ANNUAL REPORT 2008

PARTNERSHIP WITH NATIONAL CANCER INSTITUTE NEW LATE-STAGE VACCINE CANDIDATE PROSTVAC™ ACQUIRED WHICH SHOWED FIFTY PERCENT IMPROVED SURVIVAL IN PATIENTS WITH ADVANCED PROSTATE CANCER MORE THAN TWO THOUSAND FOUR HUNDRED SUBJECTS VACCINATED WITH IMVAMUNE® TWO PROGRAMMES READY FOR PHASE III TWO PROGRAMMES ENTERED PHASE I/II TRIALS ANTHRAX PROGRAMME STRENGTHENS BIODEFENCE PORTFOLIO CANADA AND ASIAN COUNTRY PROCURE IMVAMUNE® SMALLPOX VACCINE

BAVARIAN NORDIC

Contents

Introduction

Strong growth in the pipeline with increased focus on cancer vaccines

The year 2008 will probably mainly be remembered for the financial crisis that swept over us all as a merciless tornado ravaging many companies and destroying their financial strength. Fortunately, not all companies were tormented by the crisis. At Bavarian Nordic, we achieved our goals for 2008. Our development programmes progressed as planned and our capital preparedness is still very strong. Thus, 2008 was a good year for Bavarian Nordic.

However, as a listed company we did not go completely unscathed by the financial crisis. Since mid-2007, the price of Bavarian Nordic's shares has plummeted more than most other Danish equities. The downward slide started even a little earlier for Bavarian Nordic despite the fact that the company has achieved its goals and added value to the company in the accounting period. At Bavarian Nordic, we are well prepared to withstand the crisis. Our customers and partners are solid and financially strong governments and pharma companies. We have cash resources of almost DKK 800 million and signed contracts that are expected to generate substantial earnings in the years to come.

For Bavarian Nordic, 2008 was in many ways another landmark year. Since the award of the RFP-3 contract from the US government in 2007, we have had to prove our ability to operate a real pharma company – a company that is unique in its sector as we can handle drug discovery, production as well as sales. We attained the goals we set for 2008, and not least all the important milestones set in the RFP-3 contract. Moreover, we expanded our product portfolio in the field of cancer, which has provided a broader basis for the continued growth of our Company.

In the Spring of 2008, we presented an updated company strategy. It included, among other things, a wide range of important short-term activities essential to our long-term success. These activities are primarily related to the completion of the RFP-3 contract with the US government. We have completed and submitted positive phase-II data for IMVAMUNE® that can potentially support the use of the vaccine in a declared emergency. With the expected approval of this data by the US health authorities this year, we are ready to begin the delivery of vaccines. This means we are on track to start billing the remainder of the contract, including payments of USD 375 million.

During 2007 and 2008 we initiated breast- and prostate cancer vaccine trials. But it was the cooperation with the US National Cancer Institute, announced in August last year, and the acquisition of a new prostate cancer vaccine, PROSTVAC™, that put

Bavarian Nordic on the global cancer research map. PROSTVAC™ constitutes a promising treatment option for patients with advanced prostate cancer. Strong therapeutic data from the concluding Phase II studies have led to the decision to initate clinical Phase III studies in 2010. With PROSTVAC™ we have significantly strengthened our cancer portfolio and at the same time we have broadened and balanced our pipeline.

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

With these two late stage vaccine candidates, Bavarian Nordic has placed itself in the middle of the map in the pharmaceutical industry. The global vaccine industry is at the moment going through a process of revitalisation and this has led to a renewed focus on M&A activities amongst the largest pharmaceutical companies, who are seeking to add vaccine expertise to their portfolios.

The year 2008 was also the year when we signed our first contracts for IMVAMUNE® outside the United States. Although these are small orders, they are of great strategic importance. The wish to build up or maintain modern backup supplies against bioterrorism is high on the agenda in many countries, and many countries have decided to gradually replace their old vaccine stockpiles or simply to build up new ones containing more modern and safer vaccines, which is a sign that the potential bioterror threat is taken seriously, and that they want to protect the people and interests of the country as much as possible.

We are still in a dialogue with a number of other countries, and we expect to enter into a number of small contracts in the next few years.

The excellent results we achieved during the year were based on the commitment and dedicated efforts of our many highly skilled employees. The year 2008 was a busy year for all of us at

Bavarian Nordic, and we had many deadlines to meet. Diligence and a strong commitment to success drove our organisation to meet all our important goals during the year, and I would like to thank all our employees for their efforts.

The year 2009 will also be an eventful year. We continue to have great focus on fulfilling the contract with the US government for the development and supply of IMVAMUNE®, and there is strong progress in all activities related to the project. We are ready to begin shipping as soon as we receive the necessary approvals. At the beginning of the new year we held an end-of-Phase-II meeting with the US health authorities with a view to designing the Phase III development of the vaccine, which we expect to start up in 2010, and the preparations for this are already under way. Through continued focus on fulfilling the contract, we feel that we are well positioned to be granted the option contract for an additional 60 million doses.

Our new, promising prostate cancer vaccine, PROSTVAC™, is currently under development for Phase III studies. We are working to transfer and further develop the production technology from the company which used to develop the vaccine, and we expect to initiate Phase III studies in 2010.

With two vaccines moving into Phase III development, we are moving towards a very exciting but also challenging period. And we are well prepared for the job. With a professional and well managed organisation that is growing all the time and a solid financial position, we have laid the foundation for continuing growth in Bavarian Nordic in the years ahead.

Key Figures 2004-2008

Group Key Figures 2004 – 2008

Amounts in DKK millions	2008	2007	2006	2005	2004
Income statements					
Revenue	208.8	332.1	175.3	247.6	164.8
Production costs	196.7	64.5	136.3	132.2	70.3
Research and development costs	129.6	243.6	118.4	114.4	120.4
Sales expenses and administrative costs	92.0	89.1	124.4	75.4	56.4
Other operating expenses	-	-	-	45.4	-
Income before interest and tax (EBIT)	(209.5)	(65.0)	(203.8)	(119.8)	(82.3)
Financial items, net	26.2	14.5	(1.0)	3.4	5.6
Income before company tax	(183.3)	(50.5)	(204.8)	(116.4)	(76.7)
Net profit for the year	(150.4)	(63.5)	(160.9)	(94.7)	(53.0)
Balance sheet data					
Total non-current assets	594.2	538.8	568.2	472.4	291.8
Total current assets	1,100.0	1,193.2	386.2	456.2	310.3
Total assets	1,694.3	1,732.1	954.4	928.6	602.1
Shareholders equity	1,015.1	1,217.7	691.4	630.1	315.4
Long-term current liabilities	52.7	134.7	150.6	212.2	149.1
Short-term current liabilities	626.5	379.7	112.4	86.3	137.6
Cash Flow Statements					
Net cash including securities	795.9	913.6	332.7	269.0	56.6
Cash flow from operating activities	(22.4)	163.2	(194.5)	(54.9)	(71.0)
Cash flow from investment activities	(81.5)	(16.1)	(192.2)	(196.9)	(224.6)
Investment in tangible assets	12.0	5.8	73.9	151.2	190.5
Cash flow from financing activities	(15.1)	440.4	219.0	464.2	152.8
Financial Ratios (in DKK) [1]					
Earnings per share					
- basic earnings, per share of DKK 10	(18.7)	(8.0)	(25.8)	(17.6)	(11.5)
- diluted earnings, per share of DKK 10	(18.7)	(8.0)	(25.8)	(17.6)	(11.5)
PE, price/earnings ratio	129.9	155.8	108.4	108.7	68.0
Share price at the year-end	132	293	582	476	539
Share price/Net assets value per share	1.0	1.9	5.4	4.4	7.9
Numbers of outstanding shares at the year-end	7,816	7,816	6,376	5,797	4,640
Shareholders´ equity share	60%	70%	72%	67%	52%
Number of employees at the end of the year	294	264	233	224	145

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

Outlook for 2009

With the expansion of the Company's pipeline, the work to implement the many new initiatives from the strategy plan and the prioritisation of the existing activities, Bavarian Nordic is continuing along the track that was laid down in 2008 with the new strategy.

For 2009, Bavarian Nordic expects revenue in the region of DKK 375 million and a pre-tax loss in the region of DKK 225 million.

Revenue will primarily be generated from the supply of approximately 2 million doses of IMVAMUNE® to the United States under the RFP-3 contract and billing of the continuation of the RFP-2 contract and contracts for smallpox vaccines for other countries. The outlook for 2009 is solely based on revenue from existing contracts.

Research and development costs are expected to total approximately DKK 240 million in 2009 including further development of IMVAMUNE® under the RFP-3 contract, of which approximately DKK 40 million is expected to be capitalised in the balance sheet under intangible assets.

For 2009, the Company will make extraordinarily large drawings on cash as a result of increased costs for scaling up production, the continuing build-up of stockpiles of vaccine, preparation of the Phase III study of PROSTVAC™ and increased costs of Phase II and the preparation of Phase III studies of IMVAMUNE®. It is expected that drawings on cash in the current year will be at the level of DKK 400 million. Accordingly, the Company's net free liquidity is expected to be approximately DKK 400 million at the end of the year. Bavarian Nordic expects to strengthen the cash position through already entered contracts for IMVAMUNE® in 2010 and in the future. Thus, at the end of 2012, Bavarian Nordic's net free liquidity is expected to be in level with 2008.

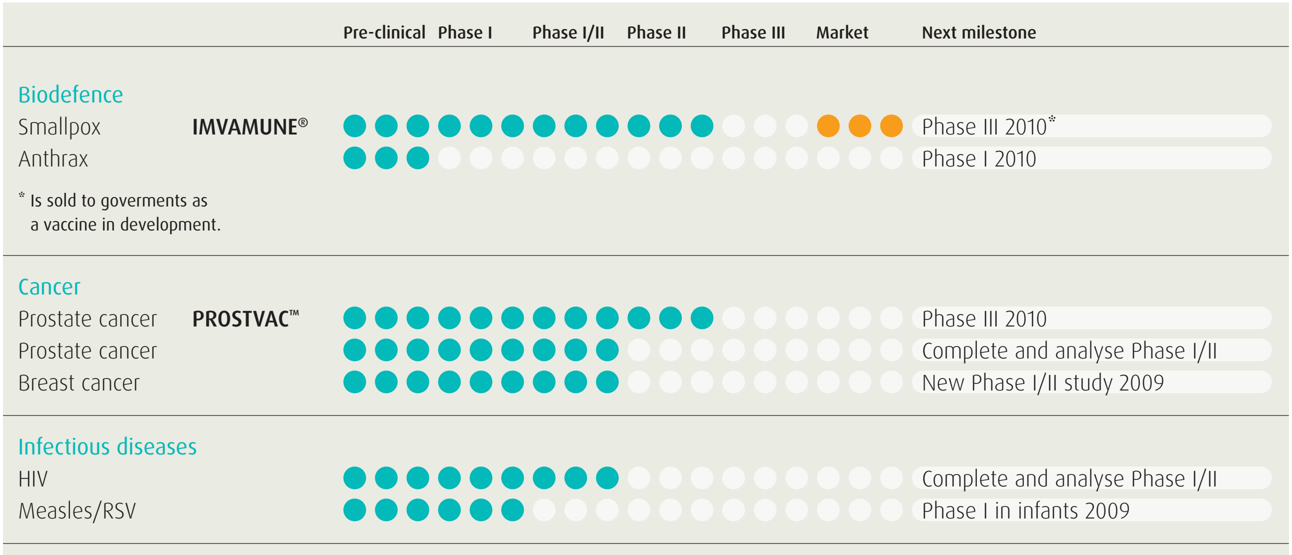
The outlook is based on the assumption that Bavarian Nordic receives confirmation from the US health authorities by mid-2009 that the Phase II data package meets the conditions for using IMVAMUNE® in a declared emergency situation, which is a prerequisite for the Company to begin supplying the product to the United States. Bavarian Nordic submitted the data package in November 2008, but the duration of the review of the material is unknown. As a result of this uncertainty, delivery of the 20 million doses of IMVAMUNE® under the RFP-3 contract is now expected to take place during the period 2009-2012.

Over the supply period, the overall IMVAMUNE® business as well as the RFP-3 contract seen in isolation will have a positive effect on the income statement and a positive cash flow effect.

Furthermore, the profit forecast assumes that Bavarian Nordic obtains the necessary approvals to continue its preclinical and clinical trials and that patient enrolment progresses according to plan. The expectations regarding the Group's liquidity are based on a dollar exchange rate of 6 DKK/USD.

Pipeline & Technology

Pipeline



Technology

The majority of Bavarian Nordic's vaccines under development are based on the patented MVA-BN® virus. MVA-BN® is a further development of the MVA (modified vaccinia Ankara) vaccine used to pre-vaccinate more than 120,000 individuals against smallpox in Germany in the 1970s.

The MVA-BN® technology has been tested in clinical studies involving more than 2,400 patients as well as in numerous pre-clinical studies over the past eleven years. The technology has a number of advantages that makes it ideal in the development of therapeutic or prophylactic vaccines:

- MVA-BN® does not replicate in human cells, which considerably reduces the risk of side effects.
- Vaccination with MVA-BN® elicits a strong immune response, which is one of the most important factors in obtaining the desired therapeutic or prophylactic effect
- MVA-BN® can be genetically designed (as a recombinant vaccine) to combat diseases other than smallpox without losing its unique characteristics.

Strategy and focus areas

A new strategic starting point is made to establish the position as an innovative and leading vaccine supplier

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

A new strategy was presented at the beginning of 2008; and during the year, the Company implemented various initiatives in support of this strategy.

