ANNUAL REPORT
2013

BAVARIAN NORDIC











IMVANEX
Suspension for
Smallpox Vacci
Subcutaneous
Store in a freeze
protected from












IMVANEX
APPROVED
Congratulations Bavarian
Nordic on the EU approval!



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A YEAR OF ACHIEVEMENTS

2013 was a year that presented several landmark events for Bavarian Nordic; we received our first product approval, we completed the delivery of 20 million doses of IMVAMUNE® and entered a new delivery contract with the U.S. government, and we initiated the first Phase 3 trial for IMVAMUNE in the U.S. These marked significant progress in our pipeline, along with the expansion of the pivotal PROSTVAC® Phase 3 trial into more countries as well as new, promising combination studies.

Financially, we finished the year with strong results, driven by increased revenue from deliveries of our smallpox vaccine to the U.S. Strategic National Stockpile. As expected, our result before tax was near break-even, which is notable given the level of investments we are doing in the PROSTVAC Phase 3 trial.

During the second half of 2013, the IMVANEX® smallpox vaccine received European marketing authorization for use in the general population, followed by approval in Canada for people with weakened immune systems for use in a public health emergency. This opens up new market opportunities for Bavarian Nordic and we continue to work with governments to address their biological preparedness plans. Although we do not expect large orders, we do expect this to add to our revenue stream over time. The U.S. Government contracts will however continue to be the primary source of revenue. More importantly, these approvals represent a validation of our MVA-BN® technology platform, and we continue to explore new opportunities in this field.

Additionally, we completed in November the delivery of the first 20 million doses of smallpox vaccines to the U.S. Strategic National Stockpile. The new delivery contract awarded in April 2013, valued at up to USD 228 million, further strengthens our partnership with the U.S. Government.

This was also the year where the PROSPECT study, our Phase 3 trial of PROSTVAC went global and by year-end the trial had opened in nearly all of the planned coun-

Milestones 2013

February
James B. Breitmeyer was appointed to the position of Division President of the Cancer Immunotherapy division and member of the executive management team.

April
An updated statistical analysis plan for the PROSPECT trial was agreed with the FDA. The plan includes pre-specified interim analyses of data that offer the possibility of a potential early assessment of efficacy results and a shortened time to regulatory submission for PROSTVAC approval.

May
A Phase 2 study of freeze-dried IMVAMUNE designed to meet the emergency use requirements in the U.S. was initiated. Enrollment was completed in December.

April
Bavarian Nordic received a new contract valued up to USD 228 million from the U.S. Government for the continued supply of IMVAMUNE. This contract follows the initial 20 million dose order, which was completed in November 2013.

May
Promising results from a Phase 2 trial of CV-301 in 74 patients with resected metastatic colorectal cancer were published in the Annals of Surgery. When compared to a group of 161 contemporary control patients who were matched for key clinical features, the overall survival of the CV-301 treated patients was significantly longer.

May
Bavarian Nordic established a sponsored Level 1 American Depositary Receipt (ADR) program in the United States.

tries and sites. However, regulatory delays in Europe continue to impact the ability of key clinical trial investigators to initiate enrollment in important geographic territories, particularly in Germany and the Netherlands. As a consequence, we now anticipate the study to be fully enrolled by year-end 2014. In April 2013, we announced that interim analyses would be performed during the trial, thus offering the opportunity to evaluate whether the results provide opportunity for filing for approval sooner than anticipated..

PROSTVAC represents a unique market opportunity for Bavarian Nordic. At a time when many innovative therapies have become available to prostate cancer patients, we are convinced PROSTVAC has a significant market potential in the treatment paradigm due to our expectations that its survival data in Phase 2 combined with a favorable safety profile can be maintained.

Also, we continue to see significant upside potential of PROSTVAC in combination or sequence with other therapies. In 2013, our collaboration partner, the National Cancer Institute, initiated two new Phase 2 studies of PROSTVAC in combination with the hormonal therapy enzalutamide.

We also announced promising survival data from a clinical trial conducted by Duke University of our second targeted immunotherapy candidate, CV-301 in metastatic colorectal cancer, which will be the priority indication for further clinical development.

As part of the pre-launch activities for PROSTVAC, we consolidated our manufacturing activities at the production facility in Kvistgaard, Denmark, where we are now building a new state of the art unit for the future commercial production of PROSTVAC. This gives us great flexibility and independence, and allows for better utilization of our resources and expertise in manufacturing. We will finalize the construction work during 2014, after which the PROSTVAC production process will be transferred, validated and tested. Production is expected to begin in 2015. As part of this consolidation, we closed our operations in Berlin and will transfer our production of clinical trial material to the Kvistgaard site.

As we look ahead, Bavarian Nordic will celebrate our 20th birthday during 2014. Although we still consider ourselves young and dynamic, we are proud to have matured as a company who can now count itself among key players in the biodefense industry as well as a potential "game changer" in the cancer immunotherapy universe.

Anders Hedegaard
President & CEO

June
Consolidation and expansion activities began at the manufacturing facility in Kvistgaard, Denmark to accommodate the future commercial production of PROSTVAC. The facility also assumed the production of clinical trial material from the Company's facility in Berlin which has now been closed in order to streamline manufacturing.

July
Two Phase 2 studies of PROSTVAC in combination with enzalutamide were initiated by the National Cancer Institute (NCI). One study investigates the combination in non-metastatic castration sensitive prostate cancer and the other in metastatic castration-resistant prostate cancer.

August
Enrollment of 4,000 subjects was completed in the first of two Phase 3 trials of IMVAMUNE in the U.S. Safety data from 3,000 people who were vaccinated with three different lots of IMVAMUNE (1,000 subjects per IMVAMUNE lot) will be compared with 1,000 additional subjects who received placebo.

August
European Commission granted marketing authorization for IMVANEX for active immunization against smallpox disease for the general adult population, including people with weakened immune systems (e.g. those diagnosed with HIV or atopic dermatitis).

November
Health Canada granted a Notice of Compliance approving IMVAMUNE for active immunization against smallpox in a public health emergency. IMVAMUNE is indicated for persons 18 years of age and older who are contraindicated to replicating smallpox vaccines. This includes individuals with immune deficiencies and skin disorders.

November
Bavarian Nordic completed the delivery of 20 million doses of IMVAMUNE smallpox vaccine to the U.S. Strategic National Stockpile (SNS) for use in the event of a smallpox emergency. With this, deliveries under the original contract awarded in 2007 were completed.

OUR COMPANY

Our vision
Our vision is to become a leading developer and supplier of innovative therapies and vaccines for the treatment and prevention of life-threatening cancer and infectious diseases.

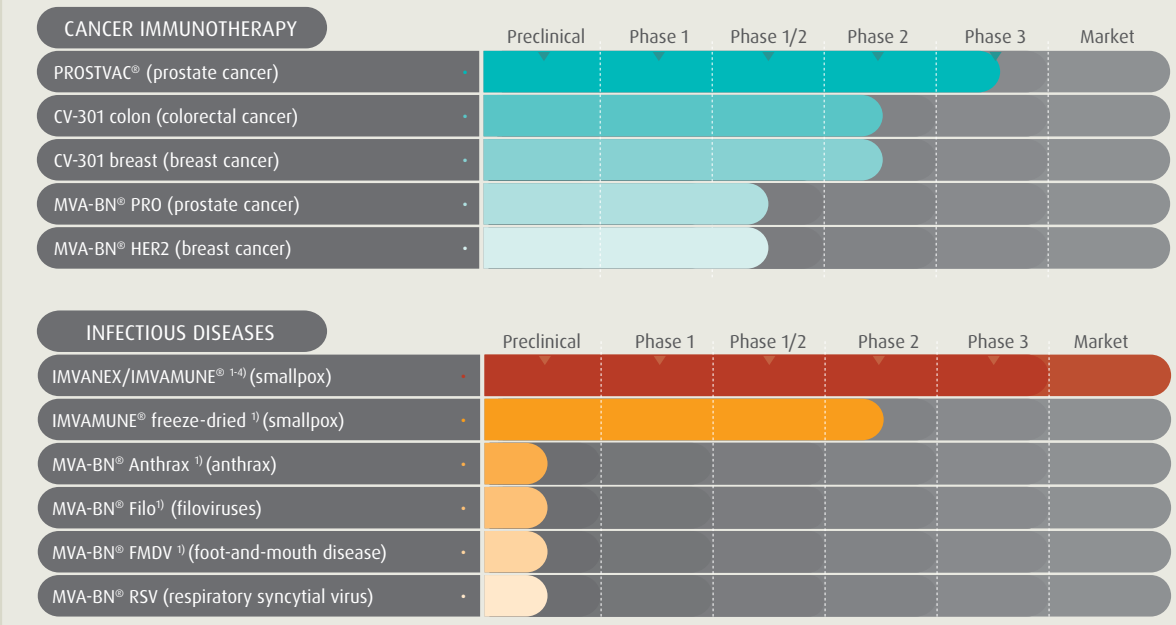
Through the development of novel vaccines for the protection of the public against potential bioterrorism agents, we have established a successful business in infectious diseases, encompassing a full value chain of research, development and manufacturing capability. All biodefense product candidates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

Our long-standing partnership with the U.S. Government on the development and supply of IMVAMUNE smallpox vaccine, as well as a series of development contracts for other biodefense targets, has facilitated the establishment of both a highly specialized organization and a manufacturing infrastructure with the ability to produce and deliver commercial-scale quantities of vaccines. These attributes have set the stage for a sustainable business, allowing Bavarian Nordic to retain and increase value in the Company.

Leveraging these competencies, we have broadened our focus on the development of new and improved therapies for the treatment of cancer by developing active immunotherapies targeting solid tumors for which few satisfactory treatments exist.

Targeted immunotherapy candidates for the treatment of cancer are part of a growing field in cancer research, which holds great promise by harnessing the natural power of the immune system to fight disease. By eliciting a strong immune response, immunotherapies may slow the progress of the disease and increase overall survival – and may also offer a favorable safety profile compared to many traditional treatments such as radiation or chemotherapy.

