intended for emergency use. This contract was expanded in 2011 and 2012, primarily to cover additional costs related to the licensure of the vaccine.

Through a contract awarded by BARDA in 2009 and expanded in 2011, Bavarian Nordic is developing a freeze-dried version of IMVAMUNE®, which would offer various advantages in terms of a potentially longer shelf life and a more convenient procurement and storage compared with the current liquid-frozen formulation, which has a guaranteed shelf life of a minimum three years.

To date, Bavarian Nordic has been awarded development and supply contracts for IMVAMUNE® from the U.S. Government exceeding USD 770 million in total.

The licensure in the U.S. will depend on two Phase 3 studies, the first of which was initiated in March 2013. In both Canada and Europe, Bavarian Nordic has already filed for licensure based on the existing and extensive Phase 2 data and expects decisions on the market approval during 2013.

Deliveries to the U.S. Strategic National Stockpile
Bavarian Nordic has been delivering IMVAMUNE® to the U.S. Strategic National Stockpile (SNS) for emergency use since 2010. By year-end 2012 a total of 14.4 million doses had been delivered under the base contract out of a total of 20 million doses. The remaining doses under the contract will be delivered in 2013, upon which the company will initiate deliveries under a new contract, for which an award is anticipated shortly.

Future smallpox vaccine orders
The U.S. Government has previously announced a requirement for sufficient quantity of an attenuated smallpox vaccine (e.g. IMVAMUNE®) to protect 66 million people for whom smallpox vaccine is contraindicated and their household contacts. Patients with atopic dermatitis and their household contacts are estimated to make up the majority of this group – approximately 50 million people. This potentially represents a significant expansion in the number of IMVAMUNE® doses required for stockpiling. Based on data from a large Phase 2 trial of IMVAMUNE® in people diagnosed with atopic dermatitis, the U.S. Government in 2012 expanded the population that is eligible to receive IMVAMUNE® during an emergency. In the event of a public health emergency involving smallpox, the government may now authorize the use of IMVAMUNE® to protect individuals of all ages with HIV infection or atopic dermatitis (AD). Children, pregnant women, and nursing mothers with HIV or AD are also eligible to receive IMVAMUNE®, despite limited clinical data in these specific populations. Previously, only certain people with HIV were eligible.

Through the award of the contract to develop a freeze-dried formulation of IMVAMUNE®, the U.S. Government has signaled its strong desire to develop a potentially improved formulation of IMVAMUNE® to the stage that the vaccine can be procured and stockpiled for emergency use in the SNS. A Phase 2 study designed to meet the emergency use requirements (pre-EUA) will commence in 2013 with data anticipated in 2016. Until then, Bavarian Nordic expects to receive additional orders for IMVAMUNE® in its current formulation.

Market approval in the U.S.
To support the licensure of IMVAMUNE® in the U.S., two Phase 3 studies have been agreed upon with the FDA; a lot consistency study in 4,000 healthy individuals and a study in 440 military personnel, designed to demonstrate non-inferiority

between IMVAMUNE® and the current U.S. licensed smallpox vaccine.

The first Phase 3 trial was initiated in March 2013. A total of 3,000 people will be vaccinated with three different lots of IMVAMUNE® (1,000 subjects per IMVAMUNE® lot) and the safety compared with 1,000 additional subjects receiving placebo. The design of this study is larger and requires additional subjects than initially proposed by Bavarian Nordic as part of the contract awarded under Project Bioshield. Funds to cover the additional costs of the trial were awarded by the U.S. Government in 2012 through exercise of a contract option.

The second Phase 3 study is expected to be initiated during 2013 once a suitable military site for the study has been selected.

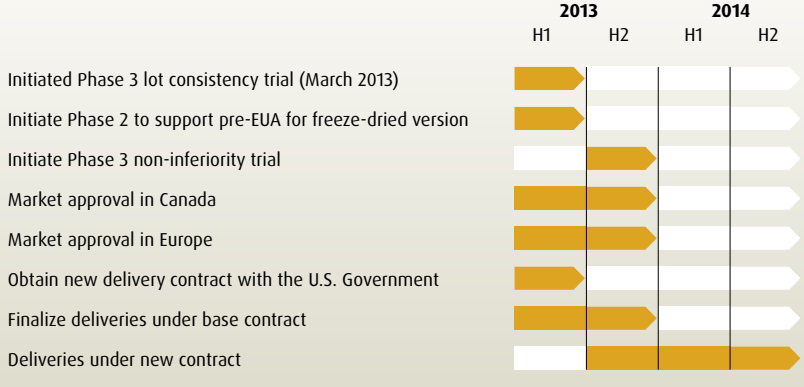
While Bavarian Nordic proceeds with the clinical trials, the overall licensing package, including the supporting animal data, will have to be agreed on with the agency and later ratified by a Vaccines-Related Biological Product Advisory Committee (VRBPAC).

Market approval in Canada and Europe
In February 2012, Bavarian Nordic submitted a marketing authorization application (MAA) to the European Medicines Agency (EMA) for IMVAMUNE® which will be marketed under the trade name IMVANEX® in Europe. The MAA was filed for consideration under the centralized procedure and following a successful review could potentially lead to the market authorization of IMVANEX® in Europe (EAA countries) during 2013.

In Canada, a marketing authorization application for IMVAMUNE® was submitted in 2011. Upon request from Health Canada, Bavarian Nordic submitted additional documentation in the first half of 2012, thus fulfilling the latest requirements for the review, for which a decision is anticipated during 2013.

Bavarian Nordic has collaborated with the Canadian Government to address their biological preparedness requirements since 2008. The Company was initially awarded a contract to supply 20,000 doses of IMVAMUNE® to the Canadian armed forces. Also, the contract provided milestone-based funding for the filing of a marketing authorization application. In 2012, the government, through exercise of a contract option, ordered additional 20,000 doses of IMVAMUNE® to replace the old stockpile that was delivered in 2009.

IMVAMUNE® – anticipated developments:



Anthrax

Through several preclinical studies sponsored by the NIH the immunogenicity and efficacy of several of the MVA-BN®-Anthrax vaccine candidates are being assessed. If these studies provide positive data, the company expects that funding of clinical trials of the anthrax vaccine may be obtained from the U.S. Government.

Filoviruses

In 2011, National Institutes of Allergy and Infectious Diseases (NIAID) exercised an option on a third-party contract to fund the production of a clinical batch of MVA-BN® Marburg (vaccine against infection with the Marburg virus) and MVA-BN® Filovirus (vaccine against both Marburg and Ebola infections). NIAID plans to use the GMP-grade vaccines to perform a Phase 1 trial comparing the safety and immunogenicity of both vaccines in 2013.

In 2012 a contract valued up to USD 17.9 million over five years was awarded by the NIAID. This contract will support the advanced development of candidate vaccine components and technologies that accelerate the immune response for use in post-event settings following the intentional release of pathogens that are considered a threat to public health.

Under the contract, Bavarian Nordic will evaluate several novel technologies to accelerate and/or enhance the immune response to a recombinant MVA-BN® based Marburg vaccine. If successful, the new technologies would have benefits for all MVA-BN®-based vaccines for infectious diseases and cancer. Under the 2 year base period of the contract, valued at USD 4.4 million, Bavarian Nordic would evaluate several candidate vaccines in preclinical studies. This may be followed by GMP production and a Phase 1 clinical trial for the lead candidate that will be performed under several contract options that may be exercised until the end of the contract in 2017.

Foot-and-mouth disease virus

In 2012, a contract valued at USD 1 million was awarded by the U.S. Department of Homeland Security Science and Technology Directorate for the development of an MVA-BN®-based animal vaccine against Foot-and-mouth disease virus (FMDV).

Foot-and-mouth disease is a severe disease of cattle, sheep, swine and other cloven-hoofed animals. FMDV remains one of the most feared agricultural pathogens due to its severe adverse impact on animal production and productivity. Concerns regarding the accidental or intentional introduction of FMDV have led to efforts by the U.S. Department of Agriculture and Department of Homeland Security to identify novel FMDV vaccines that address limitations of the currently available inactivated FMDV vaccines.

Respiratory syncytial virus (RSV)

RSV (*respiratory syncytial virus)* is a leading cause of death (from infection) in infants and is also associated with a comparable number of deaths in adults as influenza, particularly in at-risk populations (elderly or immune-compromised patients, and those having underlying respiratory conditions). Currently, there is no vaccine against RSV to protect the estimated 200 million people annually at risk from RSV infections.

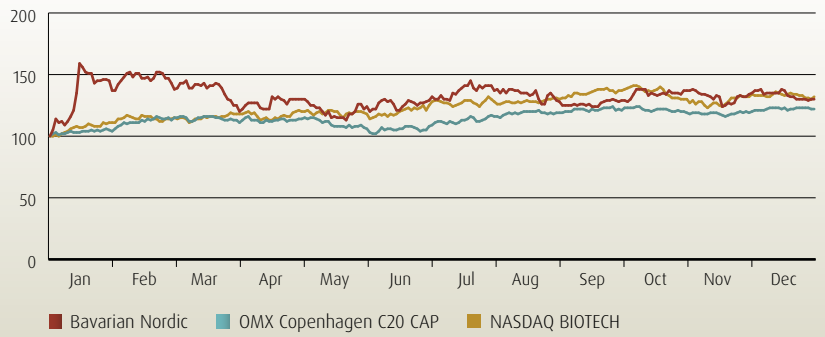
The body's natural defense against RSV is only transient, meaning that re-infection is common, most often producing flu-like symptoms, although RSV can lead to lower respiratory infections, pneumonia, respiratory failure and death.

While several MVA-BN®-based RSV candidates have tested in animal models in-house, the leading candidate is currently undergoing independent testing in NIH sponsored studies. During 2013 clinical batch production and other activities to support a Phase 1 study in adults and children intended to start in 2014 will be performed.

THE BAVARIAN NORDIC SHARE

The price of Bavarian Nordic's share increased 30% during the year, with the price at year-end 2012 DKK 49.80, versus DKK 38.40 at year-end 2011. Share price volatility was low, with fluctuations between a low of DKK 40.30 and a high of DKK 61.

Share price development compared to indices:



Share capital

Bavarian Nordic's share capital at 31 December 2012 was 260,943,610, comprised of 26,094,361 shares with a nominal value of DKK 10 each. Bavarian Nordic has one share class, and each share carries one vote. Bavarian Nordic is listed on the NASDAQ OMX Copenhagen under the ID code DK0015998017.

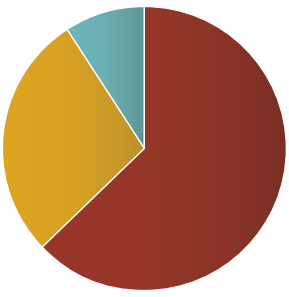
Ownership

As of 31 December 2012, Bavarian Nordic had 21,148 registered shareholders owning 23,767,977 shares, which corresponds to 91 per cent of the share capital. There was no significant change in the number of registered shareholders in 2012, but the share of non-registered shareholders was reduced to 9%. Bavarian Nordic continuously invites its shareholders to have their shares registered with the Company; registration must be through the holder's custodian bank.

The Company maintained its geographic distribution of the shareholder base with a third of the registered capital outside Denmark mainly in USA, UK and Switzerland.

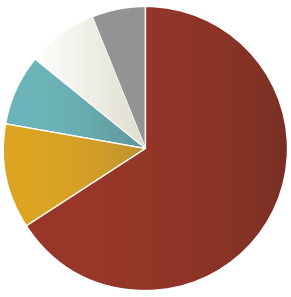
Bavarian Nordic does not hold any of its own shares.

Distribution of share capital by shareholder category



Institutional	63%
Private	28%
Non-registered	9%

Geographic distribution of shareholders (in percentage of registered share capital)



Denmark	66%
USA	12%
Great Britain	8%
Switzerland	8%
Other countries	6%

Major shareholders

As of 12 March 2013, the following shareholders had publicly informed Bavarian Nordic that they owned five per cent or more of the Company's shares:

Arbejdsmarkedets Tillægspension (ATP), Hillerød, Denmark (more than 10%)
A. J. Aamund A/S, Copenhagen, Denmark (more than 5%)
BB Biotech AG, Switzerland (more than 5%)
Orbimed Advisors LLC, USA (more than 5%)

Dividend policy

Bavarian Nordic does not expect to declare dividends until the Company has achieved an adequate capital base. However, the Company continues to strive towards securing an adequate capital base for future dividend payments. The Board of Directors will propose at the Annual General Meeting on 17 April 2013 that no dividends be paid.

Annual General Meeting

The 2013 Annual General Meeting will be held at 4 pm on Wednesday, 17 April 2013, at the Comwell Borupgaard, Nørrevej 80, DK-3070 Snekkersten, Denmark.

Investor relations

The Company wishes to continue to develop its dialogue with shareholders,

analysts, prospective investors and other stakeholders by providing open, honest and accessible information to ensure that they have the requisite knowledge to assess the Company. The Company seeks to do so by, among other things, ensuring timely and correct communication about relevant strategic, economic, financial, operational and scientific affairs of the Company, subject to due observance of the Company's investor relations policy, which further ensures that the Company complies with the general requirements and recommendations of the NASDAQ OMX Copenhagen.

The executive management and the investor relations team work extensively to present Bavarian Nordic to international institutional investors, analysts and the media. Over the past year, Bavarian Nordic's road shows travelled to venues such as Scandinavia, Paris, Frankfurt, Zurich, Geneva, Amsterdam, Brussels, London and multiple locations in USA The Company also participates in a number of international bank and investor conferences. In support of increasing its shareholder base abroad and in the USA in particular, the Company has increased its efforts aimed at these markets, thus reflecting the geographic diversification of the Company's activities and future sales.

Furthermore, Bavarian Nordic often participates in shareholder events and meetings for private investors. To promote good relations with the local community, local shareholders and stakeholders are occasionally invited for an evening presentation at Bavarian Nordic.

Analysts
A number of analysts from investment banks in Denmark and abroad follow the Bavarian Nordic share and regularly issue recommendations based on the Company's performance and factors that may influence its business and future development of the share price. A list of these analysts is found on the Company's website.

Services for shareholders
All registered shareholders can access the shareholder portal on the investor website, which allows them to sign up for a number of information services, including annual report and investor magazine as well as to sign up and/or vote by proxy for the general meetings.

Financial calendar 2013

17 April 2013
Annual General Meeting

16 May 2013
Financial Statements for the first quarter of 2013 (Q1)

22 August 2013
Financial Statements for the first half of 2013 (Q2)

14 November 2013
Financial Statements for the first nine months of 2013 (Q3)

For a period of two weeks (silent periods) before planned publication of quarterly reports, Bavarian Nordic does not comment on developments or financial issues and expectations. The dates for silent periods will be published on the Company's website.

RISK MANAGEMENT

An integrated part of Bavarian Nordic's operations is to identify material risks that could affect the Company's work, future performance or goals, or the interests of the shareholders. This aims to run the Company in accordance with best practice in the Company's area of business.

The Company has set up internal systems for this purpose and also uses external advisers to assist in the constant assessment and updating. All relevant departments participate in the identification and assessment of risk factors in order to address them properly. The Board of Directors regularly receives reports on these initiatives, which then form part of the Board's overall assessment and decisions about the Company's activities and future.

In 2012, the Company remained focused on risks regarding the Company's production. The action plan that was implemented in 2011, which included changes in processes as well as initiation of the scale-up, was further developed and new objectives were identified.

Furthermore, the Company has worked to prepare the organization for the pivotal Phase 3 trials of IMVAMUNE® and the recruitment for the ongoing Phase 3 trial of PROSTVAC®.

The primary risks in 2013 relate to the deliveries of IMVAMUNE® to the U.S. and the recruitment of patients for the Phase 3 trials of PROSTVAC® and IMVAMUNE®.