Given its progress and achievement of important interim goals in 2008, Bavarian Nordic is in a stronger business position in 2009 involving a number of new key elements which will, in combination, help determine what happens in the Company in the years ahead. These elements include:

- A strong financial position has been achieved
- The Company has implemented a new strategy
- The pipeline has been expanded with a late-stage product

With these elements in place, the Company is well prepared for the coming work towards meeting the long-term strategic goals. In order to succeed, there are also a number of short-term goals to be met, namely:

- Initiation of the delivery of IMVAMUNE®
- Final preparations for the Phase III studies with PROSTVAC™
- Prioritizing Biodefence and Cancer in the pipeline
- Marketing of IMVAMUNE®
- Retaining a continued strong cash preparedness through own operations

Initiation of the delivery of IMVAMUNE®
With efficient project management, a number of important milestones are expected to be achieved in the development of IMVAMUNE® over the next 12-18 months:

- Start-up of actual delivery of vaccine for the US strategic national stockpile (2009)
- Commencement of Phase III studies (2010)

To begin delivering IMVAMUNE® to the United States, Bavarian Nordic must first fulfil the requirements connected with the potential use of the vaccine during a declared emergency. Data from the pivotal Phase II study was successfully reported in late 2008 and subsequently submitted to the US health authorities for evaluation of whether it supports the use of IMVAMUNE® in a declared emergency. This approval is expected in the middle of 2009, and subsequently the first deliveries of vaccines are expected in the second half of 2009. There is a continued focus on optimising the use of resources at the manufacturing facility at Kvistgaard.

Bavarian Nordic has held an end-of-Phase-II meeting with the US health authorities in early 2009 to design the coming Phase III studies. Against that background, the Company expects to complete the preparations during 2009 in order to begin Phase III studies in 2010.

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

In the future, Bavarian Nordic will explore opportunities for extending this collaboration to further develop its cancer projects. By combining Bavarian Nordic's expertise in cancer vaccine development and production with one of the world's leading centres of excellence in cancer research, the Company is confident that this collaboration will result in new and innovative solutions for a disease area with large unmet medical needs, as well as expand and accelerate Bavarian Nordic's cancer activities.

Prioritizing Biodefence and Cancer in the pipeline

Biodefence
Strategy: Full value chain

This is the Company's principal commercial business area. The strategy for this area focuses on controlling the entire value chain, all the way from development to the production and sale of vaccines. One goal is to complete the clinical development of IMVAMUNE® in the run-up to registration. The vaccine will then be commercialised via sales to the United States and other countries.

The intention is to build up a biodefence portfolio of projects that can complement IMVAMUNE® and ensure the Company a sustained and growing business. Initially, the Company seeks to develop a combined smallpox and anthrax vaccine. Such a vaccine would offer a number of attractive synergies for customers. A combined smallpox and anthrax vaccine would simultaneously address two of the world's greatest bioterrorism threats. Such a combined vaccine has been met with great support from potential buyers of the vaccine. Moreover, there is a recognised unmet market demand, since an MVA-BN®-based anthrax vaccine is not expected to entail the same problems as those associated with the existing anthrax vaccines.

By itself, the IMVAMUNE® business is already well-established and profitable due to the RFP contracts with the US government and contracts with other countries. Likewise, it is expected that there will be good opportunities for achieving third-party funding for an anthrax vaccine. This would ensure that biodefence in itself will be a profitable business area. In order to be able to retain the Company's strong cash position, no major, cost-intensive clinical studies of the anthrax vaccine will be initiated if, contrary to expectations, third-party funding is not available. It is expected that Phase I with the anthrax vaccine will be initiated in the first half of 2010.

Cancer
Strategy: Innovation and partnerships

The cancer vaccine business has become an important strategic area for Bavarian Nordic. Through its production and research experience and in collaboration with the NCI, the Company aims to develop and bring the projects forward to Phase II, after which it intends to seek partnerships in order to carry out the comprehensive Phase III studies and the product registration with a strong global partner. In the short term, this means that the key focus will be on the following activities:

PROSTVAC™ (prostate cancer)
- Completion of regulatory preparations for the initiation of Phase III
- Transfer of production technology from the former owner and production of clinical material for Phase III, including approval of this production
- Continuation of the partnership dialogue
- Presentation of detailed data at leading conferences and in peer-reviewed journals

Breast cancer (MVA-BN® HER2)
- Start-up of an additional Phase I/II study with an improved version of the vaccine

Prostate cancer (MVA-BN® PRO)
- Complete the ongoing Phase I/II study
- In collaboration with the NCI to develop a new generation of the vaccine as a successor to PROSTVAC™

Infectious diseases
Strategy: Maximise value

The Company has two projects in infectious diseases, all of which are at an early development stage: HIV and measles/RSV. The strategy for this area is to establish partnerships in the early development stage. Alternatively, the Company will seek other external funding.

The programme for measles/RSV will be tested up to and through clinical Phase I, where it is expected that proof of concept will be obtained. As for HIV multiantigen, Phase I/II clinical studies will be completed, and partnering negotiations will be initiated as and when the project progresses.

Bavarian Nordic has two preclinical projects in tropical diseases, dengue fever and Japanese encephalitis. Discussions with a potential external partner regarding out-licensing of these projects are progressing.

Marketing of IMVAMUNE®
Bavarian Nordic has established a commercial organisation with a market-driven base. This is not only relevant for the future IMVAMUNE® activities, but also for our future vaccine projects.

In the continued development of the Company's pipeline, the commercial organisation will ensure that the Company's research and development is moving in a commercial direction, and that the necessary market knowledge is integrated in the decision-making processes at an early stage in clinical development.

For its new commercial organisation, Bavarian Nordic has put together a team of people possessing the skills and competences required to engage all stakeholders in a dialogue about the need for a new and better vaccine and about how IMVAMUNE® can play a critical and improving role in a national smallpox preparedness plan. Smallpox is one of the most fatal and complicated bioterrorism or warfare threats governments face. Preparing for such an event is further complicated by the fact that the currently available first- and second-generation vaccines are associated with a high rate of serious side effects and are considered too risky for use in as much as 25% of the general population.

Bavarian Nordic is internationally represented, either through local agent agreements or its own representatives. The Company will prioritise and target markets in which the need for a new and better smallpox vaccine and/or an improved smallpox preparedness plan is fully recognised.

Until IMVAMUNE® has been licensed, the Company will work with its stakeholders to position it as a new and superior third-generation smallpox vaccine using a three-step strategy:

- Protection of all first-line responders
- Protection of the immunocompromised population
- Protection of the general population

Although IMVAMUNE® cannot be fully commercialised until the vaccine has been licensed, the Company remains greatly encouraged by the prospects for entering more contracts due to the clear need for a new and better smallpox vaccine, the US endorsement of the IMVAMUNE® programme through the RFP-3 contract award, and the continuing amount of positive clinical evidence for IMVAMUNE®. Thus Bavarian Nordic is confident that a number of governments will in future include IMVAMUNE® as a new and innovative resource in their smallpox preparedness plans.

Retaining a continued strong cash preparedness through own operations

Bavarian Nordic strives to retain a strong cash preparedness in order to ensure that the company has liberty of action to execute its strategy. It is expected that drawings on cash in the current year will be at the level of DKK 400 million. Accordingly, the Company's net free liquidity is expected to be approximately DKK 400 million at the end of the year. Bavarian Nordic expects to strengthen the cash position through already entered contracts for IMVAMUNE® in 2010 and in the future. Thus, at the end of 2012, Bavarian Nordic's net free liquidity is expected to be in level with 2008.

Research and development

Biodefence

Moving towards Phase III with IMVAMUNE® after succesful completion and submission of Phase II data and end-of-Phase II meeting. New anthrax vaccine further strengthens the biodefence business.

The start-up of a programme for an anthrax vaccine in 2008 has created a more diversified portfolio in the field of biodefence, which has been an important signal to existing and potential new clients (governments). Due to its vaccine-vector properties, the smallpox vaccine IMVAMUNE® encompasses the potential of concurrently acting as an anthrax vaccine, and this combination is attractive for all governments with a strong focus on the planning of preparedness against bioterrorism.

IMVAMUNE® – smallpox vaccine programme

Bavarian Nordic is developing IMVAMUNE® as a stand-alone third-generation smallpox vaccine. IMVAMUNE® has unique advantages compared to traditional smallpox vaccines. In eleven completed or ongoing clinical studies, the vaccine has shown an improved safety profile in more than 2,400 subjects, including more than 900 immune-compromised persons, i.e. HIV patients or people diagnosed with Atopic Dermatitis, who are otherwise contraindicated to receive traditional smallpox vaccines. Furthermore, efficacy studies have shown that IMVAMUNE® elicits an immune response faster than traditional smallpox vaccines.

The safety report from a larger Phase II study in over 300 HIV infected subjects who had no prior smallpox vaccination was completed. This report was an essential part of the data package that was submitted to the US health authorities in November 2008. The final report from this trial is expected in the second half of 2009 and will include data on immunogenicity as well as long-term (6-month) safety information and will contain data from subjects enrolled in an additional study arm funded by the NIH under RFP-2 (HIV infected subjects with a history of previous exposure to a conventional smallpox vaccine).

Moving towards Phase III

In the first quarter of 2009, Bavarian Nordic held an end-of-Phase-II meeting with the US health authorities (FDA) in order to discuss the Phase III study design and data requirements for a biologic licence application (BLA). The meeting was a success and there was an open and highly constructive discussion with the FDA.

This meeting represented the first ever formal discussions with the agency to license a vaccine under the new legislation of the animal rule – a new regulatory path which allows the efficacy of products for indications like smallpox to be established in suitable animal efficacy models. The efficacy of IMVAMUNE® cannot be established in the clinic, because smallpox no longer exist in the general population and will have to rely on the animal rule. To this end Bavarian Nordic has developed a number of efficacy models and has demonstrated IMVAMUNE® induces a comparable, if not superior, efficacy to that of traditional smallpox vaccines.

The animal efficacy models and phase III protocol have essentially been agreed with the agency – outlining a clear path for licensure of IMVAMUNE®. Once all protocols have been agreed with the FDA a Vaccines Related Biological Product Advisory Committee (VRBPAC) meeting will be scheduled to ratify the license strategy. This exceptional review path will likely push the initiation of the Phase III studies into late 2010, leading to the submission of a BLA in 2013.

Ongoing studies

Bavarian Nordic has a number of ongoing clinical studies, all of which are funded under the ongoing RFP-2 contract with the US government.

Recruitment for the Phase II study of patients diagnosed with Atopic Dermatitis is completed. Together with a previous Phase I study, the use of IMVAMUNE® in this population has so far been shown to be safe and well tolerated in more than 300 subjects diagnosed with Atopic Dermatitis, another population excluded from vaccination with traditional smallpox vaccines. Completion of the study is expected during the second half of 2009.

Recruitment in the Phase II study to demonstrate the effect of IMVAMUNE® when administered as a booster dose (re-vaccination) two years after primary vaccination with IMVAMUNE® was completed ahead of schedule in November 2008. The study is expected to be completed in the second half of 2009.

Initiation of a Phase I study in subjects between 56 and 80 years of age is planned for the first half of 2009 to generate safety and immunogenicity data in an elderly population.

Anthrax

In 2008, Bavarian Nordic initiated a new development programme for an MVA-BN®-based anthrax vaccine. Clinical Phase I studies are expected to be initiated in the first half of 2010 once all Anthrax vaccine candidates have been evaluated in preclinical studies.

Research and development

IMVAMUNE®

– the United States contract and sales to other countries

Contract with the United States
The contract with the US government for 20 million doses of IMVAMUNE®, also known as the "RFP-3 contract", continued to have extensive impact on activities at Bavarian Nordic in 2008. As expected, the Company achieved another milestone in the contract towards the end of the year, which released a fourth advance/milestone payment. By the end of 2008, the Company had received a total of USD 125 million out of the contract value of USD 500 million.

The milestone payment was released by the submission of the safety report from a major Phase II study to the US health authorities. This report was also an important part of the data package that was submitted to the US health authorities in November 2008 for evaluation of whether the combined data support the use of IMVAMUNE® as a smallpox vaccine in a declared emergency situation.

When Bavarian Nordic receives this confirmation, expectedly in 2009, vaccine shipments will begin, and they are expected to run from 2009 to 2012. At the same time, ongoing billing of the remainder of the contract sum will begin.

The contract contains a performance-based milestone payment of USD 25 million, which is conditioned by progress in the clinical studies. This payment is subject to a repayment obligation and will be recognised in the income statement once the vaccine has been registered. Furthermore, a minor part of the total contract sum is due on registration of the vaccine.

The contract also includes an option for the procurement of a further 60 million doses of IMVAMUNE® with a total value of USD 1.1 billion. Via a continuing fulfilment of the basic contract, the Company expects the US government to exercise the option.

Contracts outside the United States
Consistent with expectations, Bavarian Nordic signed a number of small contracts with other countries in 2008. So far, two countries have contracted with Bavarian Nordic, and the Company is currently in talks with approximately 10 other countries. Bavarian Nordic expects that this will lead to several small orders within the next few years, whereas large orders are not expected until IMVAMUNE® achieves registration.

A country in South-East Asia placed an order for IMVAMUNE® in the spring, which was later followed up by a minor additional order.

Canada, which invited tenders in 2007 for the procurement of an MVA-based smallpox vaccine, signed a contract with Bavarian Nordic in December 2008 for the delivery of 20,000 doses of IMVAMUNE® for the country's biological preparedness. In addition to the shipment of vaccines expected for 2009, the contract also encompasses payment for the process that can bring IMVAMUNE® forward to emergency use approval. Canada has also entered into a long-term partnership with Bavarian Nordic, as the contract includes an option for the procurement of up to 180,000 additional doses of IMVAMUNE® and payment for an investigation into the requirements for a final approval of the vaccine for the Canadian market.

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

Research and development

Cancer

Moving into Phase III with PROSTVAC™ – new late-stage vaccine candidate for the treatment of advanced prostate cancer

In the course of 2008, Bavarian Nordic reported significant progress in its cancer business and thus met its goal of strengthening this strategically important business area. The pipeline was strengthened by the initiation of clinical studies of the Company's own MVA-BN®-based prostate cancer vaccine candidate and the positive results with PROSTVAC™, which is another vaccine candidate for the treatment of prostate cancer which was acquired as part of a recent partnership entered between BN ImmunoTherapeutics, Bavarian Nordic's US-based subsidiary, and the National Cancer Institute (NCI) in the United States.

Bavarian Nordic now has two projects in prostate cancer and one in breast cancer – two of the leading types of cancer. Prostate cancer is the most common form of cancer with more than 670,000 new diagnosed patients globally per year and only limited treatment options. With an estimated more than 220,000 related deaths annually, prostate cancer is the third leading cause of cancer-related deaths in men. Limited treatment options in metastatic prostate cancer clearly establish a need for new, improved therapies. The recently announced Phase II results showed that PROSTVAC™ has the potential to fulfil an unmet medical need and offers a potential breakthrough and real hope for patients suffering from advanced prostate cancer. This has led to the decision to take PROSTVAC™ into the pivotal Phase III studies.