Pipeline



1) Government funded programs
2) Sold to government stockpiles
3) Approved in the European Union under the trade name IMVANEX® and in Canada under the trade name IMVAMUNE®
4) Phase 3 registration studies are ongoing in the United States

OUR STRATEGY AND SHORT-TERM OBJECTIVES

Bavarian Nordic's strategic ambition is focused on growth strategies that will allow it to become a successful, sustainably revenue-generating biotechnology company. Leveraging the Company's flexible manufacturing facility and expertise in the development of poxvirus-based vaccines and cancer immunotherapies, the company is well positioned to maximize future market opportunities.

As a recognized global leader in biodefense, Bavarian Nordic has built its foundation around MVA-BN - its proprietary, flexible poxvirus-platform that has the potential to support a broad pipeline across both infectious diseases and cancer immunotherapies. Bavarian Nordic's smallpox vaccine, IMVAMUNE, has generated significant revenue to date, and the Company is currently developing an innovative freeze-dried formulation of the vaccine to pursue a potential additional long-term supply contract with the U.S. Government. The Company is also applying its expertise in infectious diseases to advance its pipeline of product candidates for other bioterror threats (e.g. anthrax) and high unmet medical needs areas (e.g. RSV).

To meet the growing need for innovative cancer therapies, Bavarian Nordic has also developed a robust cancer immunotherapy portfolio, which includes the Phase 3 asset PROSTVAC. Cancer immunotherapy is a highly anticipated novel treatment approach, which is projected to be an important component of future cancer treatment. The Company's cancer immunotherapy portfolio offers tremendous potential in a market place seeking improved patient outcomes through the effective combination of synergistic therapies.

The Company's overall strategy to achieve these ambitions is based on the following main parameters:

- Establish a global leadership position in the rapidly growing field of cancer immunotherapy
- License and commercialize PROSTVAC globally through partnerships
- Leverage the growing potential of cancer immunotherapy approaches by expanding the Company's pipeline
- Obtain regulatory approval for IMVAMUNE in the U.S.
- Maintain global leadership in smallpox biodefense and build a long-term revenue stream based on worldwide sales of IMVANEX/IMVAMUNE
- Advance the development of medical countermeasures against other bioterrorism threats by expanding the biodefense pipeline through fully funded development contracts with the U.S. Government
- Expand the pipeline by developing commercial vaccines against infectious diseases for high unmet medical needs
- Maintain leadership in poxvirus manufacturing globally, and establish a flexible manufacturing facility and competences to meet the Company's production requirements in the short, medium and long-term

Our short-term objectives

PROSTVAC

- Complete enrollment in the PROSPECT trial (Second half of 2014)
- Continue to research the potential of PROSTVAC in combination with checkpoint inhibitors, androgen deprivation therapies and radiotherapy

CV-301

- Finalize development plan for CV-301 in colorectal cancer based upon feedback from the FDA (Second half of 2014)
- Initiate randomized, controlled trial depending on availability of funds

IMVANEX/IMVAMUNE

- Secure final portion of IMVAMUNE delivery contract with the U.S. Government (USD 118 million)
- Continued deliveries of IMVAMUNE to the U.S. Strategic National Stockpile
- Orders from rest of world
- Complete Phase 2 study of freeze-dried IMVAMUNE to support a pre-EUA (Emergency Use Authorization; a requirement for stockpiling)
- Initiate final Phase 3 trial of IMVAMUNE (First half of 2014)

OTHER PROJECTS

- Initiation of NCI-sponsored Phase 1 study of MVA-BN Brachyury (First half of 2014)
- Initiation of NCI-sponsored Phase 2 study of CV-301 in bladder cancer (First half of 2014)
- Investigational New Drug submission for MVA-BN RSV (2014) followed by initiation of Phase 1 study (2015)

KEY FIGURES

Group key figures 2009-2013

DKK million	2013	2012	2011	2010	2009
Income statement					
Revenue	1,212.5	1,016.6	523.6	314.1	74.8
Production costs	484.7	513.6	403.4	444.5	140.1
Research and development costs	496.6	340.1	261.7	188.6	164.0
Distribution and administrative costs	197.8	194.6	166.8	155.1	111.9
Income before interest and tax (EBIT)	33.4	(31.7)	(308.3)	(474.1)	(341.2)
Financial items, net	(27.2)	(17.0)	11.9	(9.4)	10.1
Income before company tax	6.2	(48.7)	(296.4)	(483.4)	(331.1)
Net profit for the year	(46.7)	(240.0)	(268.4)	(389.9)	(266.3)
Balance sheet					
Total non-current assets	551.8	644.3	865.2	850.6	715.1
Total current assets	900.4	894.9	1,111.4	616.5	556.0
Total assets	1,452.2	1,539.2	1,976.6	1,467.1	1,271.1
Equity	976.3	999.7	1,207.6	810.4	704.2
Non-current liabilities	86.7	54.2	105.4	106.5	113.0
Current liabilities	389.3	485.3	663.6	550.2	453.9
Cash Flow Statement					
Securities, cash and cash equivalents	532.1	549.9	584.0	355.7	185.0
Cash flow from operating activities	147.1	20.1	(375.2)	(239.9)	(484.0)
Cash flow from investment activities	(146.5)	71.0	(261.8)	(45.8)	26.1
- Investment in intangible assets	(111.0)	(24.3)	(16.5)	(16.2)	(45.5)
- Investment in property, plant and equipment	(44.4)	(20.9)	(31.2)	(45.7)	(50.6)
Cash flow from financing activities	(7.1)	(9.6)	642.4	471.0	(30.8)
Financial Ratios (in DKK) [1]					
Earnings (basic) per share of DKK 10 [2]	(1.8)	(9.2)	(10.3)	(14.9)	(10.2)
Net asset value per share (historical)	37.4	38.3	46.3	62.5	88.6
Net asset value per share (adjusted) [3]	37.4	38.3	46.3	31.1	27.0
Share price at year-end (historical)	89	50	38	245	144
Share price at year-end (adjusted) [3]	89	50	38	190	94
Share price/Net asset value per share (historical)	2.4	1.3	0.8	3.9	1.6
Share price/Net asset value per share (adjusted) [2] + [3]	2.4	1.3	0.8	6.1	3.5
Number of outstanding shares at year-end	26,094	26,094	26,094	12,962	7,952
Equity share	67%	65%	61%	55%	55%
Number of employees, converted to full-time, at year-end	426	450	439	402	354

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

2) Due to the rights issue in 2011, earnings per share and net asset value per share for 2009-2011 have been recalculated based on the average number of shares for 2013/outstanding shares at year-end 2013

3) Year-end share prices for 2009-2010 have been adjusted for subsequent capital increases

FINANCIAL REVIEW 2013

- Revenue was DKK 1,213 million (DKK 1,017 million) compared to the guidance of DKK 1,100 million
- A pre-tax profit of DKK 6 million (DKK 49 million loss) was recorded for the year, which is in line with the Company's guidance for the year
- The Group's cash preparedness was DKK 652 million at the end of the year (DKK 670 million), compared with the guidance of DKK 600 million
- Equity stood at DKK 976 million as of December 31, 2013 (DKK 1,000 million)

Unless otherwise stated, the financial review is based on the Group's consolidated financial information for the year ended December 31, 2013, with comparative figures for the Group in 2012 in brackets.

Income statement

Revenue
Bavarian Nordic generated revenue of DKK 1,213 million in 2013 (DKK 1,017 million), compared with the Company's guidance of DKK 1,100 million. DKK 839 million (DKK 883 million) of the revenue was derived from deliveries of IMVAMUNE to the U.S. Strategic National Stockpile. Other revenue of DKK 373 million (DKK 133 million) was related to ongoing development contracts with the U.S. Government, including delivery of development results under the RFP-3 contract (note 3).

Production costs
Production costs amounted to DKK 485 million (DKK 514 million), of which DKK 434 million (DKK 499 million) was directly related to revenue. Other production costs increased from DKK 15 million in 2012 to DKK 51 million in 2013 (note 4), which primarily was due to a higher write-down. The total write-down for 2013 was DKK 54 million (DKK 19 million). The development in write-downs is shown in note 17.

Research and development costs
Research and development costs occurred in 2013 totaled DKK 556 million (DKK 437 million), which is in line with the expectations of DKK 570 million. The distribution of incurred research and development costs is shown in note 5. Costs related to the development of PROSTVAC totaled approximately DKK 250 million.

The Company has amortized DKK 148 million related to the ongoing IMVAMUNE development project, as explained in note 15.

Distribution costs and administrative costs
Distribution costs and administrative costs in 2013 totaled DKK 198 million (DKK 195 million).

Earnings before interest and tax
The earnings before interest and tax (EBIT) were DKK 33 million (DKK 32 million loss). EBIT in the Infectious Diseases division was DKK 387 million, which is higher than the original guidance of DKK 360 million. EBIT in the Cancer Immunotherapy division was negative with DKK 324 million, which is in line with the original guidance of DKK -325 million.

Net financials
For 2013, Bavarian Nordic posted a net financial expense of DKK 27 million (DKK 17 million expense). The negative change is primarily attributed to a lower USD/DKK exchange rate. The net exchange loss was DKK 22 million (DKK 5 million loss).

Tax
Income taxes represented an expense of DKK 53 million (DKK 191 million expense). In 2012 the Company wrote down its deferred tax asset by DKK 182 million as a result of stricter regulations on tax losses carried forward.

Net profit
A net loss of DKK 47 million after tax was posted in 2013 (a loss of DKK 240 million). It is proposed that the loss be transferred to free reserves.

Balance sheet

The balance sheet total was DKK 1,452 million as of December 31, 2013 (DKK 1,539 million).

Assets
Intangible assets decreased by DKK 44 million due to sale of development results to the U.S. Government, which reduced the ongoing IMVAMUNE development project (note 15). By year-end the ongoing development project amounted to DKK 77 million (DKK 123 million).

The deferred tax asset has been reduced by DKK 51 million, of which the value of tax losses carried forward has decreased by DKK 38 million due to the gradual decrease of Danish company tax from the current 25% to 22% in 2016.