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

- Fulfilment of delivery contracts for IMVAMUNE®
- Securing new IMVAMUNE® delivery contracts with the U.S. Government
- Recruitment of patients for the Phase 3 trials of PROSTVAC® and IMVAMUNE®
- Continued improvements in production of IMVAMUNE®
- Preparations for commercial manufacturing of PROSTVAC® at the Kvistgaard facility
- Reduce the release time from production of the IMVAMUNE® bulk vaccine until filling of the final product
- Collaborative agreements
- Changes in the US dollar exchange rate and how it affects the free liquidity and futures revenue
- Bavarian Nordic's production capacity and subcontractors
- Duration of review processes by various authorities
- Protection of patents and other intellectual property rights
- Clinical development
- Risks relating to Bavarian Nordic's technologies, projects and products
- The ability to retain key personnel
- The Company's cash preparedness
- Foreign currency risks
- Tax risks

Bavarian Nordic's operational risks further include the ability to enter into collaborations with partners for development, manufacturing, marketing and financial resources. There are additional risks related to sales contracts and the related production and logistics.

Currency risk includes the risk arising from sales and production contracts being denominated in currencies other than Danish kroner. Contracts are primarily in US dollars, so other currencies do not represent significant currency risks. The exposure from fluctuations in the dollar is reduced because a significant part of the exposure is hedged due to higher costs in dollars than previously. This is primarily due to the ongoing Phase 3 trial of PROSTVAC®. Liquidity can be influenced by changes in the USD/DKK exchange rate, in that profit or loss from the forward exchange contracts can be settled when the contracts are due for extension.

Bavarian Nordic is primarily exposed to tax risks due to legislative changes. In 2012, the Company had to write-down its deferred tax asset due a resolution that limits the use of deferred tax assets.

Bavarian Nordic has a strong intellectual property position; however, due to the complex legal issues in this area, 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 current or future clinical trials could also have a substantial impact on Bavarian Nordic's operations and financial position.

INTERNAL CONTROL

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

Bavarian Nordic has an audit committee consisting of the Company's Board members and chaired by Erik G. Hansen. The audit committee reviews and discusses the accounting and audit practices with the Company's auditors elected at the Annual General Meeting and the Corporate Management in accordance with the working framework of the audit committee.

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

Bavarian Nordic has policies and procedures for key areas of financial reporting as well as work plans for the month-end closing process, ensuring that all relevant reconciliations are prepared and reviewed and that records coding is in accordance with the requirements and guidelines that the US authorities (BARDA) have in relation to covering project costs associated with the IMVAMUNE® contracts.

Monthly closing procedures ensure an in-depth analysis of deviations between actual performance, business plans and budgets, and updated estimates for the financial year. A written monthly management report is prepared by each division containing explanations for deviations in the central business areas within the division. The division reports are combined into one group report that is distributed to the Executive Management and Board of Directors.

Internal controls
Each division has its own accounting and controller function which is responsible for the division's monthly closing process and reporting to corporate finance.

Financial planning, follow-up and reporting is supported by a group reporting system that shows actual and budgeted financial figures down to the department and account level. All budget holders have access to the group reporting system, which is updated daily with direct links to the Group's ERP system.

The quarterly financial reporting is prepared by corporate finance based on input from each division's accounting and controller functions. Where considered relevant, key risk areas are reviewed by the auditors.

The annual audit and reporting process includes detailed planning of individual tasks and planning meetings between investor relations (IR), group finance and the auditors, and it is based on an audit strategy approved by the audit committee.

The management commentary in the Annual Report is drafted in close collaboration with IR, Executive Management and key personnel in the divisions.

Further, the auditors ensure that the financial statements give a reliable and true view of the Group's assets, liabilities and financial position and ensure that the Annual Report is prepared in accordance and compliance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

Risk assessment
At least once a year, the Board of Directors evaluates the risks connected with the financial reporting process, including the presence of internal controls and guidelines. The Board of Directors assesses the Group's organizational structure, including the risk of fraud and the measures to be taken to reduce and/or eliminate such risk. In that regard, any incentive or motive from the Corporate Management to manipulate earnings or perform any other fraudulent action is discussed.

The Group's internal controls and guidelines provide a reasonable but not absolute certainty that unlawful use of assets, loss and/or significant errors or deficiencies in relation to the financial reporting process can be avoided.

The Board has decided not to institute an internal audit at Bavarian Nordic, based on its assessment that the Company's size and complexity does not necessitate such a function.

Control environment
Information technology and computerized systems are widely used in almost any area at Bavarian Nordic. Several processes are automated and key decisions and actions are taken through electronic interfaces.

In the ERP system, a number of user groups have been set up to ensure the required segregation of key functions in the finance department. Incoming invoices are approved electronically, and an approval hierarchy ensures that invoices are approved by the appropriate persons and according to the proxy rules of the group. Payment proposals are approved through online banking and always by two staff members jointly.

The business procedures in the IT department ensure that all IT development is according to GLP, GCP and GMP. There are effective procedures for identifying, monitoring and reporting IT risks and security measures set up to respond to emerging events.

CORPORATE GOVERNANCE

Bavarian Nordic remains focused on good corporate governance, having implemented the recommendations from the Committee of Corporate Governance (Komitéen for god selskabsledelse) for companies listed on the NASDAQ OMX Copenhagen exchange.

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

Each year, in connection with the annual report, the Company publishes a statement on its compliance with the "Recommendations on Corporate Governance". The statement can be downloaded from the Company's website at:

www.bavarian-nordic.com/corporate-governance

Board and Management practices

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

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

The Board of Directors consists of six external members elected by the shareholders at the Annual General Meeting for terms of one year. Retiring members are eligible for re-election. In addition, such members that are to be elected pursuant to the statutory rules regarding representation of the employees on the Board of Directors are elected; currently the Board has no employee representation. The Board elects a chairman from among its members.

In 2012, eleven meetings were held. Corporate Management and certain senior employees of Bavarian Nordic usually attend the Board meetings. The Board regularly receives reports from Corporate Management on the status of the Company's operations and business. The Chairman of the Board and the Company's legal advisor evaluate the performance of the Board and Corporate Management on an annual basis. The results are presented to and discussed by the Board.

Remuneration of the Board
Members of the Board of Directors receive a fixed fee, and warrants may be granted to them, the aggregate number of which is set out in the Company's guidelines for incentive pay. The fees paid to the Board of Directors are fixed according to the standards in the market and reflect demands to their competencies and efforts in light of the scope of their work and the number of Board meetings. The Chairman receives twice the fee of an ordinary Board member. The Chairman's fee in 2012 was DKK 400 thousand, and fees paid to each of the ordinary members amounted to DKK 200 thousand, equivalent to a total of DKK 1.4 million. The members of the Board of Directors participate in the warrant program as explained in note 25. The members of the Board of Directors did not receive any other remuneration from Bavarian Nordic in 2012.

Practices of the Corporate Management
The Corporate Management is currently Anders Hedegaard, the Company's President and CEO. Members of the Corporate Management are appointed by the Board of Directors, which lays down their terms and conditions of employment and the framework for their duties. The Corporate Management is responsible for the day-to-day management of Bavarian Nordic in compliance with the guidelines and directions issued by the Board of Directors. The day-to-day operations do not include transactions of an unusual nature or of material importance to the affairs of Bavarian Nordic. Moreover, there are three executive vice presidents who assist the Corporate Management in the day-to-day operations of the Company. The Corporate Management holds fortnightly meetings with the executive vice presidents to coordinate day-to-day management activities.

MANAGEMENT OF BAVARIAN NORDIC

Board of Directors

Asger Aamund
Chairman of the Board since the inception of Bavarian Nordic in 1994. Re-elected in 2012 for a one-year term. Not independent. Mr. Aamund is a Danish national, born in 1940.

Mr. Aamund is president and CEO of A.J. Aamund A/S, a holding company focusing on the field of biotechnology. He was previously CEO of Ferrosan, a Danish pharmaindustrial group. He is chairman of the board of directors at Rehfeld Partners A/S and a member of the board of directors of A.J. Aamund A/S. He is also chairman of the Danish Alzheimer Research Foundation.

The special competencies possessed by Mr. Aamund that are important for the performance of his duties in the Company is his management experience from many years in the Danish and international pharmaceutical industry. As a pioneer in Danish biotech, Mr. Aamund has had a key role in the establishment and stock exchange listing as well as commercialization of several companies and he well experienced in collaborations and partnering in the international pharmaceutical industry.

Claus Braestrup
Member of the Board since 2008. Re-elected in 2012 for a one-year term. Independent. Dr. Braestrup is a Danish national, born in 1945.

Dr. Braestrup is a former president and CEO of H. Lundbeck A/S. He has previously served at Novo Nordisk A/S as vice president of pharmaceutical research, president of its CNS Division and president of the Diabetes Care Division, and at Schering AG as head of preclinical drug research.

Dr. Braestrup is chairman of the board of Probiodrug AG and Aniona ApS and a member of the board with Santaris Pharma A/S, Evolva Holding SA and Gyros AB. Dr. Braestrup has a doctorate in medicine from the University of Copenhagen.

The special competencies possessed by Dr. Braestrup that are important for the performance of his duties in the Company are his scientific qualifications and his extensive executive experience from publicly traded, international pharmaceutical companies.

Erik Gregers Hansen
Member of the Board since 2010. Re-elected in 2012 for a one-year term. Chairman of the audit committee. Independent. Mr. Hansen is a Danish national, born in 1952.

Mr. Hansen is director of Rigas Invest ApS. He previously held the positions of managing director at Dansk Portefølje A/S (now Nykredit Asset Management). He is chairman of the board of directors of A/S af 26. marts 2003, DTU Symbion Innovation A/S, NPT A/S, Polaris Management A/S, Polaris Invest II ApS, TTiT A/S; he is also a member of the board of directors of Bagger-Sørensen & Co. A/S (deputy chairman), Bagger-Sørensen Foundation, Lesanco ApS, OKONO A/S, PFA Holding A/S, Wide Invest ApS and Aser Ltd. In addition, Mr. Hansen is a member of the executive boards of Rigas Invest ApS, Tresor Asset Advisers ApS, Berco ApS and Hansen Advisers ApS. Mr. Hansen holds an MSc in finance and accounting.

The special competencies possessed by Mr. Hansen that are important for the performance of his duties are his training and experience in and thorough understanding of managing finance operations and experience with publicly traded companies.

Shares and warrants held by members of the Board

	Shareholdings			Warrants		
	1 Jan 2012	Changes during the year	31 Dec 2012	1 Jan 2012	Changes during the year	31 Dec 2012
Asger Aamund	1,804,537	0	1,804,537	26,184	5,000	31,184
Claus Braestrup	3,000	0	3,000	26,184	5,000	31,184
Erik Gregers Hansen	14,000	0	14,000	11,733	5,000	16,733
Peter Kürstein	0	6,250	6,250	0	5,000	5,000
Gerard van Odijk	4,000	0	4,000	26,184	5,000	31,184
Anders Gersel Pedersen	0	0	0	11,733	5,000	16,733

The statement of shareholdings comprises shares that are either owned personally by the board member or owned by companies that are wholly or partially owned by the board member.

Peter Kürstein
Member of the board since 2012. Elected for the board in 2012 for a one-year term. Independent. Mr. Kürstein is a Danish national, born in 1956.

Mr. Kürstein is President of Radiometer Medical ApS. He is chairman of the board of Radiometer Medical ApS and vice chairman of the board of FOSS A/S. Furthermore, he is chairman of the Danish-American Business Forum and the Committee on Health Care and Life Science under the Confederation of Danish Industries. Mr. Kürstein holds an MBA from Harvard Business School in Boston, USA.

The special competencies possessed by Mr. Kürstein that are important for the performance of his duties in the Company are his extensive board and management experience from publicly traded, international healthcare companies. He is well-experienced in U.S. affairs.

Gerard van Odijk
Member of the Board since 2008. Re-elected in 2012 for a one-year term. Independent. Dr. van Odijk is a Dutch national, born in 1957.

Dr. van Odijk is an independent advisor for the pharmaceutical industry. He retired as president and CEO of Teva Pharmaceuticals Europe B.V. in December 2012. He has previously held various senior positions in GlaxoSmithKline (GSK). He is is chairman of the board of Merus Biopharmaceuticals B.V. Dr. van Odijk holds a medical degree from the State University of Utrecht.

The special competencies possessed by Dr. van Odijk that are important for the performance of his duties are his medical qualifications and his extensive executive background within publicly traded companies in the international pharmaceutical industry.

Anders Gersel Pedersen
Member of the Board since 2010. Re-elected in 2012 for a one-year term. Independent. Dr. Pedersen is a Danish national, born in 1951.

Dr. Pedersen is executive vice president of research and development at H. Lundbeck A/S. Before joining H. Lundbeck A/S in 2000, he worked for Eli Lilly for 11 years, ten of them as a director overseeing worldwide clinical research in oncology. He is chairman of the board of Genmab A/S and a member of the board of directors of ALK-Abelló A/S. He is a member of the European Society of Medical Oncology, the International Association for the Study of Lung Cancer, the American Society of Clinical Oncology, the Danish Society of Medical Oncology and the Danish Society of Internal Medicine. Dr. Pedersen received his medical degree and a doctoral degree in neuro-oncology from the University of Copenhagen and a BSc in business administration from Copenhagen Business School.

The special competencies possessed by Dr. Pedersen that are important for the performance of his duties in the Company are his scientific qualifications and his extensive board and management experience from publicly traded, international pharmaceutical and biotech industries.

Executive Management

Anders Hedegaard
President and CEO

Mr. Hedegaard joined Bavarian Nordic A/S in August 2007. Before taking this position, he worked for pharmaceutical company ALK-Abelló A/S, where he was executive vice president for business operations and international marketing and a member of the executive management. His previous management career also includes executive and management positions with FOSS A/S and Novo Nordisk A/S. Mr. Hedegaard holds an MSc in chemical engineering specialising in molecular biology, and he is a Danish national, born in 1960.

James B. Breitmeyer
Division President Cancer Vaccines,
Executive Vice President

Dr. Breitmeyer joined Bavarian Nordic in February 2013. He previously served as Executive Vice President of Development and Chief Medical Officer of Cadence Pharmaceuticals Inc. Prior to that, he held executive positions in Applied Molecular Evolution Inc., a wholly-owned subsidiary of Eli Lilly and Co., Harvard Clinical Research Institute and Serono Laboratories Inc. Dr. Breitmeyer received his M.D. and Ph.D. from Washington University School of Medicine, is board certified in Internal Medicine and Oncology and has held clinical and teaching positions at the Dana Farber Cancer Institute and Harvard Medical School. He is the author or co-author of numerous publications.

Paul Chaplin
Division President, Infectious Diseases;
Executive Vice President

Dr. Chaplin joined Bavarian Nordic in 1999 and was appointed executive vice president in 2004. Prior to joining the Company, Dr. Chaplin worked for several years both in the UK and Australia developing vaccines against infectious diseases. Dr. Chaplin holds an MSc in Biology and a PhD in Immunology from Bristol University, and he is the general manager of Bavarian Nordic GmbH. Dr. Chaplin is a British national, born in 1967.

Ole Larsen
CFO, Executive Vice President

Before joining Bavarian Nordic in July 2008, Mr. Larsen held the position of CFO at Berlingske Tidende and then at Nordisk Film. Mr. Larsen holds an MSc in economics and business administration, and he is a Danish national, born in 1965.

Shares and warrants held by members of the Management

	Shareholdings			Warrants		
	1 Jan 2012	Changes during the year	31 Dec 2012	1 Jan 2012	Changes during the year	31 Dec 2012
Anders Hedegaard	5,500	0	5,500	126,166	35,000	161,166
Ole Larsen	3,000	0	3,000	93,373	25,000	118,373
James Breitmeyer	0	0	0	0	0	0
Paul Chaplin	11,800	0	11,800	93,373	25,000	118,373

STATEMENT BY MANAGEMENT ON THE ANNUAL REPORT

The Board of Directors and the Executive Board have today considered and approved the annual report of Bavarian Nordic A/S for the financial year 1 January - 31 December 2012.