NCI – a professional and important partner

The partnership with NCI is strategically an important event that will have significant impact on Bavarian Nordic's cancer projects. Under a Cooperative Research and Development Agreement (CRADA) the NCI and Bavarian Nordic will jointly develop new immunotherapies for the treatment of prostate cancer. Under the CRADA, BN ImmunoTherapeutics has rights to exclusively license intellectual property that results from this collaboration.

First and foremost the partnership focuses on the further development of PROSTVAC™ with anticipated initiation of Phase III studies in 2010. However, Bavarian Nordic will in the future explore opportunities for extending this collaboration to further develop all of its cancer projects. By combining Bavarian Nordic's expertise within cancer vaccine development with one of the world's leading centres of excellence within cancer research, the company is confident that this collaboration will result in new and innovative solutions to a disease area with high unmet medical needs as well as expand and accelerate Bavarian Nordic's cancer activities.

PROSTVAC™ – new late-stage vaccine candidate in the pipeline

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

In clinical trials to date PROSTVAC™ has been investigated in more than 500 patients.

After evaluating new data from a prospectively randomised, placebo-controlled study, Bavarian Nordic reported the resulting positive mature Phase II data with PROSTVAC™ that showed statistically significant improved overall survival.

NCI

The National Cancer Institute (NCI) is a research organisation under the National Institutes of Health (NIH) and is the United States federal government's leading cancer research organisation. The NCI has played an active role in the development of drugs for cancer treatment for over 50 years. This is reflected in the fact that approximately one half of the chemotherapeutic drugs currently used by oncologists for cancer treatment were discovered and/or developed in collaboration with the NCI. The NCI has supported the research efforts of at least 20 Nobel Prize winners. For approximately half of these Nobel laureates, the NCI supported the awarded research.

The results from this study of 125 patients with metastatic prostate cancer after 4 years of follow-up show that patients receiving PROSTVAC™ had a statistically significantly longer median overall survival by 8.5 months (p=0.015) compared to the control group. Currently, the only approved treatment for advanced prostate cancer extends median overall survival by an average of 2-3 months and is associated with a number of severe side effects. In contrast, PROSTVAC™ had a favourable safety and tolerability profile.

Bavarian Nordic expects to present detailed study results at scientific conferences during 2009.

Preparing for Phase III
Based on the promising results, Bavarian Nordic expects that an end-of-Phase-II meeting will be held in the second half of 2009 with subsequent initiation of confirmatory Phase III studies for PROSTVAC™ together with the NCI in 2010.

The Company expects to be able to leverage existing production facilities in the clinical and launch production of PROSTVAC™. Currently, the transfer and validation of the production process is ongoing.

Partner for Phase III development and commercialisation
The Company is looking to partner with a major pharmaceutical company in the continued development of PROSTVAC™. Bavarian Nordic is currently in dialogue with a number of potential partners.

MVA-BN®-HER2 (breast cancer)
Bavarian Nordic's therapeutic breast cancer vaccine candidate is based on a HER-2/Neu antigen. The product is being in developed as therapy of metastatic breast cancer patients whose tumours over-express HER2 and it combines the MVA-BN® technology with an improved form of the HER-2.

In 2007, clinical Phase I/II studies were initiated with the vaccine, and in February 2009, the Company reported data showing that the study met its primary endpoint with regards to safety and by showing an immune response. Evidence of vaccine-induced anti-HER2 immune response was detected in approximately 70% of evaluated patients.

Clinically, the vaccine was well tolerated with no treatment-related severe adverse events. Currently, the disease has not progressed in 15 out of the 30 patients after a 6 month period. Also, in the group where vaccine was combined with chemotherapy, one complete response and one partial response were observed. These results confirm the positive interim data reported in 2008 and show that MVA-BN®-based, HER2 directed vaccination is a biologically active treatment for patients with HER2 positive breast cancer; however the overall immune response was moderate.

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

Based on those encouraging data from both clinical and preclinical studies Bavarian Nordic decided to advance the clinical development of MVA-BN®-HER2 in further clinical studies with the new and improved vaccine. Specifically, a new, single-site Phase I/II study in the US will be initiated by 2009 and evaluate 24 patients in both metastatic breast cancer as well as in an adjuvant therapy of breast cancer setting.

MVA-BN® PRO (prostate cancer)
The Company's MVA-BN®-based vaccine candidate for the treatment of prostate cancer is designed to express sequences that induce immunity towards prostate-specific antigen (PSA) and prostatic acid phosphatise (PAP).

Clinical studies of the vaccine were initiated in 2008. A Phase I/II study in 18 male patients with non-metastatic hormone-insensitive prostate cancer is ongoing with preliminary data expected in the second half of 2009.

Research and development

Infectious diseases

Bavarian Nordic's two programmes in infectious diseases, HIV *multiantigen* and measles/RSV are continuing in the early clinical studies according to plan. In the meantime, the Company is seeking to enter into partnerships regarding the further development of the programmes.

MVA-BN® HIV *multiantigen*

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

In 2008, Bavarian Nordic initiated and completed the enrolment in a Phase I/II safety and immunogenicity study in 15 HIV-infected patients (CD4 counts > 350 ul/ml) in the United States. The vaccine candidate has been well tolerated and no serious adverse events have been reported, further confirming the excellent safety profile of MVA-BN®-based vaccines in this immune compromised population. The final study report is expected in the second half of 2009.

Childhood vaccines (measles and RSV)

Bavarian Nordic is currently planning to conduct a Phase I study with the MVA-BN® Measles vaccine in six-month- to six-year-old children. This will be the first trial evaluating the safety and immunogenicity of an MVA-BN®-based vaccine in children and represents a major milestone in the Company's plans to develop childhood vaccines based on the MVA-BN® technology. Ethics approval has been granted for the initiation of the study, although minor delays in the final government approval mean the trial will now be initiated in the second half of 2009.

Company Announcements

Date	No.	Title
		Company Announcements in 2008
25.01	1	Bavarian Nordic A/S announces change in management
31.03	2	Annual Results 2007
08.04	3	Notice convening ordinary general meeting
08.04	4	Board of Directors' comments to proposed resolutions from shareholder to be considered at the Annual General Meeting
14.04	5	Bavarian Nordic A/S propose changes in Board of Directors
24.04	6	Annual General Meeting, proxies
29.04	7	Interim Report for the period 1 January to 31 March 2008
29.04	8	Report on the Results of the Annual General Meeting, held 29 April 2008
30.04	9	Major Shareholder Announcement
08.05	10	Notice convening extraordinary general meeting
21.05	11	Extraordinary General Meeting, proxies
26.05	12	Report on the Results of the Extraordinary General Meeting, held 26 May 2008
27.05	13	Bavarian Nordic enters clinical trials with HIV multiantigen vaccine
03.06	14	Bavarian Nordic enters clinical trials with prostate cancer vaccine
19.06	15	Bavarian Nordic reports interim data from Phase I/II studies with breast cancer vaccine
30.06	16	Bavarian Nordic files patent infringement suit against Oxford BioMedica
13.08	17	Bavarian Nordic announces partnership with National Cancer Institute in the US and obtains rights to a new vaccine candidate
19.08	18	Interim Report for the period 1 January to 30 June 2008
07.10	19	Bavarian Nordic announces positive mature Phase II results from newly acquired prostate cancer vaccine
17.10	20	Bavarian Nordic awards warrants to management and certain employees and introduces incentive programme for all employees
04.11	21	Interim Report for the period 1 January to 30 September 2008
05.11	22	Bavarian Nordic reports successful safety data from Phase II study with IMVAMUNE®
19.11	23	Bavarian Nordic receives USD 25 million milestone payment after submission of important IMVAMUNE® data to the US health authorities
19.11	24	Major Shareholder Announcement
01.12	25	The Government of Canada procures IMVAMUNE® smallpox vaccine for the country's biological preparedness
10.12	26	Bavarian Nordic A/S issues Financial Calendar for 2009
16.12	27	Bavarian Nordic upgrades the financial guidance for 2008
		Company Announcements in 2009
12.01	1	Bavarian Nordic's case against Oxford BioMedica
30.01	2	Major Shareholder Announcement
23.02	3	Bavarian Nordic updates on Phase I/II studies with breast cancer vaccine
25.02	4	Bavarian Nordic reports further data on PROSTVAC™
03.03	5	Bavarian Nordic has essentially agreed a pathway for the licensure of IMVAMUNE® with the FDA after successful end of Phase II meeting

Corporate Governance

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

The "Rules for Issuers" recommend that companies listed on the NASDAQ OMX Copenhagen account in their annual reports on their position relative to the Corporate Governance Recommendations by applying the "comply or explain" principle.

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

The information to be provided in accordance with the recommendations has to the greatest possible extent been incorporated as an integral part of the other sections of this annual report, except as stated below. Below are also explanations of areas in which the Company has decided to deviate from the recommendations. For more information, please see supplementary disclosures on our corporate website.

The Company has made the following considerations and decisions with regards to the corporate governance recommendations. In certain cases, the recommendations are not followed:

The Committee recommends that the supervisory board consider to what extent generally accepted accounting standards other than those required, such as US-GAAP, should be applied as a supplement to the annual report if trade conditions or other circumstances make this relevant in relation to the information needs of the recipients, including the need for comparability.
The Company's annual report is presented in accordance with the International Financial Reporting Standards (IFRS) and other Danish requirements to the presentation of financial statements by listed companies. The Company's annual report does not include any supplementary information about additional accounting standards or non-financial information, but the Board of Directors regularly evaluates the need thereof.

In connection with the preparation of the annual report, the Committee recommends that the supervisory board decide whether it is expedient that the company publishes details of a non-financial nature, even in instances where this is not required by any applicable legislation or standards.
The Board of Directors regularly considers whether it would be expedient to include non-financial information in the annual report, for instance information on the Company's knowledge management (the development and maintenance of internal knowledge resources). Separate reports have not been prepared in this respect in connection with the annual report for 2008, and the Board of Directors does not currently consider it expedient to include such information in the annual report.

It is recommended that the supervisory board regularly evaluates which competencies it must hold to carry out the tasks imposed on it in the best possible manner and that it evaluates the composition of the supervisory board in light thereof. In the evaluation, it is recommended that the supervisory board should factor in gender, age and the like.
The Board of Directors endeavours to ensure that the Board is composed in such a way that the members of the Board of Directors hold the professional competencies and business background necessary to handle the tasks imposed on it. New members are recruited on the basis of the criteria set out above and not on the basis of a formally fixed process. The members of the Board of Directors are elected by the shareholders. The Board of Directors does not deem it necessary to define a formal process regarding the composition of the Board in which diversity, including in relation to gender and age, is a separate parameter.

It is recommended that the Company fixes an age limit for Board members.
The company has not fixed an age limit for members of its Board of Directors: The Board is composed of competent and experienced persons who each contribute to the Company's growth and management. The members of the Board of Directors are elected by the Company's shareholders, and re-election by the shareholders confirms the confidence in the individual Board members, irrespective of their age. This issue is evaluated regularly as part of the overall assessment of the work of the Board and the management.

The Committee recommends that the supervisory board consider and decide whether to establish committees, including nomination, remuneration and audit committees.
The Board of Directors has currently not established any separate sub-committees. The company's rules of procedure allow for

the potential establishment of sub-committees, which have previously been used. The Company has not established an audit committee as the functions of an audit committee are handled by the entire Board of Directors. This is made possible by the fact that at least one of the Board members is both independent of the Company and has qualifications within accounting and auditing, as required pursuant to the Danish Act on State Authorised and Registered Public Accountants. The Board of Directors regularly considers whether the Company's accounting and auditing becomes of a nature that would make it necessary and expedient to establish an audit committee.

It is recommended that the supervisory board adopt a remuneration policy and that the company disclose the contents of such policy in its annual report and on the company's website.
The Company does not have a formalised remuneration policy as this is not considered to serve its purpose. The shareholders approve the remuneration of the Board of Directors at the annual general meeting, and the Board of Directors determines the remuneration of the Corporate Management and, in consultation with the Corporate Management, the remuneration of the executive vice presidents. When setting the remuneration, the Company considers the interests of the Company and its shareholders. Furthermore, the Company ensures that the remuneration is at a reasonable level considering the tasks and the responsibility that are managed. The Company has approved guidelines for incentive plans for the Board of Directors and Corporate Management, which contain detailed instructions on the use of this form of remuneration.

The Company does not use warrants only in the remuneration of the Corporate Management but also for the Board of Directors. The Company judges that warrants ensure convergence between the structure of the Board's remuneration and the shareholders interests.

Risk management

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

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

In step with the progress in the development of IMVAMUNE® and the delivery of smallpox vaccine to the United States has thus moved closer, there was special focus in 2008 on securing sufficient production capacity with our third-party suppliers and others for the entire delivery period. As part of these efforts, an agreement was signed in 2008 with the Company's filling partner ensuring that the filling of the 20 million doses can take place in compliance with the current schedule for the delivery of the doses to the United States. In 2008, the Company also focused on logistic issues, partly from Kvistgård to Dessau, Germany, where the Company's filling partner has its facilities, and partly from Dessau to the end destinations in the United States.

Due to the increased activity in production and the growing stockpiling, the Company's insurance portfolio was also reviewed during the year.

Risk factors

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

- Fulfilment of the RFP-3 contract and its milestones
- Developments in the USD exchange rate and how it affects the free liquidity
- Developments in demand and prices for smallpox vaccine
- Bavarian Nordic's production capacity and subcontractors
- Government approval of the required licences and permits necessary for vaccine production at the Kvistgård facility
- Changes in the competitive environment
- Maintenance of existing and pending patent protection
- Results of clinical trials
- Requirements as to vaccine specifications and end products
- Liability/indemnification claims from governments
- Duration of review processes by various authorities
- The extent of the current financial crisis

Bavarian Nordic's operational risks include, but are not limited to, the ability to enter into collaborations with partners for development, manufacturing, marketing and financial resources.