Inventories amounted to DKK 234 million (DKK 229 million). Write-downs amounted to DKK 69 million (DKK 31 million) as of December 31, 2013 and relate to the full or partial write-down of inventory that may not be released once final quality control has been performed. Inventories comprise

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

Receivables stood at DKK 135 million (DKK 116 million). Of this, trade receivables amounted to DKK 110 million (DKK 57 million).

As of December 31, 2013, cash and securities stood at DKK 532 million (DKK 550 million). Bavarian Nordic's cash and cash equivalents are primarily invested in deposit accounts with highly rated banks and in short-term Danish government and mortgage bonds.

Equity

After the transfer of the loss for the year, equity stood at DKK 976 million (DKK 1,000 million).

Creditors

The Group's borrowings dropped to DKK 80 million (DKK 89 million) in connection with ordinary repayment of debt. Trade payables amounted to DKK 114 million (DKK 104 million). Other creditors totaled DKK 114 million (DKK 116 million).

In 2013, the Company finalized the deliveries of 20 million doses of IMVAMUNE under the RFP-3 contract. Thus, by December 31, 2013 the Company has fully recognized the total prepayments of USD 100 million which have been received in the period 2007-2011. The prepayments are no longer subject to a repayment obligation.

In 2013, the Company received a prepayment of DKK 158 million, related to the delivery of the first 4 million doses of IMVAMUNE under the new contract with the U.S. Government. By year-end 2013, the Company has delivered 1.4 million doses and thus the prepayment has been reduced to DKK 102 million. For detailed information on prepayments, see note 25.

OUTLOOK FOR 2014

In 2014, the Company expects revenue at the level of DKK 1,200 million and a break even result before interests and tax (EBIT). The Company expects to deliver and revenue recognize approximately 6.5 million doses of IMVAMUNE to the U.S. Strategic National Stockpile, of which delivery of 4 million doses are pending BARDA's exercise of the second part of the contract that was entered with the U.S. Government in April 2013. In January 2014, the U.S. Congress appropriated funds for the BioShield Special Reserve Fund, which supports procurement of biodefense medical countermeasures such as IMVAMUNE and Bavarian Nordic is now waiting for BARDA to finally execute the exercise of the option. Additional revenue is expected from ongoing research and development contracts including the additional funding awarded for the Phase 3 trial for IMVAMUNE and the contract for freeze-dried IMVAMUNE.

The cash preparedness at year end is expected to be in the level of DKK 600 million.

Total research and development costs of approximately DKK 600 million are expected and to be distributed as shown in the table below.

Provided that the production and deliveries of IMVAMUNE and development of the pipeline projects proceed according to plan, the Infectious Disease division is expected to generate an EBIT of approximately DKK 400 million.

Provided that the Phase 3 study for PROSTVAC as well as the development of the other cancer programs proceed according to plan, the Cancer Immunotherapy division is expected to generate a negative EBIT of approximately DKK 400 million.

For the divisions, EBIT is stated after allocation of internal charges.

Starting in 2014, the Company will provide its guidance on EBIT (previously earnings before tax) in order to focus guidance on the Group's operational performance.

Research and development costs to occur	**DKK 600 million**
Of which:	
Contract costs recognized as production costs	DKK 110 million
Capitalized development costs	DKK 50 million
	DKK 440 million
Expensing (amortization) of prior-year costs attributable to the IMVAMUNE development project	DKK 50 million
Research and development costs recognized in P&L	**DKK 490 million**

All numbers are approximate

2014 outlook in short

- Revenue:
  DKK 1,200 million
- Result before interest and tax (EBIT):
  DKK 0 million
- Cash preparedness at year-end:
  DKK 600 million

Assumptions

- Deliver 6.5 million doses of IMVAMUNE to the U.S. Strategic National Stockpile
- Research and Development costs:
  DKK 600 million (cf. table above)
- Infectious Diseases Division, EBIT:
  DKK 400 million
- Cancer Immunotherapy Division, EBIT:
  DKK 400 million (loss)

OUR TECHNOLOGIES

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

The Company has developed its proprietary MVA-BN technology and established a manufacturing infrastructure and competencies to produce MVA-BN vaccines at a commercial scale. Currently, the Company is transforming its manufacturing facility in Kvistgaard, Denmark into a multi-purpose complex, able to accommodate the future commercial production of IMVANEX/IMVAMUNE, PROSTVAC and other pipeline products.

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

The advantage of poxvirus based immunotherapies is that they induce both a strong humoral and a cellular immune response, thus activating both arms of the immune system.

The MVA-BN platform
MVA-BN is a further attenuated version of the Modified Vaccinia Ankara (MVA) virus, which is itself a highly attenuated strain of the poxvirus Chorioallantois Vaccinia virus Ankara (CVA). MVA-BN is under clinical evaluation in a total of 19 completed or ongoing trials as a smallpox vaccine (IMVAMUNE). More than 7,300 individuals, including nearly 1,000 who were immunocompromised, have been vaccinated with MVA-BN-based vaccines, showing the virus displays high immunogenicity and, at the same time, a favorable safety profile.

All of Bavarian Nordic's infectious diseases vaccines are based on MVA-BN. Furthermore, recombinant MVA-BN-based vaccine candidates have undergone clinical Phase 1 and Phase 2 trials in breast and prostate cancer.

A major advantage of MVA-BN is the virus' inability to replicate in a vaccinated individual, in contrast to the original vaccinia vaccines. The replication cycle is blocked at a very late stage, which ensures that new viruses are not generated and released. This means that the virus cannot spread in the vaccinated person, which may contribute to a favorable safety profile compared to previous replicating vaccinia viruses. This is particularly important in immunocompromised populations, where the vaccine has also been well tolerated and has shown an attractive immunogenicity profile in clinical studies.

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

The VF-TRICOM platform
Certain cancer targets utilizing the VF-TRICOM (vaccinia-fowlpox-TRICOM) platform was in-licensed from the National Institutes of Health (NIH) as part of the collaboration agreement with the NCI to develop targeted cancer immunotherapies. The Company's lead cancer immunotherapy candidates, PROSTVAC and CV-301 both employ this technology, which consists of a vaccinia virus and a fowlpox virus, administered in a prime-boost vaccination regimen.

While PROSTVAC incorporates a single tumor-associated antigen that is typically over-expressed in prostate cancer (prostate specific antigen or PSA), CV-301 incorporates two tumor-associated antigens (CEA and MUC-1) that are over-expressed in other major solid tumors, such as colorectal and breast cancer.

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

Bavarian Nordic has exclusively licensed certain patents covering PROSTVAC and CV-301. The two portfolios comprise about 24 pending patent applications and 173 granted/issued patents. These portfolios strategically position Bavarian Nordic to develop PROSTVAC and CV-301 in the relatively crowded field of recombinant vaccine patents and their uses. In addition, the Company has obtained non-exclusive rights to related patents and technologies. Thus the Company has freedom to operate within the inlicensed indications.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

In just a few years, Bavarian Nordic has grown from a pure research company into a fully integrated company with activities ranging from early research to the in-house production of vaccines.

In addition to our annual environmental reporting, we began working systematically with other aspects of CSR in 2009. This work is primarily concentrated on the environment, our employees and our suppliers, but we also include other areas of significance to our business and have defined an additional two areas of focus: business ethics and products.

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

The report can be downloaded at:
www.bavarian-nordic.com/csr

Highlights from 2013
Our aggregate climate impact, measured by CO2 emissions was reduced by almost 9% in 2013. After a time spent upscaling our production, production volumes were slightly lower in 2013 than in previous years. Combined with significant improvements in our production process, we managed to further reduce our consumption of energy and raw materials.

We are focused on health and employee well-being and were pleased to record a drop in sickness absence among our employees in 2013, although the rate remained slightly higher than the average for Danish companies. This can mainly be explained by the special requirements for our production, including production staff not being allowed to return to work until they have completely recovered from an illness.

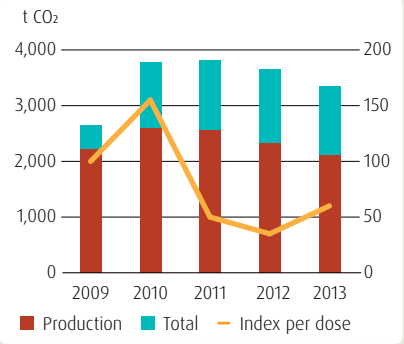
We wish to ensure that we have a healthy and safe workplace and we perform a comprehensive occupational environment work in our organisation, which includes user involvement at all levels. For this reason, we were not satisfied to note that the number of reported occupational accidents increased in 2013. However, most of them were minor accidents, a fact that is reflected in the minimal number of related sick days of 1.3 in average.

Goals
In each of our CSR areas of focus, we will constantly seek to improve the conditions that can generate better business value for the Company as part of our overall goal of creating the greatest possible shareholder value. These and goals are fully integrated into the operation of our business and form part of the ongoing evaluations in the respective areas.In addition, we have set the following specific objectives for our CSR work for the coming years:

- Establish KPIs for our consumption of energy and chemicals and for production waste (2014)
- Reduce the number of occupational accidents to an annual number equivalent or less than the average of the past three years (2016)
- Endeavor to keep overall sickness absence below 4%. In addition, we will endeavor to set individual targets for sickness absence for white-collar and blue-collar workers and to report performance in this respect going forward (2014)
- Establish a training program for ethical conduct/anti-corruption. (2014)
- Work over the next three years to reduce rates of employee turnover to a level below the average of the previous three years (2016)
- Conduct a screening of the UN guiding principles on human rights and business (2015)
- Work to maintain an equal gender distribution among the managers of the Group (2014)

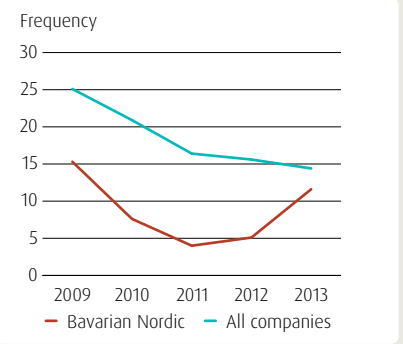
Selected data from the CSR report

Carbon footprint



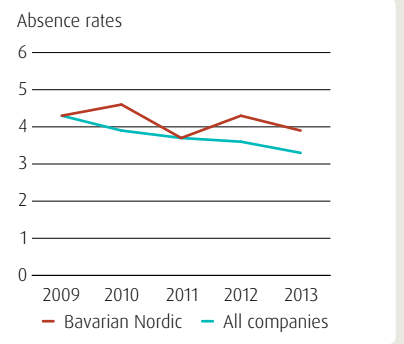
Total CO_2 emissions and indexed CO_2 emissions per dose of vaccine.