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

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31 December 2012 and of the results of their operations and cash flows for the financial year 1 January - 31 December 2012.

In our opinion, the management commentary contains a fair review of the development of the Group's and the Parent's business and financial matters, the results for the year and of the Parent's financial position and the financial position as a whole of the entities included in the consolidated financial statements, together with a description of the principal risks and uncertainties that the Group and the Parent face.

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

Kvistgaard, 12 March 2013

Corporate Management

Anders Hedegaard
President and CEO

Board of Directors

Asger Aamund
Chairman

Claus Braestrup

Erik G. Hansen

Peter Kürstein

Gerard van Odijk

Anders Gersel Pedersen

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Bavarian Nordic A/S

Report on the consolidated financial statements and parent financial statements
We have audited the consolidated financial statements and parent financial statements of Bavarian Nordic A/S for the financial year 1 January - 31 December 2012, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including the accounting policies, for the Group as well as for the Parent. The consolidated financial statements and parent financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

Management's responsibility for the consolidated financial statements and parent financial statements
Management is responsible for the preparation of consolidated financial statements and parent financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies and for such internal control as Management determines is necessary to enable the preparation and fair presentation of consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on the consolidated financial statements and parent financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements and parent financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements and parent financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements of the consolidated financial statements and parent financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements and parent financial statements that give a true and fair view 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 the overall presentation of the consolidated financial statements and parent financial statements.

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

Our audit has not resulted in any qualification.

Opinion
In our opinion, the consolidated financial statements and parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31 December 2012, and of the results of their operations and cash flows for the financial year 1 January - 31 December 2012 in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

Statement on the management's review
Pursuant to the Danish Financial Statements Act, we have read the management's review. We have not performed any further procedures in addition to the audit of the consolidated financial statements and parent financial statements.

On this basis, it is our opinion that the information provided in the management's review is consistent with the consolidated financial statements and parent financial statements.

Copenhagen, 12 March 2013

Deloitte
Statsautoriseret Revisionspartnerselskab

Carsten Vaarby
State Authorised Public Accountant

Jørgen Holm Andersen
State Authorised Public Accountant

FINANCIAL STATEMENTS

INCOME STATEMENT FOR THE PERIOD 1 JANUARY – 31 DECEMBER

		Group		Parent Company	
Note	DKK thousand	2012	2011	2012	2011
2,3	Revenue	1,016,636	523,601	1,016,636	523,594
4,5,6	Production costs	513,553	403,387	513,553	403,387
	Gross profit	**503,083**	**120,214**	**503,083**	**120,207**
5,6	Research and development costs	357,441	261,724	346,297	170,748
5,6	Distribution costs	39,568	33,353	34,155	32,743
5,6,7	Administrative costs	137,755	133,401	122,484	96,069
	Total operating costs	**534,764**	**428,478**	**502,936**	**299,560**
	Income before interest and tax (EBIT)	**(31,681)**	**(308,264)**	**147**	**(179,353)**
8	Financial income	8,921	24,963	16,215	56,288
9	Financial expenses	25,965	13,079	26,376	12,126
	Income before company tax	**(48,725)**	**(296,380)**	**(10,014)**	**(135,191)**
10	Tax on income for the year	191,276	(27,959)	188,806	(30,782)
	Net profit for the year	**(240,001)**	**(268,421)**	**(198,820)**	**(104,409)**
	Earnings per share (EPS) - DKK				
11	Basic earnings per share of DKK 10	(9.2)	(10.3)		
11	Diluted earnings per share of DKK 10	(9.2)	(10.3)		

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD 1 JANUARY – 31 DECEMBER

		Group		Parent Company	
Note	DKK thousand	2012	2011	2012	2011
	Net profit for the year	**(240,001)**	**(268,421)**	**(198,820)**	**(104,409)**
	Exchange rate adjustments, investments in subsidiaries	4,888	(11,791)	-	-
	Fair value of financial instruments entered into to hedge future cash flow:				
20	Fair value adjustments of the year	8,158	(13,566)	8,158	(13,566)
3,20	Fair value adjustment transferred to revenue	6,211	5,783	6,211	5,783
10	Tax on other comprehensive income	(3,594)	1,946	(3,594)	1,946
	Other comprehensive income after tax	**15,663**	**(17,628)**	**10,775**	**(5,837)**
	Total comprehensive income	**(224,338)**	**(286,049)**	**(188,045)**	**(110,246)**

STATEMENT OF CASH FLOW FOR THE PERIOD 1 JANUARY - 31 DECEMBER

		Group		Parent Company	
Note	DKK thousand	2012	2011	2012	2011
	Income before interest and tax (EBIT)	**(31,681)**	**(308,264)**	**147**	**(179,353)**
6	Depreciation, amortization and impairment losses	56,451	53,881	49,436	46,676
5	Share-based payment	16,861	17,788	16,861	17,788
	Adjustment for other non-cash items	5,314	8,270	6,169	8,270
	Changes in inventories	(10,275)	(97,474)	(11,110)	(96,159)
	Changes in receivables	208,914	(162,070)	162,293	(121,857)
	Changes in provisions	16,796	6,482	2,655	6,482
	Changes in current liabilities	(226,929)	88,637	(207,780)	60,058
	Cash flow from operations (operating activities)	**35,451**	**(392,750)**	**18,671**	**(258,095)**
	Received financial income	10,317	15,781	9,669	15,347
	Paid financial expenses	(18,832)	(5,959)	(15,589)	(6,518)
	Exchange rate adjustments intercompany accounts	(4,289)	8,914	-	-
	Paid corporation taxes	(2,547)	(1,222)	-	-
	Cash flow from operating activities	**20,100**	**(375,236)**	**12,751**	**(249,266)**
	Investments in intangible assets	(24,341)	(16,458)	(18,582)	(149,043)
	Disposal of intangible assets	-	7,140	-	7,140
	Investments in property, plant and equipment	(20,866)	(31,182)	(18,138)	(25,178)
	Disposal of tangible assets	128	156	128	-
	Investments in/disposal of financial assets	(335)	(28)	(2,138)	(1,031)
	Investments in/disposal of securities	116,375	(221,387)	116,375	(221,387)
	Cash flow from investment activities	**70,961**	**(261,759)**	**77,645**	**(389,499)**
	Payment on mortgage and bank debt	(9,004)	(8,467)	(9,004)	(8,467)
	Payment on financial leasing liabilities	-	(234)	-	(234)
	Repurchase of stock options in subsidiary	(599)	(2,288)	-	-
	Proceeds through issue of new shares	-	697,604	-	697,604
	Costs related to issue of new shares	-	(44,206)	-	(44,206)
	Cash flow from financing activities	**(9,603)**	**642,409**	**(9,004)**	**644,697**
	Cash flow of the year	**81,458**	**5,414**	**81,392**	**5,932**
	Cash as of 1 January	272,107	266,783	265,657	259,725
	Currency adjustments 1 January	(20)	(90)	-	-
	Cash as of 31 December	**353,545**	**272,107**	**347,049**	**265,657**
	Securities - highly liquid bonds	196,359	311,919	196,359	311,919
	Credit lines	120,000	120,000	120,000	120,000
	Cash preparedness	**669,904**	**704,026**	**663,408**	**697,576**

STATEMENT OF FINANCIAL POSITION – ASSETS AS OF 31 DECEMBER

		Group		Parent Company	
Note	DKK thousand	2012	2011	2012	2011
	Non-current assets				
12	Acquired patents and licenses	17,110	13,058	130,224	139,910
12	Software	5,133	9,467	4,964	9,329
12	Intangible assets in progress	126,242	109,401	126,242	109,401
	Intangible assets	**148,485**	**131,926**	**261,430**	**258,640**
13	Land and buildings	183,655	193,048	183,654	193,048
13	Leasehold improvements	1,264	9,831	723	1,123
13	Plant and machinery	91,567	110,100	91,567	110,100
13	Fixtures and fittings, other plant and equipment	27,271	26,084	15,104	10,563
13	Assets under construction	16,777	9,717	16,498	8,347
	Property, plant and equipment	**320,534**	**348,780**	**307,546**	**323,181**
14	Investments in subsidiaries	-	-	186,457	184,657
17	Other receivables	733	398	518	180
18	Prepayments	-	16,975	-	16,975
	Financial assets	**733**	**17,373**	**186,975**	**201,812**
10	**Deferred tax assets**	**174,508**	**367,149**	**173,495**	**367,145**
	Total non-current assets	**644,260**	**865,228**	**929,446**	**1,150,778**
	Current assets				
15	**Inventories**	**229,201**	**218,925**	**223,663**	**212,552**
16	Trade receivables	56,592	187,558	56,592	187,558
	Receivables from subsidiaries	-	-	218,703	167,101
	Tax receivables	1,475	-	1,250	-
17	Other receivables	10,070	11,185	7,649	10,247
18	Prepayments	47,679	109,665	38,697	104,180
	Receivables	**115,816**	**308,408**	**322,891**	**469,086**
20	Securities	196,359	311,919	196,359	311,919
20	Cash and cash equivalents	353,545	272,107	347,049	265,657
	Securities, cash and cash equivalents	**549,904**	**584,026**	**543,408**	**577,576**
	Total current assets	**894,921**	**1,111,359**	**1,089,962**	**1,259,214**
	Total assets	**1,539,181**	**1,976,587**	**2,019,408**	**2,409,992**

STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES AS OF 31 DECEMBER

		Group		Parent Company	
Note	DKK thousand	2012	2011	2012	2011
	Equity				
	Share capital	260,944	260,944	260,944	260,944
	Retained earnings	683,032	923,033	1,172,674	1,371,494
	Other reserves	55,700	23,623	60,838	33,649
	Equity	**999,676**	**1,207,600**	**1,494,456**	**1,666,087**
	Liabilities				
21	Provisions	17,262	15,256	17,262	15,256
22	Credit institutions	36,981	90,153	36,981	90,153
	Non-current liabilities	**54,243**	**105,409**	**54,243**	**105,409**
22	Credit institutions	52,397	9,002	52,397	9,002
23	Prepayment from customers	195,612	406,443	195,612	406,443
	Trade payables	104,167	84,401	69,940	69,513
	Payables to subsidiaries	-	-	83,254	42,453
	Company tax	2,156	999	-	-
21	Provisions	14,790	-	649	-
19	Other liabilities	116,140	162,733	68,857	111,085
	Current liabilities	**485,262**	**663,578**	**470,709**	**638,496**
	Total liabilities	**539,505**	**768,987**	**524,952**	**743,905**
	Total equity and liabilities	**1,539,181**	**1,976,587**	**2,019,408**	**2,409,992**

20 Financial risks and financial instruments
24 Related party transactions
25 Incentive plans
26 Contingent liabilities, contractual obligations
27 Significant events after the balance sheet date

STATEMENT OF CHANGES IN EQUITY – GROUP

DKK thousand	Share-capital	Retained earnings	Reserves for currency adjustment	Reserves for fair value of financial instruments	Share-based payment	Equity group
Equity as of 1 January 2012	**260,944**	**923,033**	**(11,229)**	**(11,324)**	**46,176**	**1,207,600**
Comprehensive income for the year						
Net profit for the year	-	(240,001)	-	-	-	(240,001)
Other comprehensive income						
Exchange rate adjustments, investments in subsidiaries	-	-	4,888	-	-	4,888
Fair value of financial instruments	-	-	-	10,775	-	10,775
Total comprehensive income for the year	**-**	**(240,001)**	**4,888**	**10,775**	**-**	**(224,338)**
Transactions with owners						
Share-based payment	-	-	-	-	16,414	16,414
Total transactions with owners	**-**	**-**	**-**	**-**	**16,414**	**16,414**
Equity as of 31 December 2012	**260,944**	**683,032**	**(6,341)**	**(549)**	**62,590**	**999,676**

STATEMENT OF CHANGES IN EQUITY – GROUP

DKK thousand	Share-capital	Retained earnings	Reserves for currency adjustment	Reserves for fair value of financial instruments	Share-based payment	Equity group
Equity as of 1 January 2011	**129,620**	**651,408**	**562**	**(5,487)**	**34,332**	**810,435**
Comprehensive income for the year						
Net profit for the year	-	(268,421)	-	-	-	(268,421)
Other comprehensive income						
Exchange rate adjustments, investments in subsidiaries	-	-	(11,791)	-	-	(11,791)
Fair value of financial instruments	-	-	-	(5,837)	-	(5,837)
Total comprehensive income for the year	**-**	**(268,421)**	**(11,791)**	**(5,837)**	**-**	**(286,049)**
Transactions with owners						
Share-based payment	-	-	-	-	21,556	21,556
Warrants program expired	-	9,712	-	-	(9,712)	-
Capital increase through rights issue	129,187	568,417	-	-	-	697,604
Capital increase through debt conversion	2,137	6,123	-	-	-	8,260
Costs related to issue of new shares	-	(44,206)	-	-	-	(44,206)
Total transactions with owners	**131,324**	**540,046**	**-**	**-**	**11,844**	**683,214**
Equity as of 31 December 2011	**260,944**	**923,033**	**(11,229)**	**(11,324)**	**46,176**	**1,207,600**

STATEMENT OF CHANGES IN EQUITY – PARENT COMPANY

DKK thousand	Share-capital	Retained earnings	Reserves for fair value of financial instruments	Share-based payment	Equity parent company
Equity as of 1 January 2012	**260,944**	**1,371,494**	**(11,324)**	**44,973**	**1,666,087**
Comprehensive income for the year					
Net profit for the year	-	(198,820)	-	-	(198,820)
Other comprehensive income					
Fair value of financial instruments	-	-	10,775	-	10,775
Total comprehensive income for the year	**-**	**(198,820)**	**10,775**	**-**	**(188,045)**
Transactions with owners					
Share-based payment	-	-	-	16,414	16,414
Total transactions with owners	**-**	**-**	**-**	**16,414**	**16,414**
Equity as of 31 December 2012	**260,944**	**1,172,674**	**(549)**	**61,387**	**1,494,456**

The share capital comprises a total of 26,094,361 shares of DKK 10 as of 31 December 2012 (26,094,361 shares).
The shares are not divided into share classes, and each share carries one vote.

STATEMENT OF CHANGES IN EQUITY – PARENT COMPANY

DKK thousand	Share-capital	Retained earnings	Reserves for fair value of financial instruments	Share-based payment	Equity parent company
Equity as of 1 January 2011	**129,620**	**935,857**	**(5,487)**	**33,129**	**1,093,119**
Comprehensive income for the year					
Net profit for the year	-	(104,409)	-	-	(104,409)
Other comprehensive income					
Fair value of financial instruments	-	-	(5,837)	-	(5,837)
Total comprehensive income for the year	**-**	**(104,409)**	**(5,837)**	**-**	**(110,246)**
Transactions with owners					
Share-based payment	-	-	-	21,556	21,556
Warrants program expired	-	9,712	-	(9,712)	-
Capital increase through rights issue	129,187	568,417	-	-	697,604
Capital increase through debt conversion	2,137	6,123	-	-	8,260
Costs related to issue of new shares	-	(44,206)	-	-	(44,206)
Total transactions with owners	**131,324**	**540,046**	**-**	**11,844**	**683,214**
Equity as of 31 December 2011	**260,944**	**1,371,494**	**(11,324)**	**44,973**	**1,666,087**

The share capital comprises a total of 26,094,361 shares of DKK 10 as of 31 December 2011 (12,962,052 shares).
The shares are not divided into share classes, and each share carries one vote.

Transactions on the share capital have been the following:

DKK thousand	2012	2011	2010	2009	2008
Share capital as of 1 January	260,944	129,620	79,517	78,156	78,156
Issue of new shares	-	131,324	50,103	1,361	-
Share capital as of 31 December	**260,944**	**260,944**	**129,620**	**79,517**	**78,156**

Rules on changing Articles of Association
Changing the Articles of Association require that the resolution passes by at least 2/3 of the votes as well as 2/3 of the voting capital represented.