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

Currency risk includes the risk arising because sales and production contracts are denominated in currencies other than Danish kroner, and the cost base is primarily in Danish kroner. Contracts are primarily in US dollars and thus other currencies do not represent significant currency risks. The Company assesses that exposure from fluctuations in the USD is reduced in the income statement and on the equity, because the main part of the exposure is hedged by forward exchange instruments. The liquidity can be influenced by changes in the USD/DKK exchange rate in that profit or loss from the forward exchange contracts can be settled when the contracts are due for extension. A rise in the USD/DKK exchange rate can affect the liquidity adversely by DKK 17.5 million per 0.10 change in the USD/DKK exchange rate.

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

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

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

Environment

Being a manufacturing company, Bavarian Nordic is required by Danish law to prepare annual green accounts. The green accounts from previous years can be downloaded from the corporate website. In April 2009, the Company will issue its third set of green accounts, which contain a detailed description of the environmental factors relating to the production of vaccines.

In its design and planning of the Kvistgaard manufacturing facility, Bavarian Nordic focused on implementing cleaner technology through the development and adjustment of the technology used. Its efforts included a focus on reducing the environmental impact from production by reducing energy consumption as well as the use of subsidiary materials. The Company continues its strong focus on reducing its environmental impact from operations and has, among other things, described its environmental management activities based on ISO 14001. In addition, the Company continues to promote environmentally conscious behaviour and prevention of pollution throughout the organisation.

Miljøcenter Roskilde (Environmental Centre Roskilde), which is the supervisory authority in environmental matters has classified Bavarian Nordic as a Category 1 company.

Category 1 company:

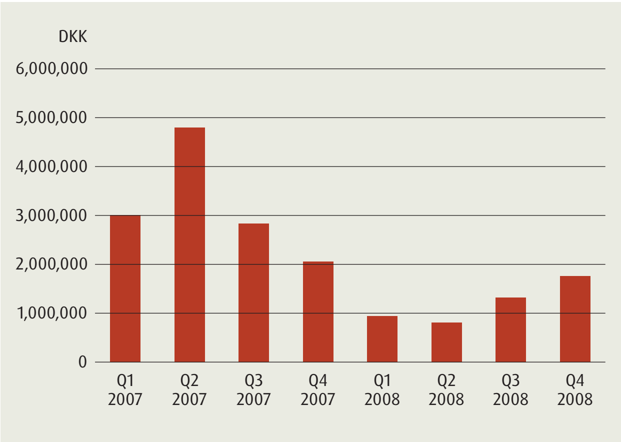
Category 1 comprises companies which are at the forefront of environmental activities, among other things by involving their employees in the environmental activities, procedures for corrective action and a high level of compliance with the rules and regulations.

The Bavarian Nordic Share

Share price development and trading volume in 2008
Bavarian Nordic's share price fell 55 % in 2008. The share price at 2007 year-end was DKK 293 and at year-end 2008 the price was down at DKK 132. During the same period, the MidCap index in which Bavarian Nordic is placed fell with 64 %.

The trading volume in Bavarian Nordic's share has been rather fluctuant during the last years. In 2008 the official trading volume fell by 60 % compared to 2007. This development has continued into 2009. The decline is primarily caused by two factors. Firstly, new rules were applied in late 2007 which allowed for a part of the trading not to be reported as regular trading, but rather as OTC (over the counter) trades and thus does not appear in the statistics.Secondly there has been a general decline in the trading on the stock exchange and this has in particular influenced shares in the Smallcap and Midcap index.

Trading volume in 2007 and 2008



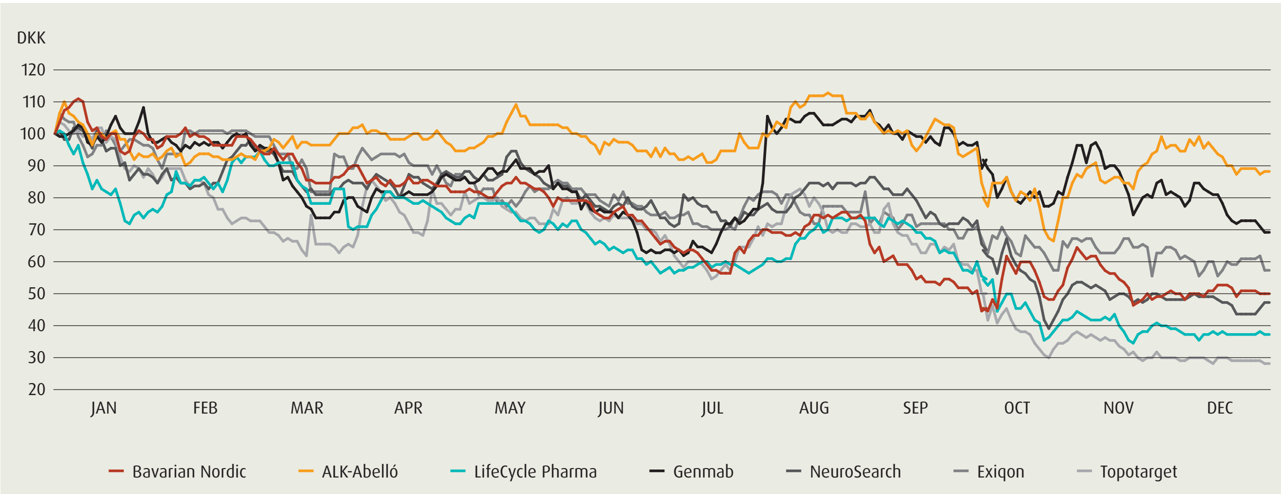
Ownership
As of 31 December 2008, Bavarian Nordic had 14,208 registered shareholders owning 6,419,856 shares, which corresponds to 82 percent of the share capital. In 2008 the number of registered shareholders increased by 2,410.

Bavarian Nordic invites its shareholders to have their shares registered with the Company.

The following shareholders had publicly informed Bavarian Nordic that they owned five percent or more of the Company's shares:

A. J. Aamund A/S, Copenhagen
Lønmodtagernes Dyrtidsfond, Copenhagen

Danish biotech shares in 2008



In January 2009, ATP announced, that they after purchase of new shares owned 5 percent or more of the Company's shares.

Bavarian Nordic does not hold any of its own shares.

Dividend policy
Bavarian Nordic does not expect to declare dividends until the Company has achieved an adequate capital base. However, the Company continues to strive towards securing an adequate capital base for future dividend payments. The Board of Directors will propose at the Annual General Meeting on 27 April 2009 that no dividends be paid.

Annual General Meeting
The 2009 Annual General Meeting will be held at 4 pm on Monday, 27 April 2009, at the Radisson SAS Scandinavia Hotel, Amager Boulevard 70, 2300 Copenhagen S, Denmark.

Proposals for Annual General Meeting 2009
Proposals to be made by the Board of Directors include:

- Re-election of current Board members
- Re-election of one auditor
- Authorisation to the Board to issue warrants
- Authorisation to the Board of Directors to increase the Company's share capital and issue convertible debentures
- Authorisation to the Board of Directors to acquire its own shares in the Company on behalf of the Company
- Proposals from shareholders

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

Bavarian Nordic wishes to continue to develop its dialogue with the Company's shareholders, analysts, prospective investors and other stakeholders by providing open, honest and accessible information

Bavarian Nordic's core data as of 31 Dec 2008

Stock Exchange	NASDAQ OMX Copenhagen
Share capital	DKK 78,155,680
Number of shares	7,815,568
Class of shares	One class
Nominal value	DKK 10
Bearer security	Yes
Ownership and voting right restrictions	No
ID code	DK0015998017

Bavarian Nordic is included in the MidCap+ segment on NASDAQ OMX Copenhagen.

Financial Calendar 2009

27 March	2008 Annual accounts
27 April	Annual General Meeting
27 April	First quarterly report (Q1)
28 August	Half-year report (Q2)
11 November	Third quarterly report (Q3)

Roadshows and investor meetings abroad
The management and the investor relations team work hard to present Bavarian Nordic to international institutional investors, analysts and the media. In 2008 the company successfully hosted a capital markets day for investors and analysts from Denmark and abroad. These activities will be given higher priority with the aim of attracting more international investors, including investors from the United States, so as to ensure that the shareholder base better reflects the geographic diversification of the Company's activities and future sales. Over the past year, Bavarian Nordic's roadshows travelled to venues such as Paris, Frankfurt, Scandinavia, Zurich, Geneva, London, New York, Boston and Asia. The Company also participates in a number of conferences.

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

Financial Review 2008

Unless otherwise stated, the financial review is based on the consolidated financial information for the year ended 31 December 2008 as included in this Annual Report with comparative figures for 2007 in brackets. The accounting policies are unchanged from the Annual Report for 2007.

A pre-tax loss of DKK 183 million (DKK 50 million) was recorded for the year, which was in line with our guidance in our announcement dated 16 December 2008.

The Group's net free liquidity was DKK 796 million at the end of the year (DKK 834 million).

Equity stood at DKK 1,015 million at 31 December 2008 (DKK 1,218 million).

Income statement

Revenue
Bavarian Nordic generated revenue of DKK 209 million in 2008 (DKK 332 million). The revenue was primarily composed of revenue from the ongoing contracts with the US health authorities (development contracts RFP-1 and RFP-2) and a milestone payment under the RFP-3 contract. The lower revenue compared to 2007 is due to obtaining two milestone payments in 2007, each worth USD 25 million.

Production costs
Production costs, which amounted to DKK 197 million (DKK 64 million), include costs incurred to generate the recognised revenue and costs of external suppliers, payroll costs, depreciation and amortisation. The increased costs are attributed to increased activity related to the preparations for the delivery of vaccines under the RFP-3 contract. Out of the consolidated production costs, DKK 43 million represented a write-down of inventories as of 31 December 2008, which is due to that vaccines were not released.

Research and development costs
Research and development costs totalled DKK 130 million (DKK 244 million) excluding capitalised costs. The development costs primarily consisted of in-house payroll costs and costs related to projects. The fall in costs compared with 2007 was primarily due to the conclusion of the development of processes at the Kvistgaard production facility.

Sales costs and administrative expenses
Sales costs and administrative expenses in 2008 totalled DKK 92 million (DKK 89 million). The level was unchanged from last year.

Financials
During 2008, Bavarian Nordic posted net financial income of DKK 26 million (DKK 15 million). The increase was a result of the improved average liquidity position compared with 2007 and increased interest rates.

Income before tax
Bavarian Nordic recorded a loss before tax of DKK 183 million (a loss of DKK 50 million).

Tax
Adjustment of deferred tax yielded DKK 33 million (2007: an expense of DKK 13 million due to the reduction of the company tax rate in Denmark).

Net profit
A net loss of DKK 150 million after tax was posted in 2008 (a loss of DKK 64 million). It is proposed that the loss be transferred to free reserves.

Balance sheet
The balance sheet total was DKK 1,694 million as at 31 December 2008 (DKK 1,732 million).

Assets
Non-current assets stood at DKK 594 million (DKK 539 million). The increase was primarily due to an increase in ongoing development projects.

Development costs for IMVAMUNE® of DKK 47 million were capitalised in 2008 (DKK 17 million) under intangible assets as an investment in progress.

Based on the contracts already concluded and expectations for future operations, the tax assets at the end of 2008 are recognised in the balance sheet in the amount of DKK 159 million (DKK 135 million).

Inventories amounted to DKK 62 million (DKK 12 million). Inventories comprised raw materials for production at the Kvistgaard facility and work in progress. Inventories were written down by

DKK 43 million on 31 December 2008 (DKK 2 million), due to that vaccines were not released.

Receivables stood at DKK 242 million (DKK 268 million), Most of these receivables are fair values on financial instruments entered earlier to hedge future cash flows.

In 2008, Bavarian Nordic's cash and cash equivalents were primarily invested in fixed-term deposits with banks, short-term government and mortgage bonds and ordinary bank deposits.

As at 31 December 2008, net free cash and cash equivalents stood at DKK 796 million (DKK 834 million).

The fixed-term deposits are denominated in Danish kroner and are at interest rates reflecting bond yields. The investments in bonds were also denominated in Danish kroner at year-end 2008.

Equity

After the transfer of the loss for the year, equity stood at DKK 1,015 million (DKK 1,218 million). The DKK 203 million decline was primarily attributable to fair value adjustments of financial instruments to hedge future cash flows which contributed DKK 63 million to equity and DKK 150 million to retained earnings.

Creditors

The Group's borrowings fell by DKK 15 million in connection with ordinary repayment of debt. Trade creditors amounted to DKK 64 million (DKK 22 million). Other creditors totalled DKK 204 million in 2008 (DKK 66 million). The increase in other creditors was primarily attributable to financial instruments, representing an amount of DKK 118 million.

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

Management

Board of directors

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

Chairman of the board for BankInvest Biomedical Venture Advisory Board.

Member of the board for A. J. Aamund A/S, Modern Times Group MTG AB in Stockholm and the World Wildlife Foundation (WWF).

Holding of shares in Bavarian Nordic: 1,334,099
Number of warrants: 14,279

Erling Johansen
Born in 1944.
Joined the Board in 2000.

Erling Johansen was president and CEO of BASF Health and Nutrition A/S from 1992-2002.

Holding of shares in Bavarian Nordic: 2,396
Number of warrants: 14,279

Flemming Pedersen
Born in 1965.
President and CEO of Neurosearch A/S.
Joined the Board in 2006.

Chairman of the board for Atonomics A/S and Sophion Bioscience A/S.

Member of the boards of NsGene A/S, MBIT Consulting A/S and Astion Pharma A/S. President and CEO of Naapster Aps.

Holding of shares in Bavarian Nordic: 0
Number of warrants: 14,279

Claus Bræstrup
Born 1945
Mr. Bræstrup is former President and CEO of H. Lundbeck A/S.

Chairman of the Board of LifeCycle Pharma A/S.

Member of the boards of Santaris Pharma A/S and and the University of Copenhagen and member of the Danish National Advanced Technology Foundation.

Holding of shares in Bavarian Nordic: 0
Number of warrants: 4,000

Gerard van Odijk
Born 1957
Mr. Odijk, a Dutch citizen, is President and CEO of Teva Pharmaceutical Europe B.V.

Member of the board of NeuroSearch A/S.

Holding of shares in Bavarian Nordic: 0
Number of warrants: 4,000

Executive Management

Anders Hedegaard
President and CEO
MSc in Chemical Engineering.
Born in 1960.
Joined Executive Management in 2007
Chairman of the board for Bavarian Nordic Inc., Bavarian Nordic Holding Inc. and BN ImmunoTherapeutics Inc.