Work-related accidents



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

Absence



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

CANCER IMMUNOTHERAPY

Targeted immunotherapy candidates for the treatment of cancer are part of a promising field of research which harnesses the natural power of the immune system to fight the disease. By eliciting a robust and broad anticancer immune response, immunotherapies may decrease the tumor growth rate, potentially resulting in a prolonged overall survival whilst maintaining a favorable risk-benefit profile.

Bavarian Nordic's lead product candidates, PROSTVAC and CV-301, are being developed under cooperative research and development agreements (CRADAs) with the NCI. In addition, the Company has conducted Phase 1/2 clinical development of MVA-BN based product candidates for prostate and breast cancer.

The development programs of PROSTVAC and CV-301 have included more than 1,100 clinical trial subjects treated for varying oncology indications like prostate cancer, colorectal, breast, ovarian and pancreatic cancers.

PROSTVAC – prostate cancer targeted immunotherapy candidate

PROSTVAC is a PSA-targeted immunotherapy candidate, currently in Phase 3 development for the treatment of patients with asymptomatic or minimally symptomatic metastatic castration-resistant prostate cancer (mCRPC). Concurrently, PROSTVAC is being investigated in NCI-sponsored clinical trials in different stages of the disease and in combination with other modalities. A robust data package has been established through 11 ongoing and completed clinical Phase 1 and Phase 2 trials, where more than 300 patients have been treated, and the immunotherapy candidate has been generally well-tolerated.

A randomized, placebo-controlled Phase 2 trial[1)] demonstrated the ability of PROSTVAC to extend the median overall survival by 8.5 months in patients with advanced prostate cancer. These results led to the initiation of a pivotal Phase 3 clinical trial (PROSPECT). Other clinical trials of PROSTVAC in combination with radiation, hormonal therapy or chemotherapy, either concomitantly or sequentially, have indicated possible therapeutic synergies for these treatment combinations.

The PROSPECT Phase 3 study

The PROSPECT study is a global randomized, double-blind, placebo-controlled study, which is expected to enroll 1,200 patients with asymptomatic or minimally symptomatic mCRPC. The PROSPECT study is being conducted under a Special Protocol Assessment agreement with the FDA.

By March 2014, the study was fully opened in 13 of 15 planned countries with over 185 active investigative sites. The number of sites increased by more than 100 during 2013. As previously communicated, there have been regulatory delays in Europe, which continue to impact the ability of key clinical trial investigators to initiate enrollment in important geographic territories, particularly in Germany and the Netherlands. As a consequence, enrollment in the PROSPECT study will continue into the second half of 2014.

A number of measures initiated in 2013 contributed to an increased rate of enrollment, and the Company now anticipates the study to be fully enrolled by year-end 2014.

Investigators and patients are increasingly positive about the potential for active immunotherapy to have meaningful impact in metastatic prostate cancer. Interim analyses of the PROSPECT study, formally approved by the FDA during 2013, offer the opportunity to evaluate whether the results provide opportunity for filing for approval sooner than anticipated.

PROSPECT study design

The primary objective of the PROSPECT study is to determine whether the overall survival of patients receiving PROSTVAC (with or without the addition of granulocyte macrophage colony-stimulating factor; GM-CSF), is superior to those receiving placebo (controls). The overall survival will be evaluated in two separate comparisons:

- PROSTVAC plus GM-CSF versus control
- PROSTVAC without GM-CSF versus control

For the study outcome to be positive, either one or both of the treatment arms must demonstrate a significantly better overall survival than the control arm.

1) Kantoff-P et al.: Overall survival analysis of a phase II randomized controlled trial of a poxviral-based PSA-targeted immunotherapy in metastatic castration-resistant prostate cancer. J Clin Oncol. 28:1099-1105, 2010

Other PROSTVAC clinical trials
PROSTVAC is currently the subject of three NCI-sponsored clinical studies in different settings, evaluating the investigational targeted immunotherapy in combination with other therapies.

- One study is a Phase 2 clinical study combining PROSTVAC with enzalutamide – a hormonal therapy which inhibits the androgen receptor and was approved by the FDA in 2012. The study is expected to enroll 34 patients with non-metastatic castration sensitive prostate cancer and will randomize them to receive enzalutamide with PROSTVAC treatment or enzalutamide alone. The primary endpoint will be based on PSA kinetics (tumor re-growth rate after enzalutamide is discontinued).
- The second Phase 2 study combining PROSTVAC with enzalutamide will enroll 72 patients with metastatic castration-resistant prostate cancer who will be randomized to receive enzalutamide with PROSTVAC treatment or enzalutamide only. The primary endpoint is progression-free survival.
- The third study is a Phase 2 clinical study comparing flutamide (anti-androgen therapy) with or without PROSTVAC in 62 patients with non-metastatic prostate cancer. The study is fully enrolled. Results from 41 patients indicate an improvement in time to progression (TTP) for those patients receiving PROSTVAC in combination with flutamide (median TTP = 192 days) compared to flutamide alone (median TTP = 108 days).

CV-301 – an immunotherapy candidate with potential in multiple cancers

CV-301 (CEA-MUC-1-TRICOM) is a targeted immunotherapy candidate with potential to treat multiple cancers. Like PROSTVAC, CV-301 employs the VF-TRICOM technology. While PROSTVAC incorporates a single antigen over-expressed in prostate cancer (PSA), CV-301 incorporates two tumor-associated antigens (CEA and MUC-1) that are over-expressed in other major cancers, including colorectal and breast.

CV-301 and its precursors have been the subject of 15 ongoing or completed NCI-sponsored clinical trials in colorectal, breast and other cancers, and more than 400 patients have been treated with the product candidate.

While CV-301 has the potential to treat multiple cancers, the company has prioritized metastatic colorectal cancer as the lead indication for CV-301 based on promising Phase 2 data announced in May 2013.

CV-301 in colorectal cancer
Data from a Phase 2 trial of CV-301 in patients with resected metastatic colorectal cancer were published in the Annals of Surgery in May 2013[2]. In the study conducted at Duke University, 74 patients who were disease free after surgical resection of metastatic colon cancer received chemotherapy followed by immunotherapy with CV-301 either as CV-301 modified dendritic cells or in combination with GM-CSF. Compared to a group of 161 contemporary control patients who were matched for key clinical features and had similar surgery and chemotherapy, the overall survival of the CV-301 treated patients was significantly longer ($p < 0.0001$). Treatment with CV-301 was well tolerated, with injection site reactions, fever, fatigue and muscle soreness as the most common side effects.

Discussions with regulatory authorities on a potential larger randomized, placebo-controlled trial to further evaluate CV-301's potential in this setting are ongoing, leading to finalization of the development plan, expectedly in the second half of 2014. Initiation of the trial will depend on availability of funds.

Additional NCI sponsored studies

CV-301
During 2014, the Company expects the NCI to initiate a Phase 2 study of CV-301 in patients with bladder cancer whose cancer has progressed after BCG treatment (Bacillus Calmette–Guérin). This tumor is well known to respond to immunotherapy, and BCG for use in bladder cancer was the first modern immunotherapy to be approved in many countries to prevent the recurrence of superficial bladder tumors. BCG is a vaccine against tuberculosis that is prepared from attenuated (weakened) live bovine tuberculosis bacillus that has lost its virulence in humans. BCG immunotherapy is effective in up to 2/3 of the cases at this stage. The mechanism by which BCG prevents recurrence is unknown, but may involve a localized immune reaction which clears residual cancer cells.

2) Morse MA, et al.: A Randomized Phase II Study of Immunization With Dendritic Cells Modified With Poxvectors Encoding CEA and MUC1 Compared With the Same Poxvectors Plus GM-CSF for Resected Metastatic Colorectal Cancer. Ann Surg. 2013 Dec;258(6):879-86
3) Kilic N, Feldhaus S, Kilic E, et al. Brachyury expression predicts poor prognosis at early stages of colorectal cancer. Eur J Cancer. 2011;47:1080-1085
4) Imajyo I, Sugiyara T, Kobayashi Y, et al. T-box transcription factor Brachyury expression is correlated with epithelial-mesenchymal transition and lymph node metastasis in oral squamous cell carcinoma. Int J Oncol. 2012;41:1985-1995

MVA-BN Brachyury

During 2014, the Company also expects the NCI to initiate the first Phase 1 study of MVA-BN Brachyury in patients with advanced cancer. The brachyury protein is a novel tumor associated antigen that is overexpressed in a wide variety of cancers, including both adenocarcinomas (lung, breast, ovary, colorectal, as well as squamous carcinomas (lung, oral). The product candidate MVA-BN Brachyury, which also contains the proprietary TRICOM technology, is being co-developed by Bavarian Nordic and the NCI, and has been shown to be a good target for active T cell immunotherapy in preclinical models. Brachyury is believed to be involved in the process of tumor progression and development of metastasis. Overexpression of brachyury increases the risk of cancer recurrence and metastasis and potentially results in decreased survival[3,4].


injection

INFECTIOUS DISEASES

The successful, long-term partnership with the U.S. Government on the development of the IMVANEX smallpox vaccine (trade name IMVAMUNE in the U.S. and Canada) is a key driver for Bavarian Nordic's infectious diseases business. The Company has been delivering the vaccine to the U.S. Strategic National Stockpile (SNS) for emergency use since 2010.