LIST OF NOTES

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1. Changes to accounting policies, significant accounting estimates, assumptions and uncertainties

Basis of preparation
The annual report of Bavarian Nordic A/S for the year ended December 31, 2012, 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 Danish disclosure requirements for the annual reports of listed companies. 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 NASDAQ OMX Copenhagen.

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

The annual report is presented in Danish kroner (DKK), which is the functional currency of the parent company.

The annual report is presented on a historical cost basis, apart from derivative financial instruments, securities and liability relating to phantom shares, which are measured at fair value. A further description of the accounting policies applied is given in note 28.

The accounting policies described in note 28 have been consistently applied for the financial year and for the comparative figures. Certain layouts and notes to the financial statements have been changed compared with previous years. For 2011, a minor reclassification has been made between distribution costs and administrative costs in the parent company. The split of financial income and expenses has been changed, and the gross figures for 2011 have consequently been restated, but net financial items are unchanged. Prepaid project costs were previously recognized in other receivables, but are now recognized in prepayments. The comparative figures for 2011 have been restated. The reclassifications have no effect on the profit or equity.

Implementation of new and revised standards and interpretations
The International Accounting Standards Board (IASB) has issued new standards and revisions to existing standards and new interpretations which are mandatory for accounting periods commencing on or after January 1, 2012. The implementation of new or revised standards and interpretations that are in force have not changed the accounting policies and thus not affected net profit for the year or the financial position.

Standards and interpretations not yet in force
At the time of publication of this annual report, a number of new or revised standards and interpretations are available, but have not yet entered into force and are therefore not incorporated in the 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.

Significant accounting policies
When preparing the consolidated annual report the management performs a number of accounting estimates and assumptions which form the basis for presentation, disclosure and recognition of the Groups assets and liabilities. The significant accounting assumptions are included below. The group accounting policies are described further in note 28.

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

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

Capitalization of development costs
Management has assessed that development costs relating to the registration of IMVAMUNE® under the RFP-3 contract with the US health authorities continues to meet the conditions for capitalization. See "Research and development costs" in note 28. The carrying amount of capitalized development projects was DKK 123 million as of December 31, 2012 (DKK 108 million as of December 31, 2011).

Useful lives of property, plant and equipment
As stated below, management reviews the estimated useful lives of material property, plant and equipment at the end of each financial year. Management's review of useful lives in 2012 did not give rise to any changes as compared with 2011. The carrying amount of property, plant and equipment was DKK 321 million as of December 31, 2012 (DKK 349 million as of December 31, 2011).

Value of investments in subsidiaries
The carrying amount in the parent company as of December 31, 2012 of the investment in the subsidiary BN ImmunoTherapeutics Inc., USA, exceeded the net assets in the subsidiary

NOTES

with DKK 419 million (DKK 367 million). In such a situation, management estimates whether there are any events or other circumstances that indicate that the carrying amount may not be recoverable. Based solely on the current expectations of the future cash flows from the sale of PROSTVAC® and the sub-license agreement between Bavarian Nordic A/S and BN ImmunoTherapeutics Inc. the management expects the future income streams in the subsidiary at least match the amount by which the cost of the subsidiary exceeds the carrying amount of the net assets, and management therefore assessed that no impairment exists. In the parent company the recognized value of investments was DKK 186 million as of December 31, 2012 (DKK 185 million as of December 31, 2011).

Production overheads
Production overheads are measured on the basis of actual costs. The basis of the actual costs is reassessed regularly to ensure that they are adjusted for changes in the utilization of production capacity, production changes and other relevant factors.

Biological living material is used, and the measurements and assumptions for the estimates made may be incomplete or inaccurate, and unexpected events or circumstances may occur, which may cause the actual outcomes to later deviate from these estimates. It may be necessary to change previous estimates as a result of changes in the assumptions on which the estimates were based or due to new information or subsequent events, for which certainty could not be achieved in the earlier estimates.

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

The value recognized as inventories was DKK 229 million as of December 31, 2012 (DKK 219 million as of December 31, 2011).

Deferred tax asset
Management is required to make an estimate in the recognition of deferred tax assets and liabilities. As of December 31, 2012, the tax asset amounted to DKK 175 million (DKK 367 million as of December 31, 2011). The tax asset has decreased by DKK 192 million, primarily due to write-downs of the tax losses carried forward of DKK 182 million. The write-downs follows the Danish Parliament's adoption in June 2012 of Bill no. L173, which restricts the use of tax losses carried forward. Under the new rules, only losses up to 60% of the taxable profit for the year in excess of DKK 7.5 million may be recognized, meaning that the Company must pay a minimum of 10% in tax of the year's taxable income, even if there are tax losses carried forward that exceed the year's taxable income. Management therefore estimates that all the tax losses carried forward cannot be used within a foreseeable period of time after the adopted restrictions. The tax asset has therefore been written down to an amount management believes can be used against future taxable profits within a foreseeable period of time. However, an important prerequisite is that, in addition to known and anticipated revenue from the sale of IMVAMUNE®, the Company receives approval of PROSTVAC® in the United States and Europe with subsequent commercialization through partner agreements. Otherwise, the Company may not achieve sufficient future taxable income to offset the tax asset within this period. The write-down of DKK 182 million will be reassessed once a year, as a minimum.

Derivative financial instruments
Bavarian Nordic uses derivative financial instruments to hedge future cash flows. The fair value of derivative financial instruments is based on the official exchange rates, market interest rates and other market data such as volatility adjusted for the special characteristics of each instrument. The carrying amount of recognized financial instruments was DKK -19 million as of December 31, 2012 (DKK -51 million as of December 31, 2011).

Other financial liabilities
A management discretion is required on recognition of contingent payments (incentive agreements with current and former members of the group management). Management considers in the light of expectations for the coming year's research and development achievements the likelihood that expected results will trigger contingent payments. On initial recognition, contingent payments are measured at fair value.

Determining the fair value is based on a management estimate of the likelihood that the triggering event is achieved and a fixed discount factor. Contingent payments were DKK 18 million as of December 31, 2012 (DKK 15 million as of December 31, 2011).

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

Change in accounting estimates
No material changes have been made in accounting estimates in 2012.

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2 Segment reporting

The Group consists of two primary business areas: Cancer Vaccines and Infectious Diseases and Holding (not a reportable segment). Holding covers costs of group management, investor relations, group finance, IT and legal. A large part of these costs are covered by the two operating segments through internal allocations.

Segment results reflect the results reported to the Company's chief operating decision management for the purposes of their decisions about allocating resources and assessing segment performance.

Financials are not allocated to operating segments. Therefore, the "Income before interest and tax" is presented as target in segment reporting. Similar the balance sheet is not divided into operating segments, therefore total assets per operating segment do not appear. Investments in non-current assets are broken down by operating segment and disclosed in the note below.

The accounting policies applied for segment information are the same as the Group's accounting policies. See note 28.

2012

DKK thousand	Cancer Vaccines	Infectious Diseases	Holding	Total
RFP-3 IMVAMUNE® sales	-	877,484	-	877,484
Contract work	-	133,283	-	133,283
Product sale	-	5,869	-	5,869
Revenue	-	1,016,636	-	1,016,636
Depreciation and impairment losses	14,802	34,562	7,087	56,451
Income before interest and tax	(275,433)	333,789	(90,037)	(31,681)
Purchase/sale () of internal services	(2,521)	2,521	-	-
Distribution of the holding costs	12,542	49,400	(61,942)	-
Income before interest and tax after allocations	**(285,454)**	**281,868**	**(28,095)**	**(31,681)**
Investments	7,052	33,233	4,922	45,207

Revenue for the following customers represent more than 10% of total revenue in Infectious Diseases:
Biomedical Advanced Research and Development Authority (BARDA), USA, DKK 982.7 million

2011

DKK thousand	Cancer Vaccines	Infectious Diseases	Holding	Total
RFP-3 IMVAMUNE® sales	-	402,448	-	402,448
Contract work	-	121,065	-	121,065
Product sale	-	88	-	88
Revenue	-	523,601	-	523,601
Depreciation	5,654	37,614	10,613	53,881
Income before interest and tax	(209,459)	(3,635)	(95,170)	(308,264)
Purchase/sale () of internal services	2,828	(2,828)	-	-
Distribution of the holding costs	10,418	51,641	(62,059)	-
Income before interest and tax after allocations	**(222,705)**	**(52,448)**	**(33,111)**	**(308,264)**
Investments	12,316	31,177	4,147	47,640

Revenue for the following customers represent more than 10% of total revenue in Infectious Diseases:
Biomedical Advanced Research and Development Authority (BARDA), USA, DKK 490.8 million

NOTES

2 Segment reporting – continued

	Group	
DKK thousand	2012	2011
Geographic split of revenue:		
Denmark	200	25
USA	1,001,039	517,606
Canada	14,941	2,553
Other geographic markets	456	3,417
Revenue	**1,016,636**	**523,601**

	Group		Parent Company	
DKK thousand	2012	2011	2012	2011
3 Revenue				
RFP-3 IMVAMUNE® sale	877,484	402,448	877,484	402,448
Contract work	133,283	121,065	133,283	121,065
Product sale	5,869	88	5,869	81
Revenue	**1,016,636**	**523,601**	**1,016,636**	**523,594**
Total revenue includes:				
Fair value adjustment transferred from equity concerning financial instruments entered into to hedge revenue	(6,211)	(5,783)	(6,211)	(5,783)
4 Production costs				
Cost of goods sold, RFP-3 IMVAMUNE® sale	415,827	250,016	415,827	250,016
Contract costs	82,024	68,248	82,024	68,248
Cost of goods sold, product sale	965	128	965	128
Other production costs	14,737	84,995	14,737	84,995
Production costs	**513,553**	**403,387**	**513,553**	**403,387**

NOTES

		Group		Parent Company	
	DKK thousand	2012	2011	2012	2011
5	**Staff costs**				
	Wages and salaries	273,036	230,826	149,623	136,243
	Contribution based pension	18,952	17,827	12,868	12,279
	Social security expenses	11,411	8,055	1,618	1,463
	Other staff expenses	22,864	19,365	14,355	13,151
	Share-based payment	16,861	17,788	16,861	17,788
	Staff costs	**343,124**	**293,861**	**195,325**	**180,924**
	Staff expenses are distributed as follows:				
	Production costs	122,428	111,718	110,694	104,828
	Research and development costs	126,169	96,932	17,215	13,945
	Distribution costs	12,492	11,010	8,161	8,617
	Administrative costs	75,843	68,452	57,222	52,426
	Capitalized salaries	6,192	5,749	2,033	1,108
	Staff costs	**343,124**	**293,861**	**195,325**	**180,924**
	Of which:				
	Board of Directors:				
	Remuneration to the Board of Directors	1,400	1,400	1,400	1,400
	Share-based payment	1,934	2,099	1,934	2,099
	President of the Company:				
	Salary	6,391	5,952	6,391	5,952
	Contribution based pension	-	-	-	-
	Share-based payment	1,556	1,996	1,556	1,996
	Other group management:				
	Salaries	11,991	11,539	3,487	3,102
	Contribution based pension	343	331	238	226
	Share-based payment	2,974	3,455	1,155	1,494
	Total management remuneration	**26,589**	**26,772**	**16,161**	**16,269**

In 2012 Group management included CEO Anders Hedegaard (President of the Company), CFO Ole Larsen, Division President Infectious Diseases Paul Chaplin and Division President Cancer Vaccines Reiner Laus.

Incentive programmes for management and other employees are disclosed in note 25.

Members of the group management have contracts of employment containing standard terms for members of the group management of Danish listed companies, including with regard to the periods of notice that both parties are required to give and competition clauses. If a contract of employment of a member of the group management is terminated by the Company without misconduct on the part of such member, the member of the group management is entitled to compensation, which, depending on the circumstances, may amount to a maximum of two years' salary and pension contributions.

Average number of employees converted to full-time	448	429	247	246
Number of employees as of December 31 converted to full-time	450	439	239	250

NOTES

		Group		Parent Company	
	DKK thousand	2012	2011	2012	2011
6	**Depreciation, amortization and impairment losses**				
	Depreciation, amortization and impairment losses included in:				
	Production costs	32,505	36,261	32,734	36,326
	Research and development costs	14,883	6,278	429	460
	Distribution costs	8	-	-	-
	Administrative costs	9,055	11,342	16,273	9,890
	Depreciation, amortization and impairment losses	**56,451**	**53,881**	**49,436**	**46,676**
	Hereof profit ()/loss from disposed fixed assets	45	(156)	45	-
7	**Fees to auditor appointed at the annual general meeting**				
	Statutory audit of annual accounts	841	921	635	698
	Other assurance services	121	1,573	121	1,573
	Tax advisory	654	1,856	450	1,640
	Other services	163	119	163	119
	Fees	**1,779**	**4,469**	**1,369**	**4,030**
8	**Financial income**				
	Financial income from bank and deposit contracts	667	1,252	667	1,245
	Financial income from subsidiaries	-	-	7,294	31,758
	Interest income from financial assets not measured at fair value in the income statement	**667**	**1,252**	**7,961**	**33,003**
	Financial income from securities	7,017	11,161	7,017	11,161
	Fair value adjustments on securities	1,237	-	1,237	-
	Net foreign exchange gains	-	12,550	-	12,124
	Financial income	**8,921**	**24,963**	**16,215**	**56,288**
9	**Financial expenses**				
	Interest expenses on debt	5,668	5,972	5,665	5,972
	Financial expenses to subsidiaries	-	-	524	546
	Interest expenses on financial liabilities not measured at fair value in the income statement	**5,668**	**5,972**	**6,189**	**6,518**
	Fair value adjustments on securities	-	83	-	83
	Adjustment of net present value of provisions	2,291	2,291	2,291	2,291
	Adjustment of net present value of other debt	-	1,499	-	-
	Net loss on derivative financial instruments at fair value in the income statement (hedging)	-	3,234	-	3,234
	Net loss on derivative financial instruments at fair value in the income statement (held for trading)	12,925	-	12,925	-
	Net foreign exchange losses	5,081	-	4,971	-
	Financial expenses	**25,965**	**13,079**	**26,376**	**12,126**

NOTES

		Group		Parent Company	
	DKK thousand	2012	2011	2012	2011
10	**Tax for the year**				
	Current tax on profit for the year	2,229	2,809	(1,250)	-
	Change in deferred tax	189,047	(30,786)	190,056	(30,782)
	Adjustments to current tax for previous years	-	18	-	-
	Tax for the year recognized in the income statement	**191,276**	**(27,959)**	**188,806**	**(30,782)**
	Tax on income for the year is explained as follows:				
	Income before company tax	(48,725)	(296,380)	(10,014)	(135,191)
	Calculated tax (25%) tax on income before company tax	(12,181)	(74,095)	(2,504)	(33,798)
	Tax effect on:				
	Different tax percentage in foreign subsidiaries	(424)	444	-	-
	Tax value of financial losses in foreign subsidiaries, not recognized	12,557	42,666	-	-
	Permanent differences	4,142	5,489	4,142	5,489
	Write-down on tax losses carried forward	182,000	-	182,000	-
	Adjustment of deferred tax calculation previous years	5,168	(2,473)	5,168	(2,473)
	Other corrections	14	10	-	-
	Tax on income for the year	**191,276**	**(27,959)**	**188,806**	**(30,782)**
	Tax recognized in the comprehensive income:				
	Tax on fair value adjustment of financial instruments entered into to hedge future cash flow (deferred tax)	3,594	(1,946)	3,594	(1,946)
	Tax for the year recognized in the comprehensive income	**3,594**	**(1,946)**	**3,594**	**(1,946)**
	Deferred tax				
	Recognized deferred tax assets relates to temporary differences between valuations for accounting and taxation purposes and tax losses carried forward:				
	Property, plant and equipment	2,189	(6,865)	2,189	(6,865)
	Intangible assets	(17,940)	(23,512)	(17,940)	(23,512)
	Financial instruments	-	12,791	-	12,791
	Obligations	8,669	6,860	7,671	6,860
	Inventories	3,277	4,579	3,277	4,579
	Accrued project costs	(119)	(1,862)	(119)	(1,862)
	Prepayment from customers	48,903	101,611	48,903	101,611
	Tax losses carried forward	311,529	273,547	311,514	273,543
	Write-down on tax losses carried forward	(182,000)	-	(182,000)	-
	Recognized deferred tax assets	**174,508**	**367,149**	**173,495**	**367,145**

NOTES

10 Tax for the year – continued

The management considers that the terms in The Danish Tax Assessment Act article 8 X regarding payment of the tax value of losses related to research and development costs are met for 2012, therefore a positive current tax and corresponding tax receivable of DKK 1.3 million are recognized as of 31 December 2012.