Anders Hedegaard was previously member of the executive management of ALK-Abelló A/S and Foss A/S and he has held various executive positions in Novo Nordisk A/S.

Holding of shares in Bavarian Nordic: 0
Number of warrants: 50,000

Paul Chaplin
Executive Vice President, Research and Development, CSO
MSc in Biology, ph.d. in Immunology.
Born in 1967.
Joined Executive Management in 2001.
Member of the board for Bavarian Nordic Inc. and BN Immuno-Therapeutics Inc.

Managing Director of Bavarian Nordic GmbH.

Paul Chaplin previously worked for several years at the Institute for Animal Health in the UK in the areas of cytokine and dendritic cell biology and in the research and development of veterinary vaccines at CSIRO in Australia.

Steen Vangsgaard
Executive Vice President Commercial Affairs
MBA, HD in Marketing Management, BSC
Born in 1966
Joined Executive Management in March 2009

Before joining Bavarian Nordic, Steen Vangsgaard held the position as Vice President, Commercial Operations in Actavis. He has previously held various managing positions in Alpharma.

As of 1 May 2009, Nicolai Buhl Andersen has chosen to resign from his position in Bavarian Nordic.
Steen Vangsgaard has been appointed
as his successor as from 27 March 2009. See above.

Morten Max Rasmussen
Executive Vice President, Transactions, Legal and IPR
Cand. jur.
Born in 1963.
Joined Executive Management in 2005.
Member of the Board of Bavarian Nordic Inc.

Morten Max Rasmussen worked for several years at Danisco A/S as an attorney. During the latter part of his career at Danisco, he was based in London acting as general counsel for Danisco UK.

Ole Larsen
Executive Vice President, CFO
Cand. merc.
Born in 1965
Joined Executive Management in 2008.

Ole Larsen previously worked as Finance Director in Nordisk Film and Berlingske Tidende.

Anders Gram
Executive Vice President, Technical Operations
MSc, PhD
Born in 1960
Joined Executive Management in 2008.

Anders Gram previously worked at Novozymes, where he held the position as Managing Director and Vice President, Biopharma Operations. Before this, he worked in various management positions within process development and product supply in the enzyme business area at Novo Nordisk.

Reiner Laus
CEO of BN ImmunoTherapeutics Inc
MD.
Born 1960
Joined Executive Management in 2008.
Member of the Board of CG Therapeutics, Inc.

Reiner Laus was previously Vice President of Research and Development at Dendreon Corporation in Seattle, Washington where he was responsible for discovery, pre-clinical and development functions.

Statement from the Board of Directors and Corporate Management

The Board of Directors and the President of the Company have considered and approved the Annual Report of Bavarian Nordic A/S for the year 2008.

The Annual Report has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for companies quoted on the stock exchange. In our opinion, the accounting policies applied are appropriate and the Annual Report gives a true and fair view of the Company's and the Group's assets, liabilities, financial position, results of operations and cash flow.

In our opinion, the management's review provides a true and fair description of the development in the group's activities and financial affair, the results for the period and the group's financial position as a whole as well as a description of the most important risks and uncertainty factors faced by the group.

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

Kvistgård, 27 March 2009

Corporate Management

Anders Hedegaard
President & CEO

Board of Directors

Asger Aamund
Chairman

Claus Bræstrup

Erling Johansen

Gerard van Odijk

Flemming Pedersen

Independent auditor's report

To the shareholders of Bavarian Nordic A/S
We have audited the annual report of Bavarian Nordic A/S for the financial year 1 January to 31 December 2008, which comprises the statement by Management on the annual report, Management's review, income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including the accounting policies, for the Group as well as the parent company.

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

Management's responsibility for the annual report
Management is responsible for the preparation and fair presentation of an annual report in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed companies.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual report. The procedures selected depend on the auditor's judgement, including an assessment of the risks of material misstatement of the annual report, irrespective of whether such misstatement is due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of an annual report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the annual report.

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

Our audit has not resulted in any qualification.

Opinion
In our opinion, the annual report gives a true and fair view of the Group's and the parent company's financial position at 31 December 2008, and of their financial performance and their cash flows for the financial year 1 January to 31 December 2008 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for listed companies.

Copenhagen, 27 March 2009

Deloitte
Statsautoriseret Revisionsaktieselskab

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

Income statements for the period 1 January – 31 December

		Parent Company		Group	
Note	Amounts in DKK thousands	2008	2007	2008	2007
2	Revenue	208,805	332,103	208,805	332,103
3,4	Production costs	196,660	62,628	196,660	64,457
	Gross profit	**12,145**	**269,475**	**12,145**	**267,646**
3,4	Research and development costs	93,238	231,005	129,647	243,558
3,4,5	Sales expenses and administrative costs	90,762	76,052	92,043	89,114
	Total operating costs	**184,000**	**307,057**	**221,690**	**332,672**
	Income before interest and tax	**(171,855)**	**(37,582)**	**(209,545)**	**(65,026)**
6	Financial income	39,964	25,888	40,089	25,707
7	Financial expenses	16,747	11,171	13,842	11,174
	Income before company tax	**(148,638)**	**(22,865)**	**(183,298)**	**(50,493)**
8	Tax on income for the year	(35,571)	9,805	(32,944)	13,011
	Net profit for the year	**(113,067)**	**(32,670)**	**(150,355)**	**(63,504)**
	Distribution of result				
	Parent company´s part of the result			(146,105)	(59,972)
	Minority interest			(4,250)	(3,532)
				(150,355)	**(63,504)**
	Proposal for distribution of earnings				
	Retained earnings	(113,067)	(32,670)		
	Earnings per share (EPS) – DKK				
9	-basic earnings per share of DKK 10.00			(18.7)	(8.0)
9	-diluted earnings, per share of DKK 10.00			(18.7)	(8.0)

Cash flow statements

	Parent Company		Group	
Amounts in DKK thousands	2008	2007	2008	2007
Earnings before interest and tax	**(171,855)**	**(37,582)**	**(209,545)**	**(65,026)**
Depreciations, amortisation and write-down	41,753	34,219	48,339	40,139
Share-based payment	5,767	4,643	6,121	4,983
Changes in inventories	(50,724)	1,568	(50,580)	1,261
Changes in receivables	115,237	(145,992)	89,425	(132,477)
Changes in provisions	-	-	(670)	(3,632)
Changes in current liabilities	64,396	286,907	68,146	305,463
Cash flow from operating activities	**4,574**	**143,763**	**(48,764)**	**150,711**
Financial income	39,181	25,888	39,306	25,707
Financial expenses	(13,429)	(11,171)	(11,984)	(11,174)
Paid taxes during the year	-	-	(969)	(2,079)
Cash flow for activities	**30,326**	**158,480**	**22,411**	**163,165**
Investments in intangible assets	(62,131)	(16,941)	(68,143)	(16,941)
Investments in tangible assets	(8,378)	(3,766)	(11,998)	(5,768)
Investments in financial assets	(67,357)	13	(34)	69
Investments in securities	(1,356)	6,518	(1,356)	6,518
Cash flow for investment activities	**(139,222)**	**(14,176)**	**(81,531)**	**(16,122)**
Payment on mortgage debt	(1,386)	(1,327)	(1,386)	(1,327)
Payment on financial leasing liabilities	(13,677)	(14,554)	(13,677)	(14,554)
Winding up bank loan	-	(35,000)	-	(35,000)
Proceeds from issue of new shares	-	465,461	-	465,461
Expenses regarding issue of new shares	-	(21,978)	-	(21,978)
Proceeds from issue of warrant programme	-	47,772	-	47,772
Cash flow from financing activities	**(15,063)**	**440,374**	**(15,063)**	**440,374**
Net changes in cash and cash equivalents of period	**(123,959)**	**584,678**	**(119,005)**	**587,417**
Cash as of 1 January	**683,119**	**98,441**	**688,783**	**101,366**
Cash end of period	**559,160**	**683,119**	**569,778**	**688,783**
Securities – highly liquid bonds	226,160	224,804	226,160	224,804
Trusted/pledged funds	-	(80,000)	-	(80,000)
Credit lines	20,000	20,000	20,000	20,000
Cash preparedness	**805,320**	**847,923**	**815,938**	**853,587**

Balance sheet – Assets

		Parent Company		Group	
Note	As of 31 December. Amounts in DKK thousands	2008	2007	2008	2007
	Non-current assets				
10	Purchased rights	2,690	3,138	7,887	3,138
10	Software	317	4,276	318	4,284
10	Intangible assets under construction	79,024	16,941	79,024	16,941
	Intangible assets	**82,031**	**24,355**	**87,228**	**24,363**
11	Land and buildings	154,079	159,198	154,079	159,198
11	Leasehold improvements	-	-	1,184	2,461
11	Plant and machinery	172,375	200,582	172,375	200,582
11	Machinery, equipment and furniture	3,638	3,591	12,754	14,301
11	Assets under construction	7,050	2,691	7,778	2,691
	Tangible assets	**337,142**	**366,062**	**348,170**	**379,233**
12	Investments in subsidiaries	147,757	80,423	-	-
	Other financial non-current assets	30	7	201	167
	Financial assets	**147,787**	**80,430**	**201**	**167**
8	**Deferred tax assets**	**159,040**	**134,027**	**158,640**	**135,058**
	Total non-current assets	**725,999**	**604,874**	**594,240**	**538,821**
	Current assets				
13	**Inventories**	**60,318**	**9,594**	**62,201**	**11,621**
14	Trade receivables	19,052	144,810	19,052	144,872
	Receivables from subsidiaries	254	27,819	-	-
15	Other receivables	170,269	109,841	171,038	110,551
16	Pre-payments and accrued income	49,196	9,711	51,791	12,598
	Receivables	**238,771**	**292,181**	**241,882**	**268,021**
18	Securities	226,160	224,804	226,160	224,804
18	Cash and cash equivalents	559,160	683,119	569,778	688,783
	Total current assets	**1,084,408**	**1,209,698**	**1,100,021**	**1,193,229**
	Total assets	**1,810,408**	**1,814,572**	**1,694,261**	**1,732,050**

Balance sheet – Equity and liabilities

		Parent Company		Group	
Note	As of 31 December. Amounts in DKK thousands	2008	2007	2008	2007
	Share capital	78,156	78,156	78,156	78,156
	Retained earnings	989,058	1,096,358	899,454	1,046,061
	Other reserves	31,044	94,089	33,810	92,754
	Equity, parent company	**1,098,258**	**1,268,603**	**1,011,420**	**1,216,971**
	Equity, minority interest	-	-	3,708	692
	Equity total	**1,098,258**	**1,268,603**	**1,015,128**	**1,217,663**
	Liabilities				
19	Provisions	-	-	-	-
20	Credit institutions	52,659	134,673	52,659	134,673
	Non-current liabilities	**52,659**	**134,673**	**52,659**	**134,673**
19	Provisions	-	-	-	670
20	Credit institutions	82,112	15,161	82,112	15,161
21	Prepayment from customers	276,640	276,640	276,640	276,640
	Accounts payable	57,553	17,420	63,825	21,588
	Payables to subsidiaries	50,236	44,183	-	-
	Company tax	-	-	72	55
17	Other debts	192,949	57,892	203,824	65,600
	Current liabilities	**659,490**	**411,296**	**626,473**	**379,714**
	Total liabilities	**712,149**	**545,969**	**679,132**	**514,387**
	Total liabilities and shareholders´ equity	**1,810,408**	**1,814,572**	**1,694,261**	**1,732,050**

18 Financial risks and financial instruments
22 Related party transactions
23 Incentive plans
24 Contingent liabilities, contractual obligations

Statement of changes in equity – Parent Company

Amounts in DKK thousands	Share-capital	Retained earnings	Reserves for fair value of financial instruments	Equity Total
Shareholders´ equity as of 1 January 2008	**78,156**	**1,096,358**	**94,089**	**1,268,603**
Adjustment financial instruments as of 1 January	-	-	(22,893)	(22,893)
Fair value of financial instruments	-	-	(60,219)	(60,219)
Fair value adjustment transferred from equity concerning financial instruments entered into to hedge revenues	-	-	6,683	6,683
Tax effect on hedging	-	-	13,384	13,384
Transactions recorded on equity	**-**	**-**	**(63,045)**	**(63,045)**
Net profit for the year	-	(113,067)	-	(113,067)
Net income for the year	**-**	**(113,067)**	**(63,045)**	**(176,112)**
Share-based payment	-	5,767	-	5,767
Other transactions	**-**	**5,767**	**-**	**5,767**
Shareholders´ equity as of 31 December	**78,156**	**989,058**	**31,044**	**1,098,258**

The share capital comprises a total of 7,815,568 shares of DKK 10 as of 31 December 2008 (2007: 7,815,568 shares). The shares are not divided into share classes, and each shares carries one vote.

Amounts in DKK thousands	Share-capital	Retained earnings	Reserves for fair value of financial instruments	Equity Total
Shareholders´ equity as of 1 January 2007	**63,762**	**647,552**	**-**	**711,314**
Fair value of financial instruments	-	-	139,111	139,111
Transfer of fair value to secured items	-	-	(21,290)	(21,290)
Tax effect on hedging	-	-	(23,732)	(23,732)
Transactions recorded on equity	**-**	**-**	**94,089**	**94,089**
Net profit for the year	-	(32,670)	-	(32,670)
Net income for the year	**-**	**(32,670)**	**94,089**	**61,419**
Proceeds from issue of new shares	12,752	452,709	-	465,461
Expenses from issue of new shares	-	(21,978)	-	(21,978)
Proceeds from exercise of warrant programme	1,642	46,130	-	47,772
Share-based payment	-	3,775	-	3,775
Tax effect on equity transaction	-	840	-	840
Other transactions	**14,394**	**481,476**	**-**	**495,870**
Shareholders´ equity as of 31 December 2007	**78,156**	**1,096,358**	**94,089**	**1,268,603**

Transactions on the share capital have been the following

Amounts in DKK thousands	2008	2007	2006	2005	2004
Share capital as of 1 January	78,156	63,762	57,971	46,395	45,145
Issue of new shares	-	14,394	5,791	11,576	1,250
Share capital as of 31 December	**78,156**	**78,156**	**63,762**	**57,971**	**46,395**

The share capital comprises a total of 7,815,568 shares of DKK 10 as of 31 December 2008 (2007: 7,815,568 shares). The shares are not divided into share classes, and each share carries one vote.