Contracts with the U.S. Government awarded to date for the development and supply of IMVAMUNE exceed USD 1 billion, including awards to advance MVA-BN as a broad platform for the development of medical countermeasures against other potential biological threats.

Ongoing contracts include:

- A USD 549 million contract (RFP-3) for the development, registration, and delivery of 20 million doses of IMVAMUNE to the SNS. Awarded in 2007 by the Biomedical Advanced Research and Development Authority (BARDA), a division of the U.S. Department of Health and Human Services (HHS). Deliveries were completed in 2013, but clinical development is still ongoing
- A contract valued at up to USD 228 million for the delivery of up to 8 million doses of IMVAMUNE to the SNS. Awarded in April 2013 by BARDA
- A USD 116 million contract (RFP-2) for the clinical development of IMVAMUNE. Awarded in 2004 by the National Institutes of Allergy and Infectious Diseases (NIAID)
- A contract valued at up to USD 95 million for the development of a freeze-dried version of IMVAMUNE. Awarded in 2009 by BARDA
- A USD 18 million contract to support the advanced development of MVA-BN. Through the evaluation of a combined filovirus and smallpox vaccine, the Company will develop novel technologies that accelerate the immune response to biodefense vaccines. Awarded in 2012 by NIAID
- A USD 1 million contract for the development of an MVA-BN-based animal vaccine against foot-and-mouth disease virus. Awarded in 2012 by the U.S. Department of Homeland Security Science and Technology Directorate (DHS)
- A USD 0.5 million contract for the development of an MVA-BN-based vaccine against Burkholderia pseudomallei and Burkholderia mallei. Awarded in 2014 by the Defense Threat Reduction Agency (DTRA), a division of the U.S. Department of Defense (DOD)

The above listed contracts total USD 1,007 million, of which Bavarian Nordic has received USD 760 million as of December 31, 2013, with up to USD 247 million remaining.

IMVANEX®/IMVAMUNE® smallpox vaccine

First product approval
In August 2013, the European Commission granted marketing authorization for IMVANEX for active immunization against smallpox disease for the general adult population, including people with weakened immune systems (e.g. people diagnosed with HIV or skin disorders such as atopic dermatitis; AD). The authorization covers all European Union member states and Iceland, Liechtenstein and Norway. IMVANEX is available for use in accordance with official national recommendations.

In November 2013, Health Canada granted a Notice of Compliance approving IMVAMUNE (Canadian trade name) for active immunization against smallpox in a public health emergency. In Canada, IMVAMUNE is indicated for persons 18 years of age and older who are contraindicated to replicating smallpox vaccines. This includes individuals with immune deficiencies and skin disorders.

IMVANEX sales
Before being approved in the above regions, commercial quantities of the vaccine have been produced and sold to governments globally under their national emergency rules. Also in 2013, Bavarian Nordic entered several minor delivery contracts with ex-US countries. The Company will continue to explore market opportunities for IMVANEX by working with governments to address their biological preparedness.

IMVAMUNE - smallpox vaccine candidate
In the U.S., IMVAMUNE is being developed as a non-replicating smallpox vaccine suitable for individuals who are not recommended to receive conventional replicating smallpox vaccines, e.g. individuals with HIV, people with AD and members of their households.

In clinical trials to date, more than 7,300 individuals have been vaccinated with IMVAMUNE, which has been well-tolerated. The vaccinated subjects include almost 1,000 individuals with HIV or AD.

The development of IMVAMUNE is funded by the U.S. Government, through contracts with BARDA and NIH.

Deliveries to the U.S. Strategic National Stockpile
Bavarian Nordic has been delivering IMVAMUNE to the U.S. Strategic National Stockpile (SNS) for emergency use since 2010. In November 2013, the Company finalized the deliveries of the 20 million doses ordered under the base contract (awarded in 2007) and deliveries under the next contract (awarded in 2013) began.

New delivery contract awarded by the U.S. Government
In April 2013, Bavarian Nordic received a new contract valued up to USD 228 million from the U.S. Government for the continued supply of liquid-frozen IMVAMUNE. The first USD 110 million of the new order is secured, and the remaining portion is expected to be secured in the first half of 2014. In January 2014, the U.S. Congress appropriated funds for the BioShield Special Reserve Fund, which supports procurement of biodefense medical countermeasures such as IMVAMUNE and Bavarian Nordic is now waiting for BARDA to finally execute the exercise of the option.

Future smallpox vaccine orders from the U.S.
Bavarian Nordic is well positioned for future delivery contracts with the U.S. Government beyond those currently in place. By awarding the contract to develop a freeze-dried formulation of IMVAMUNE, the U.S. Government signaled its strong desire to develop a potentially improved formulation of IMVAMUNE that can be procured and stockpiled for emergency use in the SNS. A Phase 2 study designed to meet the emergency use requirements was initiated in May 2013 and completed enrollment in December 2013. Data from the study are anticipated during 2014, although the clinical study report will not be finalized until during 2015. In 2014, the company expects the U.S. Government to exercise an option under the contract to fund the transfer of the validated freeze-dried manufacturing process to a commercial line in preparation for future production of this formulation of the vaccine.

Phase 3 registration trials in the U.S.
To support the registration of IMVAMUNE in the U.S., two Phase 3 studies have been agreed upon with the FDA; a lot consistency study in 4,000 healthy individuals and a study in 440 military personnel, designed to demonstrate non-inferiority between IMVAMUNE and the current U.S. licensed smallpox vaccine.

The first Phase study was initiated in March 2013 and completed enrollment in August, four months ahead of schedule. A total of 3,000 people were vaccinated with three different lots of IMVAMUNE (1,000 subjects per IMVAMUNE lot). The safety data from the 3,000 subjects receiving IMVAMUNE in this study will be compared with 1,000 additional subjects receiving placebo. Data from the trial are expected in 2015.

The second Phase 3 study comparing the safety and immunogenicity of IMVAMUNE to the U.S. licensed smallpox vaccine is expected to initiate enrollment in the first half of 2014. In collaboration with Military Vaccine Agency (MILVAX), a CRADA was signed with the U.S. Army Research Institute for Infectious Diseases (USAMRIID) to perform the trial at a U.S. military garrison in South Korea.

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

Recombinant MVA-BN vaccine candidates - fully government funded

Bavarian Nordic has ongoing contracts with NIAID, DHS and DOD for the evaluation of recombinant MVA-BN vaccine candidates for other biological threats to national security, including Marburg, Burkholderia and foot-and-mouth disease virus. The company is continuing to develop and produce recombinant vaccine constructs to be tested in animals. Pending the outcome of these trials, additional government funding may be available to further develop successful vaccine candidates.

The company also continues its close collaboration with NIAID to evaluate the efficacy of recombinant MVA-BN vaccine candidates for anthrax in monkey studies which, if successful, could trigger funding of clinical development of the candidate.

Commercial Vaccines

RSV

RSV (respiratory syncytial virus) is a significant cause of respiratory illness and infection-related death, with a similar impact as influenza. While the burden of RSV is highly recognized in the pediatric population, particularly in the very young and those with cardio-respiratory disease, RSV infections are also a serious health concern in the elderly and in immuno-compromised individuals. Indeed, about 78% of deaths due to RSV-related underlying respiratory and circulatory disease occur among the population ≥65 years of age. Therapeutic options are limited to supportive measures and there are no approved vaccines against RSV.

The significant impact of RSV on public health makes the development of a safe and protective RSV vaccine a high priority. Since mucosal immunity appears to be important in protection against RSV and would also be expected to limit virus replication at the initial site of infection, the development of a live mucosal vaccine is considered potentially the most effective approach for providing protection.

The development of an RSV vaccine using the MVA-BN vaccine platform has been identified as a key infectious disease target to further diversify the pipeline and address a high unmet medical need. Bavarian Nordic has developed a recombinant MVA-BN-based RSV vaccine, which has shown to induced a balanced humoral and cellular immune response without any signs of enhanced disease in animal models. Furthermore, the lead candidate has shown to be highly efficacious in animal models, including studies sponsored by the NIH. Following positive discussions with the regulatory authorities the Company is expecting to submit an Investigational New Drug application to the FDA in late 2014 and to initiate clinical development (Phase 1) in 2015.

RISK MANAGEMENT

Risk management is an integrated part of Bavarian Nordic's operations. Material risks that could affect the Company's work, future performance or goals, or the interests of the shareholders are identified with the purpose of running the Company in accordance with best practice in the Company's area of business.

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

In 2013, the Company has increased its focus on identification of operational risks in the Company in order to update the action plan for reducing any material risks.

Furthermore, the Company has worked to prepare the organization for validating the new production unit in Kvistgaard and the regulatory tasks related to the approval process of PROSTVAC.

The primary risks in 2014 relate to the deliveries of IMVAMUNE to the U.S. and the recruitment of patients for the Phase 3 trials of PROSTVAC and IMVAMUNE.

Risk factors
Expectations and assumptions in the Annual Report concerning Bavarian Nordic's business, the market for vaccines against smallpox, cancer and infectious diseases, and Bavarian Nordic's revenue, accounting results and expected market share are subject to substantial uncertainty. There is no guarantee that Bavarian Nordic will wholly or partly achieve its expectations for revenue or the profit/loss for the year.

The major short-to-medium-term uncertainties include but are not limited to the following:

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

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

Currency risks include the risk arising from sales and production contracts being denominated in currencies other than Danish kroner. Contracts are primarily in U.S. dollars, so other currencies do not represent significant currency risks. The exposure from fluctuations in the U.S. dollar is increased because a significant part of the exposure relates to an internal U.S. dollar denominated loan between the subsidiary in California and the parent company in Denmark. This internal loan is not hedged. Liquidity can be influenced by changes in the USD/DKK exchange rate, in that profit or loss from the forward exchange contracts can be settled when the contracts are due for extension.

Bavarian Nordic has a strong intellectual property position; however, due to the complex legal issues in this area, there can be no assurance that Bavarian Nordic can successfully defend the validity of its patents or oppose infringement claims.