Deferred tax assets arising from temporary deductible differences and tax losses carried forward are recognized to the extent they are expected to be offset against future taxable income.

Recognized tax losses carried forward relate to Bavarian Nordic A/S and the two Danish subsidiaries Aktieselskabet af 1. juni 2011 I and BN Infectious Diseases A/S. Based on budgets and forecasts, including future income from sale of PROSTVAC®, management believes that the tax losses carried forward will be used for offset in future years.

Due to the Danish Parliament's adoption in June 2012 of Bill no. L173 that restricts the use of tax losses carried forward, the Company has partially written down the deferred tax asset, as management believes that not all the tax losses carried forward can be used for offset within a few years. However, the Company retains the right to use the tax loss of DKK 182 million that has been written down.

The tax value of non-recognized tax losses and tax credits carried forward in subsidiaries (subject to certain limitations) amounts to DKK 144.8 million (DKK 126.0 million).

	Group	
DKK thousand	2012	2011
11 Earnings per share (EPS)		
Result for the Parent Company´s shareholders	(240,001)	(268,421)
Average number of shares (thousand units)	26,094	20,732
Earnings per share of DKK 10	(9.2)	(10.3)
Diluted earnings per share of DKK 10	(9.2)	(10.3)
Earnings per share and diluted earnings per share for 2011 has been recalculated based on the average number of shares for 2012 in accordance with IFRS 33.64.		
In accordance with IFRS 33.41, the weighted average number of shares for the purpose of calculating diluted earnings, equals earnings per share, as the inclusion of potential shares would improve earnings per share. As of 31 December 2012, the following outstanding warrants were excluded in the calculation of average number of shares for the purpose of calculating diluted earnings per share:		
2012-programmes	502,875	-
2011-programme	372,550	384,750
2010-programmes	424,347	443,465
2009-programmes	397,375	438,319
2008-programme	244,062	244,062
Outstanding warrants, cf. note 25	**1,941,209**	**1,510,596**

NOTES

		Group			
	DKK thousand	Acquired patents and licenses	Software	Intangible assets in progress	2012 Total
12	**Intangible assets**				
	Costs as of 1 January 2012	20,283	49,752	109,401	179,436
	Additions	5,659	907	17,775	24,341
	Transfer	-	934	(934)	-
	Exchange rate adjustments	(201)	(1)	-	(202)
	Cost as of 31 December 2012	**25,741**	**51,592**	**126,242**	**203,575**
	Amortization as of 1 January 2012	7,225	40,285	-	47,510
	Amortization	1,450	6,175	-	7,625
	Exchange rate adjustments	(44)	(1)	-	(45)
	Amortization as of 31 December 2012	**8,631**	**46,459**	**-**	**55,090**
	Book value as of 31 December 2012	**17,110**	**5,133**	**126,242**	**148,485**

		Parent Company			
	Intangible assets				
	Costs as of 1 January 2012	145,429	48,274	109,401	303,104
	Additions	-	807	17,775	18,582
	Transfer	-	934	(934)	-
	Cost as of 31 December 2012	**145,429**	**50,015**	**126,242**	**321,686**
	Amortization as of 1 January 2012	5,519	38,945	-	44,464
	Amortization	9,686	6,106	-	15,792
	Amortization as of 31 December 2012	**15,205**	**45,051**	**-**	**60,256**
	Book value as of 31 December 2012	**130,224**	**4,964**	**126,242**	**261,430**

Geographical split of intangible assets - Group 2012	
Denmark	132,102
Germany	139
USA	16,244
Total intangible assets	**148,485**

Intangible assets in progress include development costs related to the registration of IMVAMUNE® under the RFP-3 contract (DKK 122.7 million) and investment in software. See comments in note 23.

NOTES

12 Intangible assets – continued

	Group			
DKK thousand	Acquired patents and licenses	Software	Intangible assets in progress	2011 Total
Intangible assets				
Costs as of 1 January 2011	14,276	46,243	109,484	170,003
Additions	5,832	2,185	8,441	16,458
Transfer	-	1,320	(1,320)	-
Disposals	-	-	(7,204)	(7,204)
Exchange rate adjustments	175	4	-	179
Cost as of 31 December 2011	**20,283**	**49,752**	**109,401**	**179,436**
Amortization as of 1 January 2011	6,144	30,274	-	36,418
Amortization	1,014	10,002	-	11,016
Exchange rate adjustments	67	9	-	76
Amortization as of 31 December 2011	**7,225**	**40,285**	**-**	**47,510**
Book value as of 31 December 2011	**13,058**	**9,467**	**109,401**	**131,926**

	Parent Company			
Intangible assets				
Costs as of 1 January 2011	6,864	44,917	109,484	161,265
Additions	138,565	2,037	8,441	149,043
Transfer	-	1,320	(1,320)	-
Disposals	-	-	(7,204)	(7,204)
Cost as of 31 December 2011	**145,429**	**48,274**	**109,401**	**303,104**
Amortization as of 1 January 2011	5,071	29,064	-	34,135
Amortization	448	9,881	-	10,329
Amortization as of 31 December 2011	**5,519**	**38,945**	**-**	**44,464**
Book value as of 31 December 2011	**139,910**	**9,329**	**109,401**	**258,640**

Geographical split of intangible assets - Group 2011	
Denmark	120,075
Germany	72
USA	11,779
Total intangible assets	**131,926**

NOTES

12 Intangible assets – continued

Intangible assets in progress include development costs related to the registration of IMVAMUNE® under the RFP-3 contract (DKK 107.6 million) and investment in software.

Following renegotiation of the RFP-3 contract in 2011, the total contract value was increased by USD 7.8 million by the US authorities. Part of the increase, USD 5.6 million, was related to project costs already incurred, and the amount was therefore invoiced and the revenue recognized in 2011.

The invoiced costs related to costs incurred due to delays following the FDA inspection in May 2009. Most significantly the amount covered specific development costs incurred in 2007-2010 relating to additional pre-clinical trials requested by the health authorities. The costs related to the delays following the FDA inspection were classified as prepayments (DKK 3.0 million), and the development costs related to pre-clinical trials were classified as "Intangible assets in progress" (DKK 7.1 million).

In 2011 Bavarian Nordic A/S and BN ImmunoTherapeutics Inc. signed a sub-license agreement that gave Bavarian Nordic A/S the right to use PROSTVAC®. Under the agreement Bavarian Nordic A/S had to pay an upfront of USD 25 million (DKK 139 million) as well as future royalty payments when income from sales of PROSTVAC® are obtained. In the Parent Company the upfront payment is included as an intangible asset.

NOTES

DKK thousand	Land and buildings	Leasehold improvement	Plant and machinery	Fixtures and fittings, other plant and equipment	Assets under construction	2012 Total
			Group			
13 Property, plant and equipment						
Costs as of 1 January 2012	234,728	22,080	236,915	90,482	9,717	593,922
Additions	1,869	157	336	9,472	9,032	20,866
Transfer	113	-	578	1,131	(1,822)	-
Disposals	-	-	-	(591)	(154)	(745)
Exchange rate adjustments	-	14	-	(17)	4	1
Cost as of 31 December 2012	**236,710**	**22,251**	**237,829**	**100,477**	**16,777**	**614,044**
Depreciation and impairment losses as of 1 January 2012	41,680	12,249	126,815	64,398	-	245,142
Depreciation	11,375	2,632	19,447	7,314	-	40,768
Impairment losses	-	6,108	-	1,905	-	8,013
Disposals	-	-	-	(417)	-	(417)
Exchange rate adjustments	-	(2)	-	6	-	4
Depreciation and impairment losses as of 31 December 2012	**53,055**	**20,987**	**146,262**	**73,206**	**-**	**293,510**
Book value as of 31 December 2012	**183,655**	**1,264**	**91,567**	**27,271**	**16,777**	**320,534**
			Parent Company			
Property, plant and equipment						
Costs as of 1 January 2012	234,728	2,005	236,915	28,705	8,347	510,700
Additions	1,868	-	336	6,959	8,975	18,138
Transfer	113	-	578	133	(824)	-
Disposals	-	-	-	(418)	-	(418)
Cost as of 31 December 2012	**236,709**	**2,005**	**237,829**	**35,379**	**16,498**	**528,420**
Depreciation as of 1 January 2012	41,680	882	126,815	18,142	-	187,519
Depreciation	11,375	400	19,447	2,377	-	33,599
Disposals	-	-	-	(244)	-	(244)
Depreciation as of 31 December 2012	**53,055**	**1,282**	**146,262**	**20,275**	**-**	**220,874**
Book value as of 31 December 2012	**183,654**	**723**	**91,567**	**15,104**	**16,498**	**307,546**

Geographical split of property, plant and equipment - Group 2012	
Denmark	307,546
Germany	7,391
USA	5,597
Total property, plant and equipment	**320,534**

Property, plant and equipment under construction mainly includes investment in equipment for production in Kvistgaard (DKK 11.6 million).

The Company decided at the end of 2012 to discontinue its operations at the facility in Berlin where the production of clinical trial material to the MVA-BN®-based vaccine candidates has taken place. The assets which are not expected to be sold at booked value or used at other facilities of the BN Group has been impaired. The impairment losses which relates to leasehold improvements and installations amount to DKK 8 million.

Mortgage loans of DKK 39 million are secured by mortgages totaling DKK 50 million on the property Bøgeskovvej 9/Hejreskovvej 10A, Kvistgaard. In addition, as of 31 December 2012, mortgage deeds for a total of DKK 75 million have been issued in security of a construction loan of DKK 51 million. The carrying amount of assets mortgaged in security of mortgage and construction loans is DKK 275 million.

NOTES

13 Property, plant and equipment – continued

	Group					
DKK thousand	Land and buildings	Leasehold improve-ment	Plant and machinery	Fixtures and fittings, other plant and equipment	Assets under construction	2011 Total
Property, plant and equipment						
Costs as of 1 January 2011	211,208	27,962	225,420	76,367	22,495	563,452
Additions	19,472	435	2,150	6,569	2,556	31,182
Transfer	4,048	(6,314)	9,345	8,266	(15,345)	-
Disposals	-	-	-	(808)	-	(808)
Exchange rate adjustments	-	(3)	-	88	11	96
Cost as of 31 December 2011	**234,728**	**22,080**	**236,915**	**90,482**	**9,717**	**593,922**
Depreciation as of 1 January 2011	31,280	9,657	103,693	58,007	-	202,637
Depreciation	10,400	2,552	23,122	6,947	-	43,021
Disposals	-	-	-	(701)	-	(701)
Exchange rate adjustments	-	40	-	145	-	185
Depreciation as of 31 December 2011	**41,680**	**12,249**	**126,815**	**64,398**	**-**	**245,142**
Book value as of 31 December 2011	**193,048**	**9,831**	**110,100**	**26,084**	**9,717**	**348,780**

	Parent Company					
Property, plant and equipment						
Costs as of 1 January 2011	211,208	2,005	225,420	24,939	22,035	485,607
Additions	19,472	-	2,150	2,370	1,186	25,178
Transfer	4,048	-	9,345	1,481	(14,874)	-
Disposals	-	-	-	(85)	-	(85)
Cost as of 31 December 2011	**234,728**	**2,005**	**236,915**	**28,705**	**8,347**	**510,700**
Depreciation as of 1 January 2011	31,280	481	103,693	15,803	-	151,257
Depreciation	10,400	401	23,122	2,424	-	36,347
Disposals	-	-	-	(85)	-	(85)
Depreciation as of 31 December 2011	**41,680**	**882**	**126,815**	**18,142**	**-**	**187,519**
Book value as of 31 December 2011	**193,048**	**1,123**	**110,100**	**10,563**	**8,347**	**323,181**

Geographical split of property, plant and equipment - Group 2011	
Denmark	323,181
Germany	18,891
USA	6,708
Total property, plant and equipment	**348,780**

Property, plant and equipment under construction mainly includes investment in equipment for production in Kvistgaard (DKK 7.2 million).

Mortgage loans of DKK 40 million are secured by mortgages totaling DKK 50 million on the property Bøgeskovvej 9/Hejreskovvej 10A, Kvistgaard. In addition, as of 31 December 2011, mortgage deeds for a total of DKK 75 million have been issued in security of a construction loan of DKK 59 million. The carrying amount of assets mortgaged in security of mortgage and construction loans is DKK 303 million.

NOTES

	Parent Company	
DKK thousand	2012	2011
14 Investment in subsidiaries		
Cost of subsidiaries as of 1 January	184,657	183,657
Additions	1,800	1,000
Cost of subsidiaries as of 31 December	**186,457**	**184,657**
Write-down as of 1 January	-	-
Write-down for the year	-	-
Write-down as of 31 December	**-**	**-**
Book value as of 31 December	**186,457**	**184,657**

Company summary	Domicile	Ownership	Voting rights
Subsidiaries			
Bavarian Nordic GmbH	Germany	100%	100%
BN ImmunoTherapeutics Inc.	USA	100%	100%
Aktieselskabet af 1. juni 2011 I	Denmark	100%	100%
BN ImmunoTherapeutics GmbH	Germany	100%	100%
BN Infectious Diseases A/S	Denmark	100%	100%
Bavarian Nordic Inc.	USA	100%	100%
Representative office			
Bavarian Nordic A/S	Singapore		

The companies in USA are not under audit obligations.

	Group		Parent Company	
DKK thousand	2012	2011	2012	2011
15 Inventories				
Raw materials and supply materials	25,336	27,391	19,798	21,018
Work in progress	183,343	223,492	183,343	223,492
Manufactured goods and commodities	51,985	23,450	51,985	23,450
Write-down on inventory	(31,463)	(55,408)	(31,463)	(55,408)
Inventories	**229,201**	**218,925**	**223,663**	**212,552**
Write-down on inventory as of 1 January	(55,408)	(107,662)	(55,408)	(107,662)
Write-down for the year	(19,469)	(16,149)	(19,469)	(16,149)
Use of write-down	35,999	44,329	35,999	44,329
Reversal of write-down	7,415	24,074	7,415	24,074
Write-down on inventory as of 31 December	**(31,463)**	**(55,408)**	**(31,463)**	**(55,408)**
Cost of goods sold amounts to, cf. note 4	416,792	250,144	416,792	250,144

NOTES

	Group		Parent Company	
DKK thousand	2012	2011	2012	2011
16 Trade receivables				
Trade receivables from RFP-3 IMVAMUNE® sale	36,208	165,256	36,208	165,256
Trade receivables from product sale and contract work	20,384	22,302	20,384	22,302
Trade receivables	**56,592**	**187,558**	**56,592**	**187,558**

There are no overdue receivables and there is no provision for bad debts.

17 Other receivables				
Deposits	733	398	518	180
Receivable VAT and duties	5,381	5,930	3,442	4,993
Interest receivables	3,126	5,254	3,126	5,254
Other receivables	1,563	1	1,081	-
Other receivables	**10,803**	**11,583**	**8,167**	**10,427**
Classified as:				
Non-current assets	733	398	518	180
Current assets	10,070	11,185	7,649	10,247
Other receivables	**10,803**	**11,583**	**8,167**	**10,427**

Other receivables are measured at amortized cost.