Statement of changes in equity – Group

Amounts in DKK thousands	Share-capital	Retained earnings	Reserves for adjustement	Reserves for fair value of financial instruments	Equity Parent company	Equity Minority	Equity Group
Shareholders´ equity as of 1 January 2008	**78,156**	**1,046,061**	**(1,335)**	**94,089**	**1,216,971**	**692**	**1,217,663**
Adjustment financial instrument as of 1 January	-	-	-	(22,893)	(22,893)	-	(22,893)
Fair value of financial investments	-	-	-	(60,219)	(60,219)	-	(60,219)
Dagsværdiregulering overført fra egenkapital vedrørende finansielle instrumenter indgået til sikring af omsætningen	-	-	-	6,683	6,683	-	6,683
Tax effect on hedging	-	-	-	13,384	13,384	-	13,384
Exchange rate adjustments	-	-	4,100	-	4,100	644	4,744
Transactions recorded on equity	**-**	**-**	**4,100**	**(63,045)**	**(58,944)**	**644**	**(58,301)**
Net profit for the year	-	(146,105)	-	-	(146,105)	(4,250)	(150,355)
Net income for the year	**-**	**(146,105)**	**4,100**	**(63,045)**	**(205,049)**	**(3,607)**	**(208,656)**
Share-based payment	-	6,121	-	-	6,121	-	6,121
Transfer to minority interest	-	(6,623)	-	-	(6,623)	6,623	-
Other transactions	**-**	**(502)**	**-**	**-**	**(502)**	**6,623**	**6,121**
Shareholders´ equity as of 31 December 2008	**78,156**	**899,454**	**2,765**	**31,044**	**1,011,420**	**3,708**	**1,015,128**
Shareholders´ equity as of 1 January 2007	**63,762**	**624,217**	**(1,220)**	**-**	**686,759**	**4,640**	**691,399**
Fair value of financial investments	-	-	-	139,111	139,111	-	139,111
Transfer of fair value to secured items	-	-	-	(21,290)	(21,290)	-	(21,290)
Tax effect on hedging	-	-	-	(23,732)	(23,732)	-	(23,732)
Exchange rate adjustments	-	-	(115)	-	(115)	(416)	(531)
Transactions recorded on equity	**-**	**-**	**(115)**	**94,089**	**93,974**	**(416)**	**93,558**
Net profit for the year	-	(59,972)	-	-	(59,972)	(3,532)	(63,504)
Net income for the year	**-**	**(59,972)**	**(115)**	**94,089**	**34,002**	**(3,948)**	**30,054**
Proceeds from issue of new shares	12,752	452,709	-	-	465,461	-	465,461
Expenses from issues of new shares	-	(21,978)	-	-	(21,978)	-	(21,978)
Proceeds from exercise of warrant programme	1,642	46,130	-	-	47,772	-	47,772
Share-based payment	-	4,115	-	-	4,115	-	4,115
Tax effect on equity transaction	-	840	-	-	840	-	840
Other transactions	**14,394**	**481,816**	**-**	**-**	**496,210**	**-**	**496,210**
Shareholders´ equity as of 31 December 2007	**78,156**	**1,046,061**	**(1,335)**	**94,089**	**1,216,971**	**692**	**1,217,663**

List of notes

Accounting policies

General information

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

The accounting policies are unchanged from last year.

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

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

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

Implementation of new and revised standards and interpretations
The International Accounting Standards Board (IASB) has issued revisions to existing standards and new interpretations of existing standards which are mandatory for accounting periods commencing on or after 1 January 2008.

None of these revisions or new interpretations have resulted in any changes to the accounting policies for 2008.

Standards and interpretations not yet in force
As of the date of the publication of this Annual Report, new or amended standards and interpretations relevant to the annual report of the Bavarian Nordic Group have been issued which have not yet entered into force, and which are therefore not included in this Annual Report:

- Revised IFRS 2, Share-based payment (2008). The standard comes into force for financial years starting on or after 1 January 2009. The standard has not yet been adopted for use in the EU.

- IFRS 8, Operating Segments (2006). The standard comes into force for financial years starting on or after 1 January 2009.

- Revised IAS 1, Presentation of Financial Statements (2007). The revised standard comes into force for financial years starting on or after 1 January 2009. The standard has not yet been adopted for use in the EU.

- Revised IAS 27, Consolidated and Separate Financial Statements (2008). The revised standard comes into force for financial years starting on or after 1 July 2009. The standard has not yet been adopted by the EU.

- Minor amendments of various standards as a result of the IASB's annual improvement process (2008). Most amendments come into force for financial years starting on or after 1 January 2009. The amendments have not yet been adopted by the EU.

- Revised IFRS 39, Financial instruments: Recognition and Measurement (2008). The revised standard comes into force for financial years starting on or after 1 July 2009. The standard has not yet been adopted by the EU.

- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (2008). The interpretation comes into force for financial years starting on or after 1 October 2008. The interpretation has not yet been adopted by the EU.

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

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

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

Capitalisation of development costs
Management has assessed that development costs relating to the registration of IMVAMUNE® under the RFP-3 contract with the US health authorities continues to meet the conditions for capitalisation. See "Research and development costs". The carrying amount

of capitalised development projects was DKK 64 million as at 31 December 2008 (DKK 17 million as at 31 December 2007).

Useful lives of property, plant and equipment
As stated below, management reviews the estimated useful lives of material property, plant and equipment at the end of each financial year. Management's review of useful lives in 2008 did not give rise to any changes as compared with 2007. The carrying amount of property, plant and equipment was DKK 348 million as at 31 December 2008 (DKK 379 million as at 31 December 2007).

Value of investments in subsidiaries in the parent company's financial statements
The carrying amount as at 31 December 2008 of the investment in the Group company BN ImmunoTherapeutics Inc, USA, exceeded the net assets in the company. In such a situation, management estimates whether there are any events or other circumstances that indicate that the carrying amount may not be recoverable. Management estimates that the value of non-recognised intangible assets related to the Group company corresponds at least to the amount by which the cost of the Group company exceeds the carrying amount of the net assets, and management therefore assessed that no impairment exists. The recognised value of investments was DKK 148 million (DKK 80 million as at 31 December 2007).

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

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

The value recognised inventories was DKK 62 million as at 31 December 2008 (DKK 12 million as at 31 December 2007).

Deferred tax asset
Management is required to make an estimate in the recognition of deferred tax assets and liabilities. On the basis of the coming years' activities and budgets, management believes the tax assets can be used against future profits. The value of the recognised deferred tax assets was DKK 159 million as at 31 December 2008 (DKK 135 million as at 31 December 2007).

Derivative financial instruments
Bavarian Nordic uses derivative financial instruments to hedge future cash flows. The fair value of derivative financial instruments is based on the official exchange rates, market interest rates and other market data such as volatility adjusted for the special characteristics of each instrument. The carrying amount of recognised financial instruments was DKK 41 million as at 31 December 2008 (DKK 105 million as at 31 December 2007).

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

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

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

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

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

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

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

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

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

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

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

Derivative financial instruments
On initial recognition, derivative financial instruments are measured at the fair value on the settlement date. Directly attributable costs related to the purchase or issuance of the individual financial instruments (transaction costs) are added to the fair value on initial recognition unless the financial asset or the financial liability is measured at fair value with recognition of fair value adjustments in the income statement. Subsequently, they are measured at fair value at the balance sheet date. Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as fair value hedges of a recognised asset or a recognised liability are recognised in the income statement together with any changes in the value of the hedged asset or hedged liability. Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as effective hedges of future transactions are recognised directly in equity. The ineffective portion is recognised immediately in the income statement. When the hedged transactions are realised, cumulative changes are recognised as part of the cost of the transactions in question. For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised as financial items in the income statement as they occur.

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

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

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

Income statement

Revenue recognition
Revenue comprises the value of sales of products and income derived from development contracts and amounts received for achieving milestones in development projects. These are recognised in the year in which any major risks and rewards connected with the title to the goods or right to the services are transferred

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

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

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

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

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

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

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

Sales costs and administrative expenses
Sales costs and administrative expenses include costs of Company management, staff functions, administrative and commercial personnel, office costs, rent, lease payments and depreciation not relating specifically to production or research and development activities.

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

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

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

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

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

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

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

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

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

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

Balance sheet

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

Development projects that meet the requirements for recognition as assets are measured at direct cost relating to the development projects. Amortisation of development projects commences when the asset is taken into use and is provided on a straight-line basis over the useful economic lives of the assets. An asset is defined as being taken into use at the commencement of sales activities. For development projects, an individual assessment of the useful economic life of the project is made by the Management.

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

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

Rights max. 15 years
Software 3 years

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

Property, plant and equipment
Property, plant and equipment includes land and buildings, production equipment, leasehold improvements, office and IT equipment and laboratory equipment and are measured at cost less accumulated depreciation and impairment losses. Cost includes the costs directly attributable to the purchase of the asset, until the asset is ready for use. For assets manufactured by the Company, cost includes direct and indirect costs of materials, components, third-party suppliers and labour.

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

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

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

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

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

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

Financial assets
Investments in subsidiaries are recognised and measured at cost in the financial statements of the parent company. Where the recoverable amount of the investments is lower than cost, the investments are written down to this lower value. In addition, cost is written down if dividend distributed exceeds the accumulated earnings in the company since the parent company's acquisition of the investments.

Impairment of non-current assets
The carrying amounts of both intangible assets, property, plant and equipment and investments carried at cost or amortised cost are tested annually to determine whether there are indications of any impairment in excess of that expressed in normal amortisation and depreciation. If that is the case, the asset is written

down to the recoverable amount, which is the higher value of the net sales price and the capitalised value. Impairment losses on intangible assets and property, plant and equipment are recognised under the same line item as amortisation and depreciation of the assets.

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

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

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

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

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

Receivables
Receivables are measured at amortised cost, which is usually equal to the nominal value, less provision for bad debts based on an individual assessment of the risk.

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

Securities
Securities consist of listed bonds, which are measured at fair value as of the balance sheet date. The fair value as of the balance sheet date is measured having regard to known future gains and losses on drawing or at final maturity. Bonds with a maturity of less than three months on the date of acquisition are recognised in the line item "Cash and cash equivalents".

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

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

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

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

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

Periodical payments to defined contribution plans are disclosed in the income statement.

Credit institutions
Loans are initially recognised at market value, net of transaction costs incurred. Loans are subsequently measured at amortised cost as of the balance sheet date; any difference between the proceeds (net of transaction costs and amortised cost) is recognised in the income statement over the term of the loan using the effective interest method. Loans are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Debts
Debts are measured at amortised cost.

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

Cash flows in foreign currencies are translated into Danish kroner at the exchange rate on the transaction date. In the cash flows from operating activities, operating profit/(loss) is adjusted for non-cash operating items and changes in working capital. Cash flows from investing activities include cash flows from the purchase and sale of intangible assets, property plant and equipment, investments and securities. Cash flows from financing activities include cash flows from the raising and payment of loans and capital increases as well as financial items.

Segment reporting
As the Bavarian Nordic Group only operates in one business segment, and because revenue comes primarily from the US market, no separate segment information is provided in the notes to the Annual Report.

Financial definitions

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

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

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

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

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

The ratios are calculated and applied in accordance with “Recommendations and Financial Ratios 2005” issued by the Danish Society of Financial Analysts. The ratios are stated on page 6.

Notes

	Parent Company		Group	
Amounts in DKK thousands	2008	2007	2008	2007
2. Revenue				
Contract work	69,556	55,463	69,556	55,463
Milestone payment from RFP-3 Contract	139,249	276,640	139,249	276,640
Total	**208,805**	**332,103**	**208,805**	**332,103**
Net sales includes:				
Fair value adjustment transferred from equity concerning financial instruments entered into to hedge revenues	(6,683)	21,290	(6,683)	21,290
3. Staff costs				
Wages and salaries	83,106	73,988	149,684	133,643
Pension and social security expenses	5,352	5,121	13,469	13,485
Other staff expenses	9,008	7,508	13,835	12,227
Share-based payment	4,773	4,643	5,125	4,983
Total staff costs	**102,239**	**91,260**	**182,112**	**164,338**
Staff expenses are distributed as follows:				
Production costs	52,870	9,339	58,135	9,341
Research and Development costs	9,830	40,967	68,970	104,454
Sales and administrative costs	38,813	40,582	44,848	46,291
Capitalised salaries	726	372	10,159	4,253
Total staff costs	**102,239**	**91,260**	**182,112**	**164,338**
Of which:				
Board of Directors:				
Remuneration to the Board of Directors	1,200	750	1,200	750
Share-based payment	621	378	621	378
President of the company:				
Salary	5,043	2,459	5,043	2,459
Pension	2	50	2	50
Share-based payment	684	570	684	570
Managerial Staff:				
Salaries	10,745	7,163	16,372	9,322
Pensions	854	434	1,120	514
Share-based payment	2,818	2,477	2,818	2,817
Total management remuneration	**21,967**	**14,281**	**27,860**	**16,860**

Incentive programmes are disclosed in note 23.
The share based payment to the Board of Directors, the President of the company and the Managerial Staff are respectively DKK thousands 621, 684 and 2818. (2007: DKK thousands 378, 570 and 2,477).
Members of the Management have contracts of employment containing standard conditions for members of the Management of Danish listed companies, including with regard to the periods of notice, that both parties are required to give, and competition clauses. If the Management´s contract of employment is terminated by Bavarian Nordic, without there having been misconduct on the part of the Management, the Management has the right to compensation, which, depending of the circumstances, may amount to maximum of two years' salary and pension contributions.