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

INTERNAL CONTROL

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

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

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

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

Monthly closing procedures ensure an in-depth analysis of deviations between actual performance, business plans and budgets, and updated estimates for the financial year. A written monthly management report is prepared by each division containing explanations for deviations in the central business areas within the division.

The division reports are combined into one group report that is distributed to the Executive Management and Board of Directors.

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

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

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

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

The management commentary in the Annual Report is drafted in close collaboration with IR, Executive Management and key personnel in the divisions. Further, the auditors ensure that the financial statements give a reliable and true view of the Group's assets, liabilities and financial position and ensure that the consolidated Annual Report is prepared in accordance and compliance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies and that the Annual Report of the parent company is prepared in accordance with the Danish Financial Statements Act.

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

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

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

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

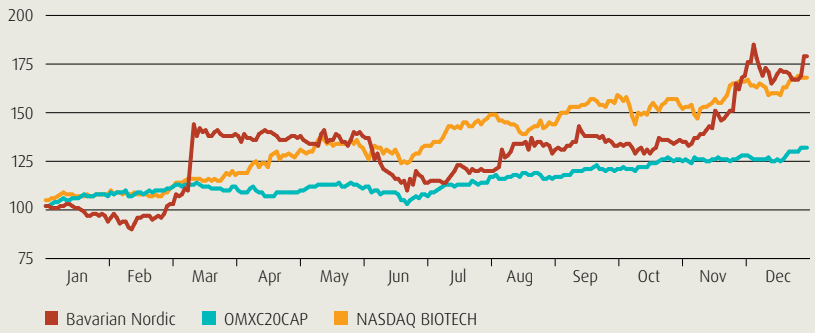
In the ERP system, a number of user groups have been set up to ensure the required segregation of key functions in the finance department. Incoming invoices are approved electronically, and an approval hierarchy ensures that invoices are approved by the appropriate persons and according to the proxy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

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

THE BAVARIAN NORDIC SHARE

The price of Bavarian Nordic's share increased almost 80 per cent during the year, with the price at year-end 2013 DKK 89.0, versus DKK 49.8 at year-end 2012. Share price volatility was high, with fluctuations between a low of DKK 44.9 and a high of DKK 92.0. The strong share price performance continued into the beginning of 2014. The share price has increased under strong trading volume predominantly from international institutional healthcare specialist investors.

Share price development compared to indices



Share capital

Bavarian Nordic's share capital at December 31, 2013 was 260,943,610, comprised of 26,094,361 shares with a nominal value of DKK 10 each. Bavarian Nordic has one share class, and each share carries one vote. Bavarian Nordic is listed on the NASDAQ OMX Copenhagen under the ID code DK0015998017.

American Depositary Receipts

In 2013, Bavarian Nordic established a sponsored Level 1 American Depositary Receipt (ADR) program with Deutsche Bank Trust Company Americas. An ADR is a receipt issued by a depositary bank representing ownership of a company's underlying shares. ADR programs are created to enable U.S. investors to hold shares in non-U.S. companies and trade them in the same way as U.S. securities.

Bavarian Nordic ADRs are available for trading in the U.S. over-the-counter (OTC) market, where one ADR represents one Bavarian Nordic share. The ticker symbol for the Bavarian Nordic ADR is BVNRY.

Ownership

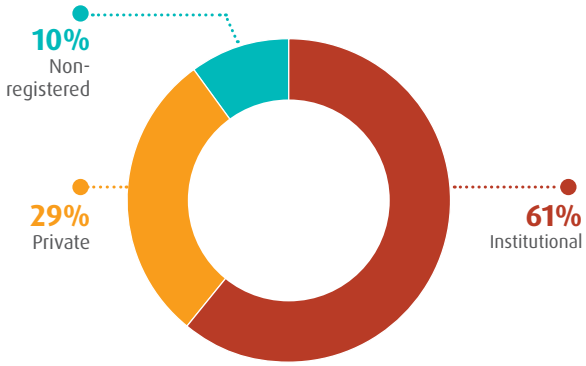
As of December 31, 2013, Bavarian Nordic had 20,438 registered shareholders owning 23,489,654 shares, which corresponds to 90 per cent of the share capital. There was no significant change in the number of registered shareholders in 2013. Bavarian Nordic continuously invites its shareholders to have their shares registered with the Company; registration must be through the holder's custodian bank.

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

Bavarian Nordic does not hold any of its own shares.

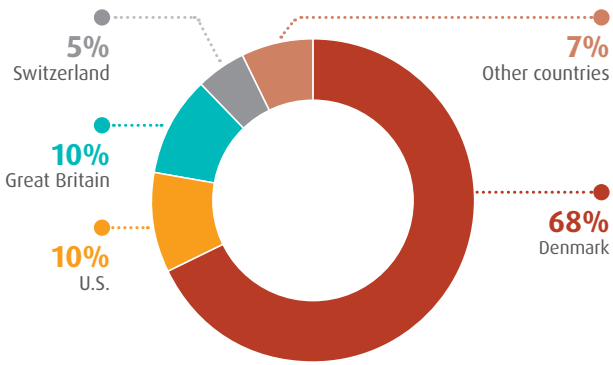
Distribution of share capital

by shareholder category



Geographic distribution of shareholders

in percentage of registered share capital



Major shareholders
As of March 19, 2014, the following shareholders had publicly informed Bavarian Nordic that they owned five per cent or more of the Company's shares:

- ATP (more than 10%)
  Hillerød, Denmark
- A. J. Aamund A/S (more than 5%)
  Copenhagen, Denmark

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 April 24, 2014 that no dividends be paid.

Annual General Meeting
The 2014 Annual General Meeting will be held at 5 pm CET on Thursday, April 24, 2014, at the Comwell Borupgaard, Nørrevej 80, DK-3070 Snekkersten, Denmark.

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

Bavarian Nordic makes a comprehensive effort to present the company to institutional investors, retail investors, financial analysts and media. The Company has intensified its efforts towards the professional investor segment in the U.S. by the recent hiring of a local IR professional, based on the East Coast. Over the past year, Bavarian Nordic's road shows travelled to venues such as Scandinavia, Paris, Frankfurt, Zurich, Geneva, Amsterdam, Brussels, London and multiple locations in the U.S. Similarly, the company takes part in a number of international banking and investor conferences, as well as frequent shareholder fairs and meetings for private investors.

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

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

Financial calendar 2014

April 24, 2014
Annual General Meeting

May 14, 2014
Financial Statements for the first quarter of 2014 (Q1)

August 28, 2014
Financial Statements for the first half of 2014 (Q2)

November 13, 2014
Financial Statements for the first nine months of 2014 (Q3)

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

Investor Relations contacts

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CORPORATE GOVERNANCE

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

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

Each year, in connection with the annual report, the Company publishes a statement on its compliance with the "Recommendations on Corporate Governance".

The statement can be downloaded from the Company's website at: **www.bavarian-nordic.com/corporategovernance**

Board and Management practices

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

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

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

In 2013, ten meetings were held. Corporate Management and certain senior employees of Bavarian Nordic usually attend the Board meetings. The Board regularly receives reports from Corporate Management on the status of the Company's operations and business. The Chairman of the Board and the Company's legal advisor evaluate the performance of the Board and Corporate Management on an annual basis. The results are presented to and discussed by the Board.

Remuneration of the Board
Members of the Board of Directors receive a fixed fee, and warrants may be granted to them, the aggregate number of which is set out in the Company's guidelines for incentive pay. The fees paid to the Board of Directors are fixed according to the standards in the market and reflect demands to their competencies and efforts in light of the scope of their work and the number of Board meetings. The Chairman receives twice the fee of an ordinary Board member. The Chairman's fee in 2013 was DKK 0.5 million, and fees paid to each of the ordinary members amounted to DKK 0.25 million, equivalent to a total of DKK 1.75 million. The members of the Board of Directors participate in the warrant program as explained in note 27 in the consolidated financial statements. The members of the Board of Directors did not receive any other remuneration from Bavarian Nordic in 2013.

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

MANAGEMENT OF BAVARIAN NORDIC

Board of Directors

Asger Aamund
Chairman of the Board since the inception of Bavarian Nordic in 1994. Re-elected in 2013 for a one-year term. Not independent. Mr. Aamund is a Danish national, born in 1940.

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

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

Gerard van Odijk
Member of the Board since 2008. Re-elected in 2013 for a one-year term. Independent. Dr. van Odijk is a Dutch national, born in 1957.

Dr. van Odijk is an independent advisor for the pharmaceutical industry. He retired as president and CEO of Teva Pharmaceuticals Europe B.V. in 2012. He has previously held various senior positions in GlaxoSmithKline (GSK). He is chairman of the board of Merus Biopharmaceuticals B.V. and member of the board of UDG Healthcare plc. Dr. van Odijk received his M.D. from the University of Utrecht.

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

Claus Braestrup
Member of the Board since 2008. Re-elected in 2013 for a one-year term. Independent. Dr. Braestrup is a Danish national, born in 1945.

Dr. Braestrup is a former president and CEO of H. Lundbeck A/S. He has previously served at Novo Nordisk A/S as vice president of pharmaceutical research, president of its CNS Division and president of the Diabetes Care Division, and at Schering AG as head of preclinical drug research. Dr. Braestrup is chairman of the board of Aniona ApS and a member of the board with Santaris Pharma A/S, Evolva Holding SA, Gyros AB and Evotec AG. Dr. Braestrup has a doctorate in medicine from the University of Copenhagen.

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

Founder and chairman Asger Aamund retires from the board

After serving as chairman of the board of Bavarian Nordic for almost 20 years, Asger Aamund announced in November 2013 that he will not seek re-election at the General Meeting in 2014. This marks the end of an era for the company which was founded and has been chaired by Mr. Aamund from its inception.

Mr. Aamund, known as a sharp, knowledgeable and well-spoken character in the public debate, has pioneered the Danish biotech industry as the founder of several biotech companies, with Bavarian Nordic as one of the most successful to-date. The company has transformed into a fully-integrated, revenue-generating company that has achieved significant results over time and is well-positioned for future success.