18 Prepayments				
Prepayments filling costs	35,094	109,952	35,094	109,952
Accrued project costs	476	7,446	476	7,446
Other prepayments	12,109	9,242	3,127	3,757
Prepayments	**47,679**	**126,640**	**38,697**	**121,155**
Classified as:				
Non-current assets	-	16,975	-	16,975
Current assets	47,679	109,665	38,697	104,180
Prepayments	**47,679**	**126,640**	**38,697**	**121,155**

Non-current assets in 2011 consist of prepaid fillings at IDT Biologika GmbH scheduled in 2013.

IDT Biologika GmbH has issued bank guarantees covering the received prepayments of future fillings of IMVAMUNE®.

Accrued project costs will generate revenue in the following fiscal year.

NOTES

		Group		Parent Company	
	DKK thousand	2012	2011	2012	2011
19	**Other liabilities**				
	Derivative financial instruments at fair value in the equity	732	41,217	732	41,217
	Derivative financial instruments at fair value in the income statement	18,220	9,948	18,220	9,948
	Liability relating to phantom shares	489	43	489	43
	Payable salaries, holiday accrual etc.	51,032	41,656	37,179	34,354
	Other accrued costs	45,667	69,869	12,237	25,523
	Other liabilities	**116,140**	**162,733**	**68,857**	**111,085**
	Except from derivative financial instruments and liability relating to phantom shares, other debts are measured at amortized cost.				
20	**Financial risks and financial instruments**				
	Categories of financial instruments				
	Trade receivables	56,592	187,558	56,592	187,558
	Receivables from subsidiaries	-	-	218,703	167,101
	Other receivables	10,070	11,185	7,649	10,247
	Cash and cash equivalents	353,545	272,107	347,049	265,657
	Loan and receivables	**420,207**	**470,850**	**629,993**	**630,563**
	Securities	196,359	311,919	196,359	311,919
	Financial assets measured at fair value in the income statement	**196,359**	**311,919**	**196,359**	**311,919**
	Derivative financial instruments to hedge future cash flows (currency)	-	39,669	-	39,669
	Derivative financial instruments to hedge future cash flows (interest)	732	1,548	732	1,548
	Derivative financial instruments to hedge fair value of recognized assets (currency)	-	9,948	-	9,948
	Financial liabilities used as hedging instruments	**732**	**51,165**	**732**	**51,165**
	Mortgage debt	38,708	40,360	38,708	40,360
	Bank debt	50,670	58,795	50,670	58,795
	Trade payables	104,167	84,401	69,940	69,513
	Other liabilities	96,699	111,525	49,416	59,877
	Payables to subsidiaries	-	-	83,254	42,453
	Financial obligations measured at amortized cost	**290,244**	**295,081**	**291,988**	**270,998**
	Derivative financial instruments at fair value in the income statement (held for trading, currency)	18,220	-	18,220	-
	Liability relating to phantom shares	489	43	489	43
	Financial liabilities measured at fair value in the income statement	**18,709**	**43**	**18,709**	**43**

NOTES

20 Financial risks and financial instruments – continued

Policy for managing financial risks

Through its operations, investments and financing the Bavarian Nordic Group is exposed to fluctuations in exchange rates and interest rates. These risks are managed centrally in the Parent Company, which manages the Group´s liquidity. The Group pursues a treasury policy approved by the Board of Directors. The policy operates with a low risk profile, so that exchange rate risks, interest rate risks and credit risks arise only in commercial relations. The Group therefore does not undertake any active speculation in financial risk.

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

Exchange rate risks

The Group´s exchange rate exposure is primarily towards USD and EUR. The exchange rate exposure towards USD is hedged to the greatest possible extent by matching incoming and outgoing payments denominated in USD. Furthermore, in connection with the RFP-3 contract, the Group entered into forward currency contracts for USD 300 million to hedge future cash flows from the contract. As of 31 December 2012 the balance on the unsettled forward currency contract was USD 21 million. The forward currency contracts no longer hedge specific future cash flows and are classified as held for trading. The forward currency contracts are subject to a sensitivity which affects the result equivalent to DKK 2.1 million per 0.10 points of change in the USD/DKK exchange rate. A rise in the USD/DKK exchange rate will affect the result adversely.

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

Exchange rate risks in respect of recognized financial assets and liabilities

The Group's exposure to currency is shown below.

DKK thousand	Cash and cash equivalents, securities	Receivables	Liabilities	Net position	Covered	Non-secure net position
Group						
DKK	457,932	9,305	(185,871)	281,366	-	281,366
EUR	1,024	2,155	(29,258)	(26,079)	-	(26,079)
USD	90,948	56,677	(128,764)	18,861	-	18,861
As of 31 December 2012	**549,904**	**68,137**	**(343,893)**	**274,148**	**-**	**274,148**
Parent Company						
DKK	457,240	9,295	(185,871)	280,664	-	280,664
EUR	228	-	(82,310)	(82,082)	-	(82,082)
USD	85,940	274,899	(61,159)	299,680	-	299,680
As of 31 December 2012	**543,408**	**284,194**	**(329,340)**	**498,262**	**-**	**498,262**
Group						
DKK	562,259	10,086	(211,523)	360,822	-	360,822
EUR	3,767	938	(14,886)	(10,181)	-	(10,181)
USD	18,000	187,719	(136,135)	69,584	91,930	(22,346)
As of 31 December 2011	**584,026**	**198,743**	**(362,544)**	**420,225**	**91,930**	**328,295**
Parent Company						
DKK	561,257	10,086	(219,376)	351,967	-	351,967
EUR	488	-	(40,867)	(40,379)	-	(40,379)
USD	15,831	354,820	(77,219)	293,432	91,930	201,502
As of 31 December 2011	**577,576**	**364,906**	**(337,462)**	**605,020**	**91,930**	**513,090**

NOTES

20 Financial risks and financial instruments – continued

Sensitivity analysis on exchange rates
The Group's sensitivity to exchange rate is shown below.

	Group			
DKK thousand	Total net-assets	Likely change in exchange rate	Hypothetical change in equity	Hypothetical change in profit
2012				
Change if higher USD-rate than actual rate	18,861	15%	2,829	123,753
Change if higher EUR-rate than actual rate	(26,079)	1%	(261)	(3,192)
2011				
Change if higher USD-rate than actual rate	69,584	15%	10,438	68,942
Change if higher EUR-rate than actual rate	(10,181)	1%	(102)	(2,897)

Hedging of expected future cash flows
The Group has entered into an interest rate swap to hedge the interest payments on USD construction loan. The fair value adjustment is recognized directly in equity and as a financial item in the income statement as and when the financial contract is realized. The accumulated fair value adjustment amounts to minus DKK 0.7 million before tax as of 31 December 2012 (minus DKK 1.5 million). The interest rate swap runs until repayment of the hedged loan has been made.

As of 31 December 2011, the forward currency contracts entered into to hedge future cash flows amounted to USD 78 million, of which USD 46 million were unsettled and USD 32 million had been settled. The USD 32 million was the remaining part of the original USD 129 million which was settled in 2009. The accumulated fair value adjustment of the forward currency contracts settled as of the settlement date was negative by USD 3.0 million and was recognized in equity. As of 31 December 2011, USD 97 million of settled forward currency contracts had been used equaling the sale of IMVAMUNE® doses to U.S. Government. The remaining USD 32 million was used in the beginning of 2012. In connection hereto it was decided to classify the unsettled forward currency contract (USD 46 million) as held for trading, which is giving flexibility to the Company on when to settle the contract. According to IAS 39.101 the negative fair value of the forward currency contract at the time of decision was recognized in equity (DKK 32 million) up until the sale to the US government was done. At year-end 2012 the full amount has been recognized in the income statement as revenue together with the positive gain (DKK 26.9 million) which was recognized in equity in 2009 when the forward currency contract was settled in cash, see below.

Subsequent fair value adjustments of the unsettled forward currency contracts are recognized in the income statement as financial income/loss. As of 31 December 2012 the unsettled forward currency contracts (sale) total USD 21 million and have a negative fair value of DKK 17.5 million, in addition unsettled forward currency contracts (purchase) total USD 27 million and have a negative market value of DKK 0.8 million.

NOTES

20 Financial risks and financial instruments – continued

	Group and Parent Company			Group and Parent Company		
	2012			2011		
DKK thousand	Contract amount based on agreed rates	Fair value as of 31 December	Fair value adjustment recognized in other comprehensive income	Contract amount based on agreed rates	Fair value as of 31 December	Fair value adjustment recognized in other comprehensive income
Interest rate swap						
USD - fixed rate 2.3046% p.a.	50,672	(732)	816	58,795	(1,548)	499
Forward currency contract						
USD 46 million	-	-	7,383	224,517	(39,669)	(9,774)
Total		**(732)**	**8,199**		**(41,217)**	**(9,275)**

	Group and Parent Company	
DKK thousand	2012	2011
Accumulated effect on equity		
Interest rate swap		
Fair value as of 31 December	(732)	(1,548)
Accumulated fair value adjustment interest rate swap	(732)	(1,548)
Forward currency contracts		
Fair value on open forward currency contracts (USD 46 million)	-	(39,669)
Settled in cash on open forward currency contracts (USD 46 million)	26,859	26,859
- of which recognized as revenue (USD 46 million)	(26,859)	-
Fair value adjustment on settled forward currency contracts (USD 129 million)	(2,980)	(2,980)
- of which recognized as revenue (USD 129 million)	2,980	2,237
Accumulated fair value adjustment on forward currency contracts	-	(13,553)
Accumulated fair value adjustment on derivative financial instruments as of 31 December	(732)	(15,101)
Tax effect	183	3,777
Accumulated effect on equity as of 31 December	**(549)**	**(11,324)**
Forward currency contracts (USD 46 million) classified as held for trading during the year		
Fair value as of 1 January	(39,669)	-
Fair value adjustment up until time for classification as held for trading	7,383	-
Fair value at time for classification as held for trading	(32,286)	-
Settled in cash in 2009 (gain)	26,859	-
Net loss	**(5,427)**	**-**

NOTES

20 Financial risks and financial instruments – continued

DKK thousand	Group and Parent Company 2012	2011
Recognized in other comprehensive income		
Fair value adjustments on interest rate swap	816	499
Fair value adjustments on forward currency contracts (USD 46 million)	7,383	(9,774)
Fair value adjustments on forward currency contracts entered into and settled during the year	(41)	(4,291)
Fair value adjustments of the year	**8,158**	**(13,566)**
Settled forward currency contracts (USD 129 million)	743	1,492
Forward currency contracts classified as held for trading (USD 46 million), see previous page	5,427	-
Forward currency contracts entered into and settled during the year	41	4,291
Fair value adjustment transferred to revenue	**6,211**	**5,783**

Hedging of fair value

By year-end 2011, the Company had one open forward currency contract of USD 16 million hedging part of the December 2011 revenue. Up until time of invoicing the forward currency contract was treated as hedge of expected future cash flows. Subsequently, the forward currency contract was recognized as a derivative financial instrument to hedge the fair value of trade receivables related to the dose deliveries.

	Group and Parent Company 2011		
DKK thousand	Contract amount based on agreed rates	Fair value as of 31 December	Fair value adjustment recognized in income statement
Forward currency contracts			
USD 16 million	81,968	(9,948)	(9,948)
Recognized as:			
Revenue (calculated as the difference between invoice exchange rate and forward rate)			(6,714)
Exchange rate adjustments			(3,234)
Revaluation of receivables from invoice exchange rate to closing exchange rate			3,248

Derivative financial instruments not designated as hedge accounting

Forward currency contracts which are not designated in hedge accounting are classified as held for trading with fair value adjustments recognized in the income statement. The open forward currency contracts are specified as follows:

	Group and Parent Company 2012		
DKK thousand	Residual maturity	Contract amount based on agreed rates	Fair value 31 December
Forward currency contracts (sale of USD 21 million)	0-3 months	98,418	(17,470)
Forward currency contracts (purchase of USD 27 million)	0-3 months	153,434	(750)
Total			**(18,220)**

NOTES

20 Financial risks and financial instruments – continued

Interest rate and cash risks

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

The Group´s bank deposits are placed in deposit accounts without bond. The Group's cash and cash equivalents totaled DKK 353.5 million as of 31 December 2012 (DKK 272.1 million).

The Group's fixed rate bond portfolio expires as shown below. Amounts are stated excluding interest.

	Group and Parent Company		Group and Parent Company	
	2012		2011	
DKK thousand	Fair value as of 31 December	Effective interest	Fair value as of 31 December	Effective interest
Bond portfolio				
Within 0-2 years	17,303	0.3%	139,092	1.1%
Within 2-5 years	137,758	0.7%	76,621	1.2%
After 5 years	41,298	3.2%	96,206	3.4%
Total	**196,359**	**1.2%**	**311,919**	**1.8%**

Fluctuations in interest rate levels affect the Group's bond portfolio. An increase in the interest rate level by 1 percentage point relative to the interest rate level on the balance sheet date would have had a negative effect of DKK 8-9 million on the Group´s profit and equity (DKK 5-6 million). A corresponding fall in the interest rate level would have had an equivalent positive effect on profit and equity.

With respect to the Group´s bank deposits at floating rates and mortgage debt, an increase in the applicable interest rate by 1 percentage point would have had a positive effect on the Group's profit and equity of DKK 0-1 million. A corresponding fall in the interest rate would have had an equivalent negative effect.
Note 22 shows the due dates of financial liabilities.

The Company has a credit facility of DKK 120 million. As of 31 December 2012 the credit facility is not used.

Credit risks

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

As of 31 December 2012, none of the receivables were overdue.

Cash and cash equivalents are not deemed to be subject to any special credit risk as they are deposited with Nordea and invested in bonds; either government bonds, Danish mortgage bonds or bonds issued by Danish banks with high ratings.

Optimization of capital structure

Management regularly assesses whether the Group´s capital structure best serves the interests of the Company its shareholders. The overall goal is to ensure that the Group has a capital structure which supports its long-term growth target. For additional information, please refer to the Management Review.

NOTES

20 Financial risks and financial instruments – continued

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

Securities (level 1)
The portfolio of publicly traded government bonds and publicly traded mortgage bonds is valued at listed prices and price quotas. The fair value as of 31 December 2012 amounts to DKK 196 million (DKK 312 million).

Derivative financial instruments (level 2)
Forward currency contracts and interest rate swaps are valued according to generally accepted valuation methods based on relevant observable swap curves and exchange rates. The fair value as of 31 December 2012 is negative by DKK 19 million (DKK -51 million).

	Group		Parent Company	
DKK thousand	2012	2011	2012	2011
21 Provisions				
Provisions as of 1 January	15,256	14,797	15,256	14,797
Additions during the year	16,796	10,956	2,655	10,956
Disposals during the year	-	(10,497)	-	(10,497)
Provisions as of 31 December	**32,052**	**15,256**	**17,911**	**15,256**

Provisions	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
Group:				
2012	14,790	15,059	2,203	32,052
2011	-	12,073	3,183	15,256
Parent Company:				
2012	649	15,059	2,203	17,911
2011	-	12,073	3,183	15,256

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

Currency adjustment of the obligation (USD) and adjustment of the net present value have been recognized in financial expenses (note 9).

The total outstanding consideration to Reiner Laus amounts to a maximum of DKK 52 million (risk-adjusted net present value: DKK 17 million). The agreement remains unchanged after Reiner Laus' resignation.

NOTES

21 Provisions – continued

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

The total outstanding consideration to Paul Chaplin amounts to a maximum of DKK 32 million (risk-adjusted net present value: DKK 2 million).

The Company decided at the end of 2012 to discontinue its operations at the facility in Berlin where the production of clinical trial material to the MVA-BN®-based vaccine candidates has taken place. As of 31 December 2012 severance pay, salary during notice period and rental commitments has been accrued. The accrual total DKK 14 million.