	Parent 2008	Parent 2007	Group 2008	Group 2007
Average numbers of employees convert to full-time	128	119	270	256
Numbers of employees as of December 31 convert to full-time	147	120	294	264

Notes

	Parent Company		Group	
Amounts in DKK thousands	2008	2007	2008	2007
4. Depreciation and amortisation				
Depreciation and amortisation included in:				
Production costs	35,993	7,023	37,597	7,030
Research and development costs	445	21,725	5,323	27,587
Sales expenses and administrative costs	5,314	5,471	5,419	5,522
Total Depreciations	**41,753**	**34,219**	**48,339**	**40,139**
Hereof profit/loss from disposed fixed assets	-	36	(2)	36
5. Fees to board auditor				
Audit of the annual report	361	350	545	520
Other assistance	265	652	648	902
Audit of the Annual Report	**626**	**1,002**	**1,193**	**1,422**
6. Financial income				
Financial income from securities and realised/unrealised capital gains on securities measured at the fair value through the income statement	9,525	14,101	9,525	14,101
Financial income from bank and deposit contracts	23,157	11,549	23,281	11,606
Financial income from subsidiaries	-	238	-	-
Fair value adjustment of financial contracts held for trading	7,282	-	7,282	-
Total	**39,964**	**25,888**	**40,089**	**25,707**
7. Financial expenses				
Interest expenses on debt	6,150	6,828	6,218	7,100
Financial leasing expense	1,582	2,133	1,582	2,133
Net loss from exchange rate adjustments	6,510	1,950	6,042	1,941
Interest expenses to subsidiaries	2,505	260	-	-
Total	**16,747**	**11,171**	**13,842**	**11,174**

Notes

	Parent Company		Group	
Amounts in DKK thousands	2008	2007	2008	2007
8. Tax for the year				
Current income tax	-	-	2,648	3,205
Change in deferred tax	(33,900)	9,805	(33,900)	11,914
Tax recognised directly in equity transferred to the income statement	(1,671)	-	(1,671)	-
Corrections to previous years	-	-	(21)	(2,108)
Tax for the year recognised in the income statement	**(35,571)**	**9,805**	**(32,944)**	**13,011**
Tax on income for the year is explained as follows:				
Loss for the year	(148,638)	(22,865)	(183,299)	(46,963)
Calculated tax (25%) tax on income before tax	(37,160)	(5,716)	(45,825)	(11,741)
Tax effect on:				
Change in tax from 28% to 25%	-	15,411	-	15,411
Different percentage in foreign subsidiaries	-	-	953	933
Tax values in foreign subsidiaries, not included	-	-	10,497	7,818
Loss of tax loss carry-forwards	-	-	-	-
Permanent differences	1,500	111	1,500	111
Other corrections	89	-	(69)	479
Tax on income for the year	**(35,571)**	**9,805**	**(32,944)**	**13,011**
Tax on income and costs recognised directly in equity:				
Tax on fair value adjustment of financial instruments entered into to hedge future cash flow	(15,055)	23,732	(15,055)	23,732
Tax on other entries on shareholders' equity	-	(840)	-	(840)
Tax recognised directly in equity transferred to the income statement	1,671	-	1,671	-
Tax for the year recognised directly in equity	**(13,384)**	**22,892**	**(13,384)**	**22,892**
Deferred tax				
Recognised deferred tax assets relates to temporary differences between valuations for accounting and taxation purposes and tax losses carried forward in the Parent Company:				
Non-current assets	(27,050)	(28,562)	(27,450)	(27,531)
Patent costs	(15,356)	(345)	(15,356)	(345)
Obligations	1,923	2,038	1,923	2,038
Inventories	1,016	-	1,016	-
Financial instruments	-	23,732	-	23,732
Prepayment from customers	69,160	69,160	69,160	69,160
Tax losses carried-forward	129,347	68,004	129,347	68,004
Recognised tax assets	**159,040**	**134,027**	**158,640**	**135,058**

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

The tax asset of non-recognised tax losses and tax credits carried forward, with certain limitations, in subsidiaries amounts to 44,664 DKK thousands.

Notes

	Group	
Amounts in DKK thousands	2008	2007
9. Earnings per share (EPS)		
Profit for the Parent company´s shareholders	(146,105)	(59,972)
Weighted average of shares (thousand units)	7,816	7,478
Earnings per share of DKK 10.00	(18,7)	(8.0)
Diluted earnings, per share of DKK 10.00	(18,7)	(8.0)
In accordance with IAS 33, the weighted average number of shares, when calculating diluted earnings, equals earnings per share, as the inclusion of potential shares would improve earnings per share.		
The following potential shares are not diluted and have therefore been excluded from the statement of average number of shares when calculating diluted earnings per share:		
2008-programme re. note 23	175	-
2007-programme re. note 23	165	185
2006-programme re. note 23	144	170

Notes

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

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

Notes

Amounts in DKK thousands	Rights	Software	Intangible assets under construction	2007 Total
10. Intangible assets – Parent company 2007				
Costs as of 1 January	6,864	16,466	-	23,330
Additions during the year	-	-	16,941	16,941
Disposals during the year	-	(59)	-	(59)
Exchange rate adjustments	-	-	-	-
Cost as of 31 December	**6,864**	**16,407**	**16,941**	**40,212**
Amortisation as of 1 January	3,278	7,273	-	10,551
Amortisation during the year	448	4,917	-	5,365
Disposals during the year	-	(59)	-	(59)
Exchange rate adjustments	-	-	-	-
Amortisation as of 31 December	**3,726**	**12,131**	**-**	**15,857**
Book value as of 31 December	**3,138**	**4,276**	**16,941**	**24,355**
10. Intangible assets – Group 2007				
Costs as of 1 January	6,864	17,700	-	24,564
Additions during the year	-	-	16,941	16,941
Disposals during the year	-	(263)	-	(263)
Exchange rate adjustments	-	-	-	-
Cost as of 31 December	**6,864**	**17,437**	**16,941**	**41,242**
Amortisation as of 1 January	3,278	8,317	-	11,595
Amortisation during the year	448	5,099	-	5,547
Disposals during the year	-	(263)	-	(263)
Exchange rate adjustments	-	-	-	-
Amortisation as of 31 December	**3,726**	**13,153**	**-**	**16,879**
Book value as of 31 December	**3,138**	**4,284**	**16,941**	**24,363**

Notes

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

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

Notes

Amounts in DKK thousands	Land and buildings	Leasehold improv- ment	Plant and machinery	Equipment	Pre-payment of assets	2007 Total
11. Tangible assets – Parent company 2007						
Costs as of 1 January	165,525	-	221,610	15,428	-	402,563
Additions during the year	449	-	541	85	2,691	3,766
Transfer from subsidiary	-	-	-	108	-	108
Disposals during the year	-	-	-	(1,214)	-	(1,214)
Exchange rate adjustments	-	-	-	-	-	-
Cost as of 31 December	**165,974**	**-**	**222,151**	**14,407**	**2,691**	**405,223**
Depreciation of 1 January	1,193	-	86	10,134	-	11,413
Transfer from subsidiary	-	-	-	108	-	108
Depreciation during the year	5,583	-	21,483	1,788	-	28,854
Disposals during the year	-	-	-	(1,214)	-	(1,214)
Exchange rate adjustments	-	-	-	-	-	-
Depreciation as of 31 December	**6,776**	**-**	**21,569**	**10,816**	**-**	**39,161**
Book value as of 31 December	**159,198**	**-**	**200,582**	**3,591**	**2,691**	**366,062**
Book value of leased assets as of 31 December	**-**	**-**	**35,546**	**-**	**-**	**35,546**
11. Tangible assets – Group 2007						
Costs as of 1 January	165,525	7,449	221,610	61,464	-	456,048
Additions during the year	449	-	541	2,606	2,691	6,287
Transfer	-	1,745	-	(1,745)	-	-
Disposals during the year	-	(223)	-	(6,361)	-	(6,584)
Exchange rate adjustments	-	(179)	-	(436)	-	(615)
Cost as of 31 December	**165,974**	**8,792**	**222,151**	**55,528**	**2,691**	**455,136**
Depreciation of 1 January	1,193	4,938	86	41,774	-	47,991
Transfer	-	349	-	(349)	-	-
Depreciation during the year	5,583	1,302	21,483	6,224	-	34,592
Disposals during the year	-	(223)	-	(5,842)	-	(6,065)
Exchange rate adjustments	-	(35)	-	(580)	-	(615)
Depreciation as of 31 December	**6,776**	**6,331**	**21,569**	**41,227**	**-**	**75,903**
Book value as of 31 December	**159,198**	**2,461**	**200,582**	**14,301**	**2,691**	**379,233**
Book value of leased assets as of 31 December	**-**	**-**	**35,546**	**-**	**-**	**35,546**

As of 31 December 2007 mortgage deeds of total of DKK 125 mio. have been issued for safety on loan of DKK 68 million against credit institution on the property Bøgeskovvej 9/Hejreskovvej 10, Kvistgård, Denmark.

Notes

Amounts in DKK thousands	Parent Company 2008	Parent Company 2007
12. Investment in subsidiaires		
Cost of subsidiaries as of 1 January	80,423	80,423
Additions during the year	67,334	-
Disposals during the year	-	-
Exchange rate adjustment	-	-
Cost of subsidiaries as of 31 December	**147,757**	**80,423**
Write-down as of 1 January	-	-
Disposals during the year	-	-
Write down as of 31 December	**-**	**-**
Book value as of 31 December	**147,757**	**80,423**

Company summary

	Domicile	Ownership %	Voting rights %
Subsidiaries			
Bavarian Nordic GmbH	Germany	100	100
Bavarian Nordic Holding	USA	100	100
– Bavarian Nordic Inc	USA	100	100
– BN ImmunoTherapeutics Inc.	USA	90	90
Representative office			
Bavarian Nordic A/S	Singapore		

BN ImmunoTherapeutics is owned by Bavarian Nordic Holding Inc., which solely acts as the holding company in the USA. The remaining 10% of the shares of BN ImmunoTherapeutics is owned by the company´s CEO in USA, who is secured a 10% ownership in the company as part of his employment contract. Half of the allocation (5%) is restricted for a five-year period (until 2010). Moreover, an additional 10% of the shares (not yet issued) is allocated to current and future key employees of BN ImmunoTherapeutics, who, as part of their employment contract, will receive shares or stock options. The company´s future ownership of BN ImmunoTherapeutics via Bavarian Nordic Holding Inc. will be reduced to an anticipated 80%.

The companies in USA are not under audit obligations.

Notes

	Parent Company		Group	
Amounts in DKK thousands	2008	2007	2008	2007
13. Inventories				
Raw materials and supply materials	15,347	11,318	17,230	13,345
Work in progress	87,708	-	87,708	-
Write-down on inventory	(42,738)	(1,724)	(42,738)	(1,724)
Raw materials and supply materials	**60,318**	**9,594**	**62,201**	**11,621**
Write-down on inventory recognised under production costs	(42,738)	(1,724)	(42,738)	(1,724)
14. Trade receivables				
Trade receivables from contract work	19,052	6,490	19,052	6,552
Milestone payment on RFP-3 Contract	-	138,320	-	138,320
Total	**19,052**	**144,810**	**19,052**	**144,872**
15. Other receivables				
Financial instruments to fair value	147,377	94,089	147,377	94,089
Other receivables	22,892	15,752	23,661	16,462
Total	**170,269**	**109,841**	**171,038**	**110,551**
Except from financial instruments, other receivables are measured at amortised cost.				
16. Pre-payments and accrued income				
Pre-payment for future fillings	46,052	5,215	46,052	5,215
Other Pre-payments	3,144	4,496	5,740	7,383
Total	**49,196**	**9,711**	**51,791**	**12,598**
17. Other debts				
Financial instruments to fair value	117,840	-	117,840	-
Other receivables	75,109	57,892	85,984	65,600
Total	**192,949**	**57,892**	**203,824**	**65,600**

Except from financial instruments, other debts are measured at amortised cost.

Notes

18. Financial risks and financial instruments

Policy for managing financial risks

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

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

Currency risks

The Group's exchange rate exposure is primarily to USD and EUR. The exchange rate exposure to USD is hedged to the greatest possible extent by matching incoming and outgoing payments denominated in USD. Furthermore, in connection with the RFP-3 contract, the Group entered into forward exchange contracts for USD 300 million to hedge future cash flows from the contract. As of 31 December 2008, the balance on the forward exchange contracts was USD 175 million.

The forward exchange contracts are subject to a sensitivity which affects equity equivalent to DKK 17.5 million per 0.10 points of change in the USD/DKK exchange rate.

The forward exchange contracts further affect equity with respect to the forward premiums/discounts that apply to extension of the forward exchange contracts. These forward premiums/discounts reflect the difference in interest rates between the two currencies. At the current interest rate levels, a forward premium applies, and the sensitivity of the forward exchange contracts is therefore a positive change of DKK 2 million per quarter.

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

Notes

18. Financial risks and financial instruments – continued

Interest rate and cash risks

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

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

The Group's bank deposits are placed in term deposits for terms of less than one year.

	Parent Company and Group 2008		Parent Company and Group 2007	
Amounts in DKK thousands	Securities	Effective interest	Securities	Effective interest
Securities				
Due between 0-2 years	143,370	4.3%	168,915	6.9%
Due between 2-5 years	14,578	8.3%	18,520	3.8%
Due after 5 years	68,212	5.3%	37,369	5.7%
Total	**226,160**	**6.3%**	**224,804**	**6.2%**

None of the securities held in the Company's portfolio of securities had been provided as collateral security for loans from credit institutions as of 31 December 2008 (2007: DKK 80 million).

	Parent Company		Group	
Amounts in DKK thousands	2008	2007	2008	2007
Cash and cash equivalents				
Cash and bank deposits	559,160	683,119	569,778	688,783
Total cash and bank deposits	**559,160**	**683,119**	**569,778**	**688,783**

Fluctuations in interest rate levels affect the Group's bond portfolio, bank deposits, bank debt and mortgage debt. An increase in the interest rate level by 1 percentage point relative to the interest rate level on the balance sheet date would have had a negative effect of DKK 1-3 million on the Group's results of operations and equity, primarily related to a loss on the Group's bond portfolio (2007: DKK 1.5 million). A corresponding fall in the interest rate level would have had an equivalent positive effect on the results of operations and equity.

With respect to the Group's bank deposits at floating rates, an increase in the applicable interest rate by 1 percentage point would have a positive effect on the results of operations and equity of DKK 5-6 million. A corresponding fall in the interest rate would have had an equivalent negative effect.

Notes

18. Financial risks and financial instruments – continued

Credit risks

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

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

Exchange rate risks in respect of recognised financial assets and liabilities

The Group uses forward exchange contracts to hedge recognised and non-recognised transactions.