The board of directors intends, if re-elected, to nominate Dr. Gerard van Odijk as the new chairman of the board.

Erik G. Hansen
Member of the Board since 2010. Re-elected in 2013 for a one-year term. Chairman of the audit committee. Independent. Mr. Hansen is a Danish national, born in 1952.

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

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

Peter Kürstein
Member of the board since 2012. Re-elected in 2013 for a one-year term. Independent. Mr. Kürstein is a Danish national, born in 1956.

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

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

Anders Gersel Pedersen
Member of the Board since 2010. Re-elected in 2013 for a one-year term. Independent. Dr. Pedersen is a Danish national, born in 1951.

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

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

Shares and warrants held by members of the Board

	Shareholdings			Warrants		
	Jan. 1, 2013	Changes during the year	Dec. 31, 2013	Jan. 1, 2013	Changes during the year	Dec. 31, 2013
Asger Aamund	1,804,537	-	1,804,537	31,184	(1,423)	29,761
Gerard van Odijk	4,000	-	4,000	31,184	(1,423)	29,761
Claus Braestrup	3,000	-	3,000	31,184	(1,423)	29,761
Erik G. Hansen	14,000	-	14,000	16,733	5,000	21,733
Peter Kürstein	6,250	-	6,250	5,000	5,000	10,000
Anders Gersel Pedersen	-	-	-	16,733	5,000	21.733

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

Executive Management

Anders Hedegaard
President and CEO

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

Ole Larsen
CFO, Executive Vice President

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

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

Dr. Breitmeyer joined Bavarian Nordic in February 2013. He previously served as Executive Vice President of Development and Chief Medical Officer of Cadence Pharmaceuticals Inc. Prior to that, he held executive positions in Applied Molecular Evolution Inc., a wholly-owned subsidiary of Eli Lilly and Co., Harvard Clinical Research Institute and Serono Laboratories Inc. Dr. Breitmeyer serves as board member of Zogenix, Inc. Dr. Breitmeyer received his M.D. and Ph.D. from Washington University School of Medicine, is board certified in Internal Medicine and Oncology and has held clinical and teaching positions at the Dana Farber Cancer Institute and Harvard Medical School. He is the author or co-author of numerous publications. Dr. Breitmeyer is an American national, born in 1953.

Paul Chaplin
Division President, Infectious Diseases, Executive Vice President

Dr. Chaplin joined Bavarian Nordic in 1999 and was appointed executive vice president in 2004. Prior to joining the Company, Dr. Chaplin worked for several years both in the UK and Australia developing vaccines against infectious diseases. Dr. Chaplin holds a Ph.D. in Immunology from Bristol University, and he is the general manager of Bavarian Nordic GmbH. He is the author or co-author of numerous publications. Dr. Chaplin is a British national, born in 1967.

Shares and warrants held by members of the Management

	Shareholdings			Warrants		
	Jan. 1, 2013	Changes during the year	Dec. 31, 2013	Jan. 1, 2013	Changes during the year	Dec. 31, 2013
Anders Hedegaard	5,500	-	5,500	161,166	7,883	169,049
Ole Larsen	3,000	-	3,000	118,373	5,913	124,286
James B. Breitmeyer	-	-	-	-	80,000	80,000
Paul Chaplin	11,800	-	11,800	118,373	5,913	124,286

STATEMENT BY MANAGEMENT ON THE ANNUAL REPORT

The Board of Directors and the Executive Board have today considered and approved the annual report of Bavarian Nordic A/S for the financial year January 1 - December 31, 2013.

The consolidated financial statements are presented in accordance with International Financial Reporting Standards as adopted by the EU. The parent financial statements are presented in accordance with the Danish Financial Statements Act. Further, the annual report is prepared in accordance with Danish disclosure requirements for listed companies.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at December 31, 2013 as well as of the results of their operations and cash flows for the financial year January 1 - December 31, 2013.

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

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

Kvistgaard, March 19, 2014

Corporate Management

Anders Hedegaard
President and CEO

Board of Directors

Asger Aamund
Chairman

Gerard van Odijk

Claus Braestrup

Erik G. Hansen

Peter Kürstein

Anders Gersel Pedersen

INDEPENDENT AUDITOR'S REPORTS

To the shareholders of Bavarian Nordic A/S

Report on the consolidated financial statements and parent financial statements
We have audited the consolidated financial statements and parent financial statements of Bavarian Nordic A/S for the financial year January 1 - December 31, 2013, which comprise the income statement, balance sheet, statement of changes in equity and notes, including the accounting policies, for the Group as well as the Parent, and the statement of comprehensive income and the cash flow statement of the Group. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies, and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

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

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

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

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

Our audit has not resulted in any qualification.

Opinion
In our opinion, the consolidated financial statements give a true and fair view of the Group's financial position at December 31, 2013, and of the results of its operations and cash flows for the financial year January 1 - December 31, 2013 in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

Further, in our opinion, the parent financial statements give a true and fair view of the Parent's financial position at December 31, 2013, and of the results of its operations for the financial year January 1 - December 31, 2013 in accordance with the Danish Financial Statements Act.

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

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

Copenhagen, March 19, 2014

Deloitte
Statsautoriseret Revisionspartnerselskab

Carsten Vaarby
State Authorised
Public Accountant

Jørgen Holm Andersen
State Authorised
Public Accountant

CONSOLIDATED FINANCIAL STATEMENTS

NOTES

INCOME STATEMENT FOR THE PERIOD JANUARY 1 – DECEMBER 31

DKK thousand	Note	2013	2012
Revenue	3	1,212,501	1,016,636
Production costs	4,8,9	484,705	513,553
Gross profit		**727,796**	**503,083**
Research and development costs	5,8,9	496,608	340,123
Distribution costs	6,8,9	40,782	39,568
Administrative costs	7,8,9,10	156,991	155,073
Total operating costs		**694,381**	**534,764**
Income before interest and tax (EBIT)		**33,415**	**(31,681)**
Financial income	11	6,612	8,921
Financial expenses	12	33,825	25,965
Income before company tax		**6,202**	**(48,725)**
Tax on income for the year	13	52,931	191,276
Net profit for the year		**(46,729)**	**(240,001)**
Earnings per share (EPS) – DKK			
Basic earnings per share of DKK 10	14	(1.8)	(9.2)
Diluted earnings per share of DKK 10	14	(1.8)	(9.2)

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

DKK thousand	Note	2013	2012
Net profit for the year		**(46,729)**	**(240,001)**
Items that might be reclassified to the income statement:			
Exchange rate adjustments, investments in subsidiaries		12,708	4,888
Fair value of financial instruments entered into to hedge future cash flow:			
Fair value adjustments of the year	22	732	8,158
Fair value adjustment transferred to revenue	3	-	6,211
Tax on other comprehensive income	13	(183)	(3,594)
Other comprehensive income after tax		**13,257**	**15,663**
Total comprehensive income		**(33,472)**	**(224,338)**

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

DKK thousand	Note	2013	2012
Income before interest and tax (EBIT)		**33,415**	**(31,681)**
Depreciation, amortization and impairment losses	9	46,219	56,451
Expensing (amortization) of IMVAMUNE development project		148,045	-
Share-based payment	8	12,343	16,861
Adjustment for other non-cash items		161	5,314
Changes in inventories		(4,449)	(10,275)
Changes in receivables		(18,843)	208,914
Changes in provisions		(16,554)	16,796
Changes in current liabilities		(28,249)	(226,929)
Cash flow from operations (operating activities)		**172,088**	**35,451**
Received financial income		6,555	10,317
Paid financial expenses		(17,669)	(18,832)
Exchange rate adjustments intercompany accounts		(12,032)	(4,289)
Paid corporation taxes		(1,858)	(2,547)
Cash flow from operating activities		**147,084**	**20,100**
Investments in and additions to intangible assets		(111,025)	(24,341)
Investments in property, plant and equipment		(44,410)	(20,866)
Disposal of property, plant and equipment		1,847	128
Investments in/disposal of financial assets		(98)	(335)
Investments in/disposal of securities		7,179	116,375
Cash flow from investment activities		**(146,507)**	**70,961**
Payment on mortgage and construction loan		(7,105)	(9,004)
Repurchase of stock options in subsidiary		-	(599)
Cash flow from financing activities		**(7,105)**	**(9,603)**
Cash flow of the year		**(6,528)**	**81,458**
Cash as of January 1		353,545	272,107
Currency adjustments January 1		(218)	(20)
Cash as of December 31		**346,799**	**353,545**
Securities - highly liquid bonds		185,282	196,359
Credit lines		120,000	120,000
Cash preparedness		**652,081**	**669,904**

STATEMENT OF FINANCIAL POSITION – ASSETS AS OF DECEMBER 31

DKK thousand	Note	2013	2012
Non-current assets			
Acquired patents and licenses		20,517	17,110
Software		3,208	5,133
IMVAMUNE development project		76,955	122,723
Other intangible assets in progress		3,949	3,519
Intangible assets	15	**104,629**	**148,485**
Land and buildings		178,085	183,655
Leasehold improvements		1,293	1,264
Plant and machinery		82,796	91,567
Fixtures and fittings, other plant and equipment		21,265	27,271
Assets under construction		39,307	16,777
Property, plant and equipment	16	**322,746**	**320,534**
Other receivables	19	831	733
Financial assets		**831**	**733**
Deferred tax assets	13	**123,631**	**174,508**
Total non-current assets		**551,837**	**644,260**
Current assets			
Inventories	17	**233,651**	**229,201**
Trade receivables	18	110,117	56,592
Tax receivables		-	1,475
Other receivables	19	12,614	10,070
Prepayments	20	11,906	47,679
Receivables		**134,637**	**115,816**
Securities	22	185,282	196,359
Cash and cash equivalents		346,799	353,545
Securities, cash and cash equivalents		**532,081**	**549,904**
Total current assets		**900,369**	**894,921**
Total assets		**1,452,206**	**1,539,181**