	Group and Parent Company			
DKK thousand	Due within 1 year	Due between 1 and 5 year	Due after 5 years	Total
22 Credit Institutions				
2012				
Mortgage, fixed interest 4.1684%	577	2,561	18,086	21,224
Mortgage, fixed interest 4.5352%	1,150	5,154	11,180	17,484
Construction loan, USD, variable interest [a) *)]	50,670	-	-	50,670
Total	**52,397**	**7,715**	**29,266**	**89,378**
2011				
Mortgage, fixed interest 4.1684%	553	2,457	18,767	21,777
Mortgage, fixed interest 4.5352%	1,099	4,927	12,557	18,583
Construction loan, USD, variable interest [a) *)]	7,350	51,445	-	58,795
Total	**9,002**	**58,829**	**31,324**	**99,155**

a) The variable-rate loan is changed to fixed interest of 2.3046% p.a. via a SWAP

*) Annual rate adjustment

The fair value of the debt does not deviate significantly from the recognized debt.

The construction loan will be renegotiated in 2013, why the total loan has been classified as short term.

NOTES

	Group		Parent Company	
DKK thousand	2012	2011	2012	2011
23 Prepayment from customers				
Prepayment from customers as of 1 January	406,443	381,805	406,443	381,805
Prepayments received during the year	41,367	136,408	41,367	136,408
Recognized as income during the year	(252,198)	(111,770)	(252,198)	(111,770)
Prepayment from customers as of 31 December	**195,612**	**406,443**	**195,612**	**406,443**

Prepayment of USD 50 million was received in 2007 as a part of the RFP-3 contract for delivery of 20 million vaccines of IMVAMUNE®. If Bavarian Nordic fails to fulfill the RFP-3 contract, the Company has a repayment obligation. It is the Company's assessment that the repayment obligation is reduced in line with delivery of vaccines, and a proportionate share of the prepayment is recognized as revenue - equivalent to USD 2.50 per vaccine - in line with the delivery of vaccines.

In 2010, the Company received a milestone payment of USD 25 million under the RFP-3 contract with the same repayment obligation as for the prepayment. The milestone payment is treated as the above mentioned prepayment and recognized as revenue in line with delivery of vaccines, equivalent to USD 1.25 per vaccine.

In 2011, the Company received a milestone payment of USD 25 million under the RFP-3 contract with the same repayment obligation as for the prepayment. The milestone payment is treated as the above mentioned prepayment and recognized as revenue in line with delivery of the remaining vaccines, equivalent to USD 1.45 per vaccine.

At year-end 2012, 14.4 million vaccines were delivered and DKK 398 million of the prepayments have been recognized as revenue in the period 2010-2012.

The U.S. Government has requested to expand the Phase 3 study of IMVAMUNE® by an additional 1,000 subjects. The Company has received funding to cover the additional costs of the expansion of the study. The funding totals USD 25 million and is paid out in 4 milestone payments, where the first milestone payment was received in 2012 (USD 6 million). Milestone payments are recognized as revenue in line with the recognition of the cost of the Phase 3 study. 25% of the Phase 3 costs are being expensed while the remaining 75% is being capitalized as intangible assets in progress as described in note 12. There is no repayment obligation.

In 2012 the Company was contracted by the U.S. Government to complete a study covering the possible long-term storage of frozen Bulk Drug Substance (BDS), including collection of long-term stability data on frozen BDS. The contract runs until 2017 and has a total value of USD 5 million, which is being paid out in 6 milestone payments. The first milestone payment of USD 0.7 million was received in 2012. Milestone payments are being recognized as revenue in line with recognition of the cost of the study. There is no repayment obligation.

NOTES

	Group	
DKK thousand	2012	2011
24 Related party transactions		
The management and Board of Directors of Bavarian Nordic A/S are considered related parties as they have significant influence.		
Intercompany purchases from the subsidiaries comprise:		
Cost-plus agreements		
Bavarian Nordic A/S' purchase of research and development services from Bavarian Nordic GmbH	158,780	130,846
Bavarian Nordic A/S' purchase of services from Bavarian Nordic Inc.	8,889	7,237
Service level agreements		
BN ImmunoTherapeutics Inc.'s purchase of quality tests from Bavarian Nordic A/S	256	1,986
BN ImmunoTherapeutics Inc.'s purchase of constructs from Bavarian Nordic GmbH	2,422	4,021
Management fee		
BN ImmunoTherapeutics Inc.'s purchase of management services from Bavarian Nordic A/S	284	277
Sub-license agreement, PROSTVAC®		
Bavarian Nordic A/S' purchase of PROSTVAC® research and development services from BN ImmunoTherapeutics Inc.	147,091	-
Bavarian Nordic A/S' upfront payment to BN ImmunoTherapeutics Inc. of PROSTVAC® sub-license	-	138,565

Overview of subsidiaries can be found in note 14.

Information on other intercompany transactions and balances is disclosed in notes 8 and 9.

Apart from intra-group transactions mentioned above, remuneration of the Board of Directors, the President and CEO and other group management, cf. note 5 and note 21 and the warrant programmes, cf. note 25, there are no significant transactions with related parties.

Transactions with subsidiaries are eliminated in the consolidated financial statement, in accordance with the accounting policies set out in note 28.

In December 2009, Bavarian Nordic A/S obtained full ownership of the subsidiary BN ImmunoTherapeutics Inc. by purchasing shares in BN ImmunoTherapeutics Inc. from the former CEO of BN ImmunoTherapeutics Inc., Reiner Laus, and two former employees of the subsidiary. Further, stock options issued to employees in the subsidiary were repurchased. The transaction was part of Bavarian Nordic's strategy to strengthen the cancer business. The consideration to Reiner Laus and the two former employees was paid partly in shares in Bavarian Nordic A/S and partly by way of a number of future milestone payments that are triggered upon the successful completion of a number of pre-defined development milestones. In addition to this, a separate agreement regarding cancellation of certain contractual rights, including anti-dilution rights, regarding BN ImmunoTherapeutics Inc., was entered into with Reiner Laus. As compensation, Reiner Laus has the right to a number of future milestone payments which are triggered upon successful completion of pre-defined development milestones, which are recognized in provisions. In November 2011, a milestone payment of DKK 8.3 million was paid out to Reiner Laus in connection with the start-up of PROSTVAC® Phase 3. See note 21.

NOTES

25 Incentive plans

Share-based payment
In order to motivate and retain key employees and encourage the achievement of common goals for employees, management and shareholders, Bavarian Nordic A/S has established share-based compensation programmes by way of warrant plans for the Board of Directors, the CEO, other group management and other employees. Furthermore, the Company has established three-year phantom share programmes for all employees of the Group.

Warrants
In October 2008, March 2009, December 2009, May 2010, August 2010, December 2010, August 2011, May 2012 and August 2012, the Board of Directors granted warrants to the Company´s management, selected employees of the Company and its subsidiaries and to the Company´s Board of Directors. See the tables below.

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

The terms of the warrant plans are included in the Articles of Association (articles 5 b, 5g and 5i - 5n).

Outstanding warrant plans as of 31 December
The exercise price and exercise periods for the individual grants are stated in the tables below.

2012	Outstanding as of 1 January	Additions	Annulled	Outstanding as of 31 December	Can be exercised 31 December	Average exercise price (DKK)
October 2008 programme	244,062	-	-	244,062	244,062	97
March 2009 programme	36,924	-	(12,847)	24,077	24,077	77
December 2009 programme	401,395	-	(28,097)	373,298	373,298	114
May 2010 programme	345,849	-	(19,118)	326,731	-	216
August 2010 programme	38,375	-	-	38,375	-	192
December 2010 programme	59,241	-	-	59,241	-	194
August 2011 programme	384,750	-	(12,200)	372,550	-	54
May 2012 programme	-	78,500	-	78,500	-	54
August 2012 programme	-	425,000	(625)	424,375	-	59
Total	**1,510,596**	**503,500**	**(72,887)**	**1,941,209**	**641,437**	

NOTES

25 Incentive plans – continued

2012	Outstanding as of 1 January	Adj. reg. rights issue	Additions	Annulled	Terminated	Transferred	Outstanding as of 31 December
Board of Directors	128,202	-	30,000	-	-	(26,184)	132,018
CEO & President	126,166	-	35,000	-	-	-	161,166
Other group management	231,945	-	75,000	-	-	-	306,945
Other employees	858,616	-	363,500	(72,887)	-	(22,359)	1,126,870
Resigned employees	165,667	-	-	-	-	48,543	214,210
Total	**1,510,596**	**-**	**503,500**	**(72,887)**	**-**	**-**	**1,941,209**
Weighted average exercise price	**124**	**-**	**58**	**124**	**-**	**-**	**107**
Number of warrants which can be exercised as of 31 December 2012							641,437
at an weighted average exercise price of DKK							106
2011							
Board of Directors	84,852	25,274	30,000	-	(11,924)	-	128,202
CEO & President	103,475	23,466	35,000	-	(35,775)	-	126,166
Other group management	134,435	40,397	75,000	-	(17,887)	-	231,945
Other employees	561,599	169,904	245,000	(50,518)	(67,369)	-	858,616
Resigned employees	167,745	42,637	-	-	(44,715)	-	165,667
Total	**1,052,106**	**301,678**	**385,000**	**(50,518)**	**(177,670)**	**-**	**1,510,596**
Weighted average exercise price	**243**	**147**	**54**	**150**	**460**	**-**	**124**
Number of warrants which can be exercised as of 31 December 2011							244,062
at an weighted average exercise price of DKK							97

NOTES

25 Incentive plans – continued

Specification of parameters for Black-Scholes model	October 2008	March 2009	December 2009	May 2010	August 2010	December 2010	August 2011	May 2012	August 2012
Average share price (DKK)	156.00	103.00	149.00	212.50	223.00	238.00	50.00	43.30	52.00
Average share exercise price at grant (DKK)	156.00	124.00	184.00	291.00	259.00	261.00	54.10	54.00	59.10
Average share exercise price determined at date of rights issue 27 May 2011 (DKK)	97.00	77.00	114.00	216.00	192.00	194.00	-	-	-
Expected volatility rate	39.0%	62.3%	50.9%	62.7%	57.2%	49.5%	73.4%	52.5%	50.0%
Expected life - number of years	3.0	3.0	3.0	3.0	3.0	3.0	3.3	3.3	3.3
Expected dividend per share	-	-	-	-	-	-	-	-	-
Risk-free interest rate % p.a.	4.50%	2.50%	2.10%	2.00%	0.77%	1.63%	1.08%	0.31%	-0.09%
The fair value of the warrant at grant applying the Black-Scholes model (DKK)	49	39	48	72	76	78	24	13	16
The fair value of the warrant at date of rights issue 27 May 2011 applying the Black-Scholes model (DKK)	21	29	25	17	21	23	-	-	-

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

Recognized costs in 2012 DKK 16.4 million (incl. incremental fair value) compared to DKK 21.6 million in 2011.

Exercise periods

2012 August programme
The warrants can be exercised wholly or partly in a period of 14 days commencing from the day of publication of the Company's Interim Report for the first nine months of 2015 (Q3), from the day of publication of the Company's Interim Report for the first three months of 2016 (Q1), from the day of publication of the Company's Interim Report for the first nine months of 2016 (Q3) and/or in a period of 14 days commencing from the day of publication of the Company's Interim Report for the first three months of 2017 (Q1).

2012 May programme
The warrants can be exercised wholly or partly in a period of 14 days commencing from the day of publication of the Company's Interim Report for the first six months of 2015 (Q2), from the day of publication of the Company's Annual Report for 2015, from the day of publication of the Company's Interim Report for the first six months of 2016 (Q2) and/or in a period of 14 days commencing from the day of publication of the Company's Annual Report for 2016.

2011 August programme
The warrants can be exercised wholly or partly in a period of 14 days commencing from the day of publication of the Company's Interim Report for the first nine months of 2014 (Q3), from the day of publication of the Company's Interim Report for the first three months of 2015 (Q1), from the day of publication of the Company's Interim Report for the first nine months of 2015 (Q3) and/or in a period of 14 days commencing from the day of publication of the Company's Interim Report for the first three months of 2016 (Q1).

NOTES

25 Incentive plans – continued

2010 December programme
The warrants can be exercised wholly or partly in a period of 14 days commencing from the day of publication of the Company's Annual Report for 2013, from the day of publication of the Company's Interim Report for the first six months of 2014 (Q2), from the day of publication of the Company's Annual Report for 2014 and/or in a period of 14 days commencing from the day of publication of the Company's Interim Report for the first six months of 2015 (Q2).

2010 August programme
The warrants can be exercised wholly or partly in a period of 14 days commencing from the day of publication of the Company's Interim Report for the first six months of 2013 (Q2), from the day of publication of the Company's Annual Report for 2013, from the day of publication of the Company's Interim Report for the first six months of 2014 (Q2) and/or in a period of 14 days commencing from the day of publication of the Company's Annual Report for 2014.

2010 May programme
The warrants can be exercised wholly or partly in a period of 14 days commencing from the day of publication of the Company's Interim Report for the first three months of 2013 (Q1), from the day of publication of the Company's Interim Report for the first nine months of 2013 (Q3), from the day of publication of the Company's Interim Report for the first three months of 2014 (Q1) and/or in a period of 14 days commencing from the day of publication of the Company's Interim Report for the first nine months of 2014 (Q3).

2009 December programme
The warrants can be exercised wholly or partly in a period of 14 days commencing from the day of publication of the Company's Interim Report for the first nine months of 2012 (Q3), from the day of publication of the Company's Interim Report for the first three months of 2013 (Q1), from the day of publication of the Company's Interim Report for the first nine months of 2013 (Q3) and/or in a period of 14 days commencing from the day of publication of the Company's Interim Report for the first three months of 2014 (Q1).

2009 March programme
The warrants can be exercised wholly or partly in a period of 14 days commencing from the day of publication of the Company's Annual Report for 2011, from the day of publication of the Company's Interim Report for the first six months of 2012 (Q2), from the day of publication of the Company's Annual Report for 2012 and/or in a period of 14 days commencing from the day of publication of the Company's Interim Report for the first six months of 2013 (Q2).

2008 October programme
The warrants can be exercised wholly or partly in a period of 14 days commencing from the day of publication of the Company's Interim Report for the first six months of 2011 (Q2), from the day of publication of the Company's Annual Report for 2011, from the day of publication of the Company's Interim Report for the first six months of 2012 (Q2) and/or in a period of 14 days commencing from the day of publication of the Company's Annual Report for 2012.

NOTES

25 Incentive plans – continued

Phantom shares
In 2010, the Company established a three-year phantom share programme under which all employees in the Group receive up to four phantom shares per month free of charge during the period from 1 April 2010 to 31 March 2013. Each employee who is a full-time employee during the entire term of the plan will be eligible to receive a maximum of 144 phantom shares.

In 2011, the Company established a new three-year phantom share programme covering all employees in the Group receive up to six phantom shares per month free of charge during the period from 1 January 2012 to 31 December 2014. Each employee who is a full-time employee during the entire term of the plan will be eligible to receive a maximum of 216 phantom shares.

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

2012-2015 programme	2012
Outstanding as of 1 January	-
Granted during the year	31,370
Expired during the year	-
Outstanding phantom shares as of 31 December	**31,370**
Liability in DKK thousand as of 31 December	**489**
Specification of parameters for Black-Scholes model	
Share price 31 December (DKK)	50
Average share exercise price (DKK)	45
Expected volatility rate (% p.a.)	51%
Expected life - number of years	2.0
Expected dividend per share	-
Risk-free interest rate (% p.a.)	-0.17%

The expected volatility is based on the historic volatility (over 12 months).
The expense in respect of phantom shares granted in 2012 provided a cost of DKK 0.5 million.