Amounts in DKK thousands	Bank, cash equivalents and securities	Receivables	Liabilities	Net position	Of which hedged	Unhedged net position
2008 Parent Company						
DKK	761,923	156,617	(385,273)	533,267	-	533,267
EUR	2,107	2,067	(35,876)	(31,702)	-	(31,702)
USD	21,290	30,892	(14,360)	37,822	-	37,822
As of 31 December 2008	**785,320**	**189,575**	**(435,508)**	**539,386**	**-**	**539,386**
2008 Group						
DKK	761,923	156,617	(385,273)	533,267	-	533,267
EUR	7,299	2,836	(9,410)	724	-	724
USD	26,716	30,638	(7,737)	49,617	-	49,617
As of 31 December 2008	**795,938**	**190,090**	**(402,420)**	**583,609**	**-**	**583,609**
2007 Parent Company						
DKK	907,923	109,841	(225,146)	792,618	-	792,618
EUR	-	27,819	-	27,819	-	27,819
USD	-	144,810	(44,183)	100,627	(138,320)	(37,693)
As of 31 December 2007	**907,923**	**282,470**	**(269,329)**	**921,064**	**(138,320)**	**782,744**
2007 Group						
DKK	907,923	106,892	(225,148)	789,667	-	789,667
EUR	1,934	3,659	(8,324)	(2,731)	-	(2,731)
USD	3,730	144,872	(4,275)	144,327	(138,320)	6,007
As of 31 December 2007	**913,587**	**255,423**	**(237,747)**	**931,263**	**(138,320)**	**792,943**

As of the balance sheet date, the non-realised fair value of the Group's derivative financial instruments was DKK 27,553 thousand. The fair value is recognised under other receivables and other payables.

Notes

18. Financial risks and financial instruments – continued

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

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

Interest settled on interest swaps to hedge interest rate risks is recognised directly in the income statement as they do not qualify as hedges of future cash flows (2008: income of DKK 1,769 thousand, 2007: income of DKK 1,293 thousand).

The term to maturity of the forward exchange contracts is between three and four months, but they are extended regularly, and they will hedge expected cash flows under the RFP-3 contract 2-3 years ahead.

Interest rate swaps run until repayment of the hedged loan

	2008		2007	
Amounts in DKK thousands	Contract amount based on agreed rates	Market value as of 31 December	Contract amount based on agreed rates	Market value as of 31 December
Forward exchange contract (sales)				
USD – 175 million (2007: 200 million)	827.658	(112.233)	1,106,590	91,927
Interest rate swap				
DKK/DKK – fixed rate of 2.79% p.a.	68,000	960	68,000	2,162
	895,658	**(111.273)**	**1,174,590**	**94,089**

Notes

18. Financial risks and financial instruments – continued

	Parent Company		Group	
Amounts in DKK thousands	2008	2007	2008	2007
Derivative financial instruments to hedge the fair value of recognised assets and liabilities	-	11,820	-	11,820
Derivative financial instruments to hedge future cash flows	(111,273)	92.765	(111,273)	92,765
Financial assets/liabilities used as hedging instruments	**(111,273)**	**104.585**	**(111,273)**	**104,585**
Trade receivables	19,052	132,990	19,052	133,052
Receivables from subsidiaries	254	27,819	-	-
Other receivables	23,852	109,841	24,621	110,551
Cash and cash equivalents	559,160	683,119	569,778	688,783
Loan and receivables measured at amortised cost	**602,318**	**953,769**	**613,451**	**932,386**
Derivative financial instruments	146,417	-	146,417	-
Other securities and investments	226,160	224,804	226,160	224,804
Available-for-sale financial assets measured at fair value	**372,577**	**224,804**	**372,577**	**224,804**
Mortgage debt	44,902	46,288	44,902	46,288
Bank debt	68,000	68,000	68,000	68,000
Finance lease commitments	21,869	35,546	21,869	35,546
Trade payables	57,553	17,420	63,826	21,589
Other payables	75,109	57,892	85,984	65,600
Debt to subsidiaries	50,236	44,183	-	-
Financial liabilities measured at amortised cost	**317,669**	**269,329**	**284,581**	**237,023**
Derivative financial instruments	5,607	-	5,607	-
Available-for-sale financial liabilities measured at fair value	**5,607**	**-**	**5,607**	**-**

Optimisation of capital structure

The company's management regularly checks whether the Group's capital structure best serves the company's and its shareholders' interests. The overall goal is to ensure that the Group has a capital structure which supports its long-term growth targets.

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

Notes

		Group	
Amounts in DKK thousands	Other provisions	2008 Total	2007 Total
19. Provisions			
There are no provisions in Parent company in 2007 and 2008			
Provisions as of 1 January	670	670	4,302
Additions during the year	-	-	-
Disposals during the year	(670)	(670)	(3,632)
Exchange rate adjustments	-	-	-
Provisions as of 31 December	**-**	**-**	**670**

Other provisions	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
2008	-	-	-	-
2007	670	-	-	670

Other provisions cover remaining rent obligations for premises.

Notes

Amounts in DKK thousands	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
	Parent Company and Group			
20. Credit Institutions				
2008				
Mortgage, DKK, fixed interest	1,448	6,473	36,981	44,902
Financial leasing, variable interest interval 2.2-7.6% p.a.	12,664	9,205	-	21,869
Construction loan, variable interest [a)]	68,000	-	-	68,000
Interest carrying obligations, total	**82,112**	**15,678**	**36,981**	**134,771**

a) Through SWAP, the variable loan has been refinanced to a fixed interest rate loan of 2.79% p.a. until maturity of the loan on 16 July 2009.

	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
2007				
Mortgage, DKK, fixed interest	1,386	6,195	38,707	46,289
Financial leasing, variable interest interval 2.2-7.6% p.a.	13,775	21,771	-	35,546
Construction loan, variable interest [a)]	-	68,000	-	68,000
Interest carrying obligations, total	**15,161**	**95,966**	**38,707**	**149,835**

a) The variable loan is changed to a loan with fixed interest via a SWAP with Nordea Bank with interest 2,79% p.a. for 2007 and 2008.

Minimum financial lease payments	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total	Future interest rate on lease	Present value of payments
2008	13,127	9,307	-	22,434	(565)	21,869
2007	14,664	22,336	-	37,000	(1,454)	35,546

Notes

	Parent Company		Group	
Amounts in DKK thousands	2008	2007	2008	2007
21. Prepayment from customers				
Prepayment from customers	276,640	276,640	276,640	276,640
Total	**276,640**	**276,640**	**276,640**	**276,640**

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

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

Amounts in DKK thousands	2008	2007
22. Related party transactions		
The Management and Board of Directors of Bavarian Nordic A/S are considered related parties as they have significant influence		
Inter-company purchases from the subsidiaries comprise:		
Research and Development costs		
Bavarian Nordic A/S purchase of research and development services from Bavarian Nordic GmbH	109,118	109,898
Bavarian Nordic A/S purchase of services from Bavarian Nordic Inc	10,143	7,392
Management fee (income)		
BN ImmunoTherapeutics Inc. purchase of management services from Bavarian Nordic A/S	254	244
Leasing (income)		
Bavarian Nordic GmbH rents equipment from Bavarian Nordic A/S	874	1,498

Overview of subsidiaries can be found in note 12.

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

Apart from Group inter-company transactions, mentioned above, renumeration of the Board of Directors (note 3), and the warrants programme (note 23), there are no significant transactions with related parties.

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

Notes

23. Incentive plans

Share-based payment
In order to motivate and retain key employees and encourage the achievement of common goals for employees, management and shareholders, Bavarian Nordic A/S has established a share-based compensation programme by way of a warrant plan for the Corporate Management, other management employees and other employees.

Warrants
In August 2006, August 2007, November 2007 and October 2008, the Board of Directors granted warrants to the Company's management, selected management employees of the Company and its subsidiaries and to the Company's Board of Directors. See the table below.

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

The terms of the warrant plans are included in the Articles of Association (Articles 5 c, d, e and g).

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

Phantom shares
The Company has previously established a three-year phantom share programme under which all employees of the Company and Bavarian Nordic GmbH receive up to three phantom shares per month free of charge during the period from 1 November 2006 to 31 October 2009. Each employee who is a full-time employee during the entire term of the plan will be eligible to receive a maximum of 108 phantom shares.

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

On expiry of the programmes in 2009 and 2011 respectively, the employees may exercise the phantom shares granted to them and thus be entitled to a cash bonus calculated based on the increase in the price of the Company's shares. The exercise of phantom shares is conditional on the price of the Company's shares being at least 10% higher at the time of exercise in 2009 and 2011 respectively than the exercise price of the relevant programme.

The exercise prices are DKK 394 for the programme expiring in 2009 and DKK 156 for the programme expiring in 2011.

Under certain circumstances, the programmes furthermore include an option for or a duty of extraordinary settlement of the phantom shares in the event of a merger, demerger, delisting, change of control or liquidation.

Notes

23. Incentive plans – continued

	Outstanding as of 1 January	Additions	Exercised	Lapsed	Expired	Outstanding as of 31 December
2008 DK programmes						
Board of Directors [a)]	41,116	20,000	-	-	-	61,116
CEO & President	30,000	20,000	-	-	-	50,000
Group Management	119,191	75,000	-	(31,676)	-	162,515
Other management	117,484	-	-	(14,502)	-	102,982
Other employees	10,861	60,000	-	-	-	70,861
Retired employees as of 31 December	36,116	-	-	-	-	36,116
Total	**354,768**	**175,000**	**-**	**(46,178)**	**-**	**483,590**
Numbers of warrants which can be exercised as of 31 December 2008						-

	Outstanding as of 1 January	Additions	Exercised	Lapsed	Expired	Outstanding as of 31 December
2007 DK programmes						
Board of Directors	42,708	20,000	(21,592)	-	-	41,116
CEO & President	16,195	30,000	(16,195)	-	-	30,000
Group Management	64,191	70,000	-	(15,000)	-	119,191
Other management	116,405	61,000	(59,921)	-	-	117,484
Other employees	40,879	4,000	(34,018)	-	-	10,861
Retired employees as of 31 December	65,386	15,000	(32,426)	-	(11,844)	36,116
Total	**345,764**	**200,000**	**(164,152)**	**(15,000)**	**(11,844)**	**354,768**
Numbers of warrants which can be exercised as of 31 December 2007						-

a) Including retired board member.

Notes

23. Incentive plans – continued

	2006 programme	2007 programme	2007 programme	2008 programme
Specification of parameters for BlackScholes model				
Avearge share price (DKK)	433.00	436.50	410.00	156.00
Average share exercise price (DKK)	542.00	549.00	505.00	156.00
Expected volatility rate (% p.a.)	36.00%	31.00%	30.00%	39.00%
Expected life – number of years	3.3	3.3	3.1	3.0
Expected dividend per share	-	-	-	-
Risk-fee interest rate (% p.a.)	3.00%	4.00%	4.50%	4.50%
The fair value of the warrants on grant has been determined applying the BlackScholes model in DKK.	49	65	97	49

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

Recognised costs were 2008: DKK 5,769 thousand, 2007: DKK 3,749 thousand.

Exercise periods

2008 programmes

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

2007 programmes

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

2006 programmes

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

	2008
Phantom shares – 2008 programme	
Outstanding as of 1 January	-
Granted during the year	1,539
Outstanding as of 31 December	**1,539**
Avearge share price (DKK)	156
Average share exercise price (DKK)	156
Expected volatility rate (% p.a.)	39.00%
Expected life – number of years	3.0
Expected dividend per share	-
Risk-fee interest rate (% p.a.)	3.90%

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

The recognised cost in 2008 was DKK 8 thousand.

Liability in DKK thousand as of 31 December relating to phantom shares	**8**

Notes

23. Incentive plans – continued

	2008	2007	2006
Phantom shares – 2006 programme			
Outstanding phantom shares as of 1 January	8,807	1,216	-
Granted during the year	8,404	7,591	1,216
Outstanding phantom shares as of 31 December	**17,211**	**8,807**	**1,216**
Avearge share price (DKK)		515	
Average share exercise price (DKK)		394	
Expected volatility (% p.a.)		54.00%	
Expected life – number of years		1.9	
Expected dividend per share		-	
Risk-fee interest rate (% p.a.)		3.00%	

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

Recognised income was 2008: income of DKK 996 thousand, 2007: cost of DKK 868 thousand.

	2008	2007	2006
Liability in DKK thousand as of 31 December relating to phantom shares	**59**	**1,064**	**196**

	2008	2007	2006
Warrants USA			
Outstanding warrants as of 31 December 2006	190,500	-	-
Lapsed	(10,400)	-	-
Granted during the year	62,500	190,500	-
Outstanding warrants as of 31 December 2007	**242,600**	**190,500**	**-**

The programme deviates from the Danish programme. Each warrant is valued at USD 1 as per the information available to the Company's Board of Directors.

The programme covers employees in the USA.

Recognised costs were 2008: DKK 352 thousand, 2007: DKK 340 thousand.

Notes

	Parent Company and Group	
Amounts in DKK thousands	2008	2007
24. Contingent liabilities, contractual obligations		
The Parent Company stands surety for a credit facility to the subsidiary of a maximum of:	1,267	1,267
Bank guarantees issued as deposits for laboratory and office buildings in Martinsried, Germany.	2,054	2,054
Guarantee issued in connection with sale of IMVAMUNE® to Asia.	59	-
Operational leasing		
Leasing obligations for cars.		
The rental agreements are irrevocable up to 35 months.		
– Due during the next year	2,510	1,544
– Due between 1 and 5 years	2,573	2,620
– Due after 5 years		
Rental commitments		
Rental agreements for laboratory and offices facilities.		
The rental agreements are irrevocable from 6 to 72 months.	52,261	27,750
The above-mentioned rental agreements have bound payment obligations as follows:		
– Due during the next year	18,571	11,068
– Due between 1 and 5 years	33,690	16,682
– Due after 5 years	-	-
Collaborative agreements:		
The company has contractual obligations with research partners for long-term research projects.		
– Due during the next year	22,064	16,124
– Due between 1 and 5 years	5,167	8,190
– Due after 5 years	-	-
Other contractual obligations[a)]:		
– Due during the next year	88,808	10,386
– Due between 1 and 5 years	261,314	914
– Due after 5 years	100	100

a) Other obligations include among other things purchase commitments related to filling of vaccines.

Lawsuits

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

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