2010-2013 programme	2012	2011	2010
Outstanding as of 1 January	32,749	9,938	-
Granted during the year	20,706	17,927	9,938
Adjustment regarding rights issue	-	4,884	-
Expired during the year	-	-	-
Outstanding phantom shares as of 31 December	**53,455**	**32,749**	**9,938**
Liability in DKK thousand as of 31 December	**-**	**43**	**731**
Specification of parameters for Black-Scholes model			
Share price 31 December (DKK)	50	38	245
Average share exercise price (DKK)	184	184	248
Expected volatility rate (% p.a.)	51%	82%	51%
Expected life - number of years	0.3	1.3	2.3
Expected dividend per share	-	-	-
Risk-free interest rate (% p.a.)	-0.30%	0.06%	1.02%

The expected volatility is based on the historic volatility (over 12 months).
The expense in respect of phantom shares granted in 2012 and revaluation of previously granted phantom shares provided an income of DKK 43 thousand in 2012 (an income of DKK 0.7 million)

NOTES

	Group		Parent Company	
DKK thousand	2012	2011	2012	2011
26 Contingent liabilities, contractual obligations				
The Parent Company stands surety for a credit facility to a subsidiary of a maximum of	4,103	4,088	4,103	4,088
The Parent Company stands surety for letter of credit to subsidiaries of a maximum of	18,637	18,902	18,637	18,902
Bank guarantees issued as deposits for laboratory and office buildings in Martinsried, Germany	1,737	1,731	-	-
Income recognition of part of prepayment, cf. note 23, with repayment obligation in the event of breach of the RFP-3 contract. In such event repayment must occur in USD	397,562	154,570	397,562	154,570
Guarantee issued in connection with sale of IMVAMUNE® to Asia	92	91	92	91
Operational leasing				
Leasing obligations for cars.				
The rental agreements are irrevocable up to 35 months.				
- Due within 1 year	1,641	1,999	1,036	1,439
- Due between 1 and 5 years	1,144	2,559	519	1,377
Minimum leasing cost recognized in net profit for the year	2,022	2,499	1,148	1,354
Rental commitments				
Rental agreements for laboratory and offices facilities.				
The rental agreements are irrevocable from 1 to 49 months.				
- Due within 1 year	17,231	17,656	660	797
- Due between 1 and 5 years	47,034	64,845	-	-
- Due after 5 years	-	9,807	-	-
Minimum rental cost recognized in net profit for the year	17,454	18,535	2,238	1,688
Collaborative agreements				
Contractual obligations with research partners for long-term research projects.				
- Due within 1 year	9,896	11,286	2,220	2,093
- Due between 1 and 5 years	19,552	10,681	311	681
Other contractual obligations				
Other obligations include among other things purchase commitments related to filling of vaccines.				
- Due within 1 year	54,763	98,705	54,497	96,413
- Due between 1 and 5 years	630	48,348	181	45,511
- Due after 5 years	147	-	-	-

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26 Contingent liabilities, contractual obligations – continued

The PROSPECT study
BN Immunotherapeutics Inc. has signed a contract with PPD Development LP regarding implementation/management of the PROSPECT study. The contract may be terminated with one month's notice. Upon termination of the contract before the study has been completed ImmunoTherapeutics Inc. shall reimburse PPD Development LD for all non-cancelable obligations to third parties as well as any obligations agreed on for the purpose of winding down the study.

Joint taxation
The Parent Company is jointly taxed with all Danish subsidiaries. As the administration company the Parent Company stands surety with the other companies in the joint taxation of Danish taxes on dividends, interest and royalties.

Incentive agreements
The total outstanding consideration regarding incentive agreements with Reiner Laus and Paul Chaplin amounts to a maximum of DKK 84 million. As per 31 December the provision amounts to DKK 18 million. For further description of the incentive agreement see note 21.

Company mortgage
Bavarian Nordic A/S has by letter of indemnity (DKK 150 million) granted Nordea Bank Denmark a floating charge on unsecured claims arising from the sale of goods and services and stocks of raw materials, intermediate products and finished products. The floating charge secures the operating credit line of DKK 120 million. In addition, the floating charge secures the line for trading in financial instruments (DKK 157 million) and the line for leasing arrangements (DKK 3 million).

Lawsuits
Based on management's assessment Bavarian Nordic is not involved in any lawsuits or arbitration cases which could have a material impact on the Parent Company's or the Group's financial position or results of operations.

27 Significant events after the balance sheet date

Executive Vice President and Division President, Cancer Vaccines, Reiner Laus, has resigned his position in mid-January 2013. The Company has appointed James B. Breitmeyer as new Executive Vice President and Division President, Cancer Vaccines. James B. Breitmeyer took , up his position February 12, 2013.

NOTES

28. Accounting Policies

The accounting policies are, in addition to the description in note 1, as described below.

Recognition and measurement

Income is recognized in the income statement when generated. Assets and liabilities are recognized in the balance sheet when it is probable that any future economic benefit will flow to or from the Company and the value can be reliably measured. On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described below for each item.

Basis of consolidation

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

Principles of consolidation

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

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

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

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

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

The items of the financial statements of subsidiaries are fully consolidated in the consolidated financial statements. Consolidated profit includes profit attributable to non-controlling interests and non-controlling interests are stated as a separate line item in equity.

Foreign currency translation

On initial recognition, transactions denominated in currencies other than the Group's functional currency are translated at the exchange rate ruling at the transaction date.

Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Exchange differences between the exchange rate at the date of the transaction and the exchange rate at the date of payment or the balance sheet date, respectively, are recognized in the income statement under financials. 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.

Transactions hedged by forward currency instruments are recognized at the hedged exchange rate. See "Derivative financial instruments" below.

On recognition in the consolidated financial statements of subsidiaries whose financial statements are presented in a functional currency other than Danish kroner (DKK), the income statements are translated at the exchange rates ruling at beginning of 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 exchange rates beginning of the month to exchange rates at the balance sheet date are recognized as other comprehensive income. Similarly, exchange differences arising as a result of changes made directly in the equity of the foreign subsidiary are also recognized as other comprehensive income.

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

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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 recognized asset or a recognized liability are recognized 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 recognized as comprehensive income. The ineffective portion is recognized immediately in the income statement. When the hedged transactions are realized, cumulative changes are recognized 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 recognized as financials 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 recognized in the income statement in staff costs under the respective functions over the vesting period. The balancing item is recognized 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 recognized in the income statement under staff costs over the period when the final right of cash-settlement is obtained. Vested rights are subsequently re-measured on each balance sheet date and upon final settlement, and any changes in the fair value of the programmes are recognized in the income statement in staff costs under the respective functions. The balancing item is recognized under liabilities.

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

INCOME STATEMENT

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

Revenue from milestone payments is recognized if all attached obligations are fulfilled and it is certain that there will be no demand for these to be refunded. Revenue from development contracts are recognized in line with the execution and delivery of the work. Grants that compensate the Group for research and development expenses incurred, which are recognized directly in the income statement, 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.

Grants that compensate the Group for purchase of assets and development projects which are recognized in the balance sheet are recognized initially in the balance sheet as deferred income and are then recognized in the income statement as administration costs on a systematic basis over the useful life of the asset.

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

Research and development costs
Research and development costs include salaries and costs directly attributable to the Company's research and development projects, less government grants. Furthermore, salaries and costs supporting direct research and development, including costs of patents, rent, leasing and depreciation attributable to laboratories, and external scientific consultancy services, are recognized under research and development costs.

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

Research costs are expensed in the year they occur.

Development costs are normally expensed in the year they are incurred. Where there is sufficient certainty that the future earnings to the Company will cover not only production and

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direct distribution costs and administrative costs, but also the development costs, the development costs that cover the ongoing costs of a clinical programme after the date of regulatory approval of the said clinical trial are recognized as assets. Due to the general risk relating to the development of pharmaceutical products, capitalization in the balance sheet requires that the product can be completed and marketed. If sufficient certainty thereof does not exist, the development costs are expensed.

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

Administrative costs
Administrative costs include costs of company management, staff functions, administrative personnel, office costs, rent, lease payments and depreciation not relating specifically to production, research and development activities or distribution costs.

Financials
Interest income and expenses are recognized in the income statement at the amounts relating to the financial year. Financials also include financing costs related to finance leases. Furthermore value adjustments of financial instruments, adjustment of the net present value of provisions, securities, and items denominated in foreign currency and charges are included.

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

Current tax payable but not yet paid is recognized in the balance sheet under current liabilities. Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, unless the parent company has a possibility of controlling when the deferred tax is to be realized and it is likely that the deferred tax will not crystallise as current tax within the foreseeable future.

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

Unrealized temporary deductible differences are disclosed in a note.

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

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

Non-controlling interests
Non-controlling interests include the part of net profit that is attributable to minority shareholders.

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

BALANCE SHEET

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

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

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

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

Rights max.	15 years
Software	3 years

Development projects not defined (in progress).

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

Property, plant and equipment
Property, plant and equipment include land and buildings, production equipment, leasehold improvements, office and IT equipment and laboratory equipment and is measured at cost less accumulated depreciation and impairment losses.

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

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

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

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

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

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

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

Investment in subsidiaries in the parent company's financial statements
Investments in subsidiaries are recognized 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.

If dividends distributed have exceeded the total earnings in the company since the parent company acquired the equity, this is considered an indication of impairment. See the section on impairment below.

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

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

Inventories
Inventories except for raw materials are measured at the lower of cost using the weighted average cost formula method less write-downs for obsolescence and net realisable value. Raw materials are measured at cost based on the FIFO method.

For raw materials, cost is determined as direct acquisition costs incurred. The cost of finished goods produced in-house and work in progress includes raw materials, consumables, filling cost, QC testing and direct payroll costs plus indirect costs of production.

Indirect costs of production include indirect materials and labour as well as maintenance of and depreciation on the machinery used in production processes, factory buildings and equipment used and cost of production administration and management.

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

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

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

Prepayments
Prepayments recognized under assets include costs paid in respect of subsequent financial years, including especially prepayments for filling campaigns at IDT Biologika GmbH and project costs incurred that relate to revenues of subsequent years. Prepayments are measured at cost.

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

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

Both realized and unrealized value adjustments are recognized in the income statement under financials.

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

Provisions are measured as the best estimate of the costs needed at the balance sheet date to settle obligations.

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

Pension obligations and similar obligations
For defined contribution plans, the Group pays regular fixed contributions to independent pension funds and insurance companies.

The Group has no obligations to pay additional contributions. Periodical payments to defined contribution plans are disclosed in the income statement, in the period in which employees have provided the service giving the entitlement to the pension contribution.

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

Lease obligations
Lease obligations regarding assets held under finance leases are recognized in the balance sheet as liabilities and measured at the time the contract is awarded, at the lower of the fair value of the leased asset and the present value of future lease payments. After initial recognition, leased liabilities are measured at amortized cost. The difference between the present value and the nominal value of the lease payments is recognized in the income statement as a financial expense over the term the contract.

Lease payments for operating leases are recognized in the income statement on a straight-line basis over the lease term.

Other financial liabilities
Other financial liabilities include bank debt, trade payables and other payables to public authorities. Other liabilities also include contingent payments at the conclusion of agreements, contracts, etc.

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

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

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

CASH FLOW STATEMENT

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

Cash flows in foreign currencies are translated into Danish kroner at the exchange rate on the transaction date.

In the cash flows from operating activities, income before interest and tax is adjusted for non-cash operating items and changes in working capital.

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

Cash flows from financing activities include cash flows from the raising and payment of loans and capital increases as well as financials. Additionally, cash flows from assets held under finance leases are recognized by way of lease payments made.

Segment reporting
Bavarian Nordic is divided into two business areas: Cancer Vaccines and Infectious Diseases each led by its own Division President reporting to the President and CEO of the Company. The internal financial reporting is also divided into these two operating segments and Holding (not a reportable segment). Holding covers costs of group management, investor relations, group finance, IT, and legal.

Segment results reflect the results reported to the Company's chief operating management for the purposes of allocating resources and assessing segment performance.

Financials are not allocated to operating segments. Therefore, "Income before interest and tax" is used as a performance target in the segment reporting. Similarly, the balance sheet is not divided into operating segments, and total assets are not stated per operating segment. Investments in non-current assets are broken down by operating segment and stated in the segment reporting.

In Bavarian Nordic, the internal management reporting complies with the Group's accounting policies.

Financial definitions
Earnings per share and diluted earnings per share:

$$\frac{\text{Parent company´s part of net profit for the year x 100}}{\text{Average number of shares}}$$

In accordance with IAS 33, 41, the average number of shares, when calculating diluted earnings, equal earnings per share, as the inclusion of potential shares would improve earnings per share.

Net asset value per share:

$$\frac{\text{Equity excluding non-controlling interests}}{\text{Number of shares at year-end}}$$

Share price/Net asset value per share:

$$\frac{\text{Market price per share}}{\text{Net asset value per share}}$$

Equity share, %:

$$\frac{\text{Equity excluding non-controlling interests x 100}}{\text{Total assets}}$$

Earnings per share and diluted earnings per share are calculated as specified in note 11.

The ratios are calculated and applied in accordance with "Anbefalinger og Nøgletal 2010" (Recommendations and Financial Ratios 2010) issued by the Danish Society of Financial Analysts. The ratios are stated on page 10.

COMPANY ANNOUNCEMENTS IN 2012 AND 2013

Date	No.	Title
23-Feb-12	1	PROSTVAC® and Ipilimumab Phase 1 Study Supports Rationale for Combining Two Immunotherapies for Prostate Cancer
01-Mar-12	2	Bavarian Nordic Submits a Marketing Application for its Smallpox Vaccine to the European Medicines Agency
08-Mar-12	3	Bavarian Nordic Announces 2011 Full Year Results
21-Mar-12	4	Bavarian Nordic A/S – Notice Convening Ordinary General Meeting
10-Apr-12	5	Bavarian Nordic Nominates Peter Kürstein for Election to the Board
16-Apr-12	6	Bavarian Nordic A/S – Report on the Results of the Annual General Meeting, held 16 April 2012
22-May-12	7	Bavarian Nordic A/S – Interim Report for the period 1 January to 31 March 2012
18-Jun-12	8	Bavarian Nordic Awarded Contract from the U.S. Government to Advance the Development of new MVA-BN® based vaccines
11-Jul-12	9	U.S. Government Expands Population Eligible to Receive Bavarian Nordic's Smallpox Vaccine in an Emergency
13-Jul-12	10	Bavarian Nordic Announces New Major Shareholder from the USA
28-Aug-12	11	Bavarian Nordic Reports First Half 2012 Financial Results
28-Aug-12	12	Bavarian Nordic awards warrants to the Board of Directors, management and certain employees
31-Aug-12	13	Bavarian Nordic issues Financial Calendar for 2013
17-Sep-12	14	Report of transactions of shares and related securities of Bavarian Nordic by persons holding managerial responsibilities and/or persons/companies closely associated with such
01-Oct-12	15	Bavarian Nordic Reports Preliminary Data from Phase 2 Trial of CV-301 in Metastatic Breast Cancer
13-Nov-12	16	Bavarian Nordic – Interim Financial Report for the Period 1 January to 30 September 2012
28-Nov-12	17	Bavarian Nordic Receives Additional Order for IMVAMUNE® Smallpox Vaccines from the Canadian Government
21-Dec-12	18	Bavarian Nordic Issues Revised Financial Calendar for 2013

Company Announcements in 2013

11-Jan-13	1	Bavarian Nordic Consolidates its Vaccine Manufacturing in Denmark
21-Jan-13	2	Bavarian Nordic Announces Changes in Management
08-Feb-13	3	Bavarian Nordic Appoints James B. Breitmeyer as Executive Vice President and Division President of its Cancer Vaccine Division
12-Feb-13	4	Bavarian Nordic Awards Warrants to Newly Appointed Member of the Executive Management
13-Feb-13	5	Bavarian Nordic Presents New Clinical Data on PROSTVAC® at the 2013 Genitourinary Cancers Symposium

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