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

DKK thousand	Note	2013	2012
Equity			
Share capital		260,944	260,944
Retained earnings		652,021	683,032
Other reserves		63,325	55,700
Equity		**976,290**	**999,676**
Liabilities			
Provisions	23	14,830	17,262
Credit institutions	24	71,834	36,981
Non-current liabilities		**86,664**	**54,243**
Credit institutions	24	8,481	52,397
Prepayment from customers	25	150,425	195,612
Trade payables		113,510	104,167
Company tax		496	2,156
Provisions	23	2,273	14,790
Other liabilities	21	114,067	116,140
Current liabilities		**389,252**	**485,262**
Total liabilities		**475,916**	**539,505**
Total equity and liabilities		**1,452,206**	**1,539,181**

Financial risks and financial instruments	22
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Share-based payment	27
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Significant events after the balance sheet date	29

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STATEMENT OF CHANGES IN EQUITY

DKK thousand	Share-capital	Retained earnings	Reserves for currency adjustment	Reserves for fair value of financial instruments	Share-based payment	Equity
Equity as of January 1, 2013	**260,944**	**683,032**	**(6,341)**	**(549)**	**62,590**	**999,676**
Comprehensive income for the year						
Net profit for the year	-	(46,729)	-	-	-	(46,729)
Other comprehensive income						
Exchange rate adjustments, investments in subsidiaries	-	-	12,708	-	-	12,708
Fair value of financial instruments	-	-	-	549	-	549
Total comprehensive income for the year	**-**	**(46,729)**	**12,708**	**549**	**-**	**(33,472)**
Transactions with owners						
Share-based payment	-	-	-	-	10,086	10,086
Warrant program expired	-	14,515	-	-	(14,515)	-
Adjustment	-	1,203	-	-	(1,203)	-
Total transactions with owners	**-**	**15,718**	**-**	**-**	**(5,632)**	**10,086**
Equity as of December 31, 2013	**260,944**	**652,021**	**6,367**	**-**	**56,958**	**976,290**

The share capital comprises a total of 26,094,361 shares of DKK 10 as of December 31, 2013 (26,094,361 shares). The shares are not divided into share classes, and each share carries one vote.

STATEMENT OF CHANGES IN EQUITY

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

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

Transactions on the share capital have been the following:

DKK thousand	2013	2012	2011	2010	2009
Share capital as of January 1	260,944	260,944	129,620	79,517	78,156
Issue of new shares	-	-	131,324	50,103	1,361
Share capital as of December 31	**260,944**	**260,944**	**260,944**	**129,620**	**79,517**

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

1 Significant accounting policies and significant accounting estimates, assumptions and uncertainties

Bavarian Nordic remains focused on making its financial reporting as simple and clear as possible. In 2013, a new note to the financial statements has been introduced showing the Group's total research and development costs (note 5), and the presentation of the accounting policies and description of significant accounting estimates are presented together with the presentation of figures and the supplementary explanations in the individual notes in order to establish a direct correlation between the accounting policies and the figures presented. Finally, we have decided to prepare the parent company financial statements according to the Danish Financial Statements Act and to prepare these financial statements separately at the end of this annual report. See pages 63 – 74.

Basis of preparation
The consolidated financial statements for Bavarian Nordic have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and Danish disclosure requirements for the annual reports of listed companies. Danish disclosure requirements for the presentation of annual reports are imposed by the Statutory Order on Adoption of IFRS issued under the Danish Financial Statements Act and by the NASDAQ OMX Copenhagen.

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

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

The annual report is presented on a historical cost basis, apart from derivative financial instruments, securities and liability relating to phantom shares, which are measured at fair value.

The accounting policies have been consistently applied for the financial year and for the comparative figures. In the comparative figures for 2012 a minor reclassification has been made between research and development costs and administrative costs. The reclassification has no effect on the profit or equity.

Implementation of new and revised standards and interpretations
The International Accounting Standards Board (IASB) has issued new standards and revisions to existing standards and new interpretations which are mandatory for accounting periods commencing on or after January 1, 2013. The implementation of new or revised standards and interpretations that are in force have not changed the accounting policies and thus not affected net profit for the year or the financial position.

The implementation of the amended IAS 1 "Presentation of Financial Statements, Presentation of other comprehensive income" means that items in other comprehensive income are divided into items that at a later stage may be reclassified to the income statement (recycling) in accordance with other standards, respectively items which are not subsequently reclassified to the income statement. The implementation does not affect the total amount of other comprehensive income.

The implementation of IFRS 13 "Fair Value Measurement" means that additional information on the fair value of financial instruments is provided in the Annual Report.

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

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

Accounting policies
The accounting policies for specific line items are described in the notes to the financial statements. Set out below is a description of the accounting policies for the basis of consolidation, foreign currency translation and the cash flow statement, and the definitions of ratios are also included.

Recognition and measurement
Income is recognized in the income statement when generated. Assets and liabilities are recognized in the balance sheet when it is probable that any future economic benefit will flow to or from the Company and the value can be reliably measured. On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described in the description of the accounting policies in the respective notes to the financial statements.

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

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

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

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

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

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

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

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

Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Exchange differences between the exchange rate at the date of the transaction and the exchange rate at the date of payment or the balance sheet date, respectively, are recognized in the income statement under financials. Property, plant and equipment and intangible assets, inventories and other 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 currency instruments are recognized at the hedged exchange rate. See note 22 "Financial risks and financial instruments".

On recognition in the consolidated financial statements of subsidiaries whose financial statements are presented in a functional currency other than Danish kroner (DKK), the income statements are translated at the exchange rates ruling at beginning of the respective months. Balance sheet items are translated at the exchange rates at the balance sheet date.

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

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

Cash flow statement

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

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

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

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

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

Financial definitions

Earnings per share and diluted earnings per share:

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

In accordance with IAS 33.41, the average number of shares, when calculating diluted earnings, equal earnings per share, as the inclusion of potential shares would improve earnings per share as net profit for the year is negative.

Net asset value per share:

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

Share price/Net asset value per share:

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

Equity share, %:

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

Earnings per share and diluted earnings per share are calculated as specified in note 14.

The ratios are calculated and applied in accordance with "Anbefalinger og Nøgletal 2010" (Recommendations and Financial Ratios 2010) issued by the Danish Society of Financial Analysts. The ratios are stated on page 8.

Significant accounting estimates, assumptions and uncertainties

In the preparation of the consolidated financial statements, management makes a number of accounting estimates which form the basis for the presentation, recognition and measurement of the Group's assets and liabilities.

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

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

- Deferred tax asset (note 13)
- Capitalization of development costs (note 15)
- Useful lives of property, plant and equipment (note 16)
- Production overheads (note 17)
- Provisions (note 23)

Please refer to the specific notes for further description of the significant accounting estimates and assumptions used.

Change in accounting estimates

No material changes have been made in accounting estimates in 2013.

2 Segment reporting

Accouting policies

Bavarian Nordic is divided into two business areas: Cancer Immunotherapy and Infectious Diseases each led by its own Division President reporting to the President and CEO of the Company. The internal financial reporting contains separate sections for the two operating segments as well as a section for Holding (not a reportable segment). Holding covers costs of group management, investor relations, group finance, IT and legal. A large part of these costs are covered by the two operating segments through internal allocations.

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

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

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

2013

DKK thousand	Cancer Immuno-therapy	Infectious Diseases	Holding	Total
IMVAMUNE sale	-	839,143	-	839,143
IMVAMUNE sale, development results	-	172,988	-	172,988
Contract work	-	200,370	-	200,370
Revenue	-	1,212,501	-	1,212,501
Depreciation, amortization and impairment losses	6,661	34,949	4,609	46,219
Income before interest and tax	(312,709)	432,952	(86,828)	33,415
Purchase/sale () of internal services	510	(510)	-	-
Distribution of the holding costs	11,199	46,895	(58,094)	-
Income before interest and tax after allocations	**(324,418)**	**386,567**	**(28,734)**	**33,415**
Investments	8,018	145,166	2,251	155,435

Revenue for the following customers represent more than 10% of total revenue in Infectious Diseases:
Biomedical Advanced Research and Development Authority (BARDA), USA, DKK 1,199.3 million

2012

DKK thousand	Cancer Immuno-therapy	Infectious Diseases	Holding	Total
IMVAMUNE sale	-	883,353	-	883,353
Contract work	-	133,283	-	133,283
Revenue	-	1,016,636	-	1,016,636
Depreciation, amortization and impairment losses	14,802	34,562	7,087	56,451
Income before interest and tax	(275,433)	333,789	(90,037)	(31,681)
Purchase/sale () of internal services	(2,521)	2,521	-	-
Distribution of the holding costs	12,542	49,400	(61,942)	-
Income before interest and tax after allocations	**(285,454)**	**281,868**	**(28,095)**	**(31,681)**
Investments	7,052	33,233	4,922	45,207

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

DKK thousand	2013	2012
Geographic split of revenue:		
Denmark	-	200
USA	1,210,712	1,001,039
Canada	1,506	14,941
Other geographic markets	283	456
Revenue	**1,212,501**	**1,016,636**

3 Revenue

Accounting policies

Revenue comprises the value of sales of products and income derived from development contracts including sale of delivered development results under the IMVAMUNE development project. Revenue is recognized in the year in which any significant risks and rewards of ownership of the goods or right to the services are transferred and the Company no longer retains managerial responsibility for, or control of, the goods sold.

Revenue from development contracts are recognized in line with the execution and delivery of the work.

DKK thousand	2013	2012
IMVAMUNE sale	839,143	883,353
IMVAMUNE sale, development results	172,988	-
Contract work	200,370	133,283
Sale of services	373,358	133,283
Revenue	**1,212,501**	**1,016,636**
Total revenue includes:		
Fair value adjustment transferred from equity concerning financial instruments entered into to hedge revenue	-	(6,211)

The company has received DKK 215 million in payment for development results under the IMVAMUNE development contract. Of this amount, DKK 173 million are shown in a separate line, relating to development results delivered in previous financial years, for which the final right to receive payment did not vest until the 2013, and DKK 42 million are included in IMVAMUNE sales, as the company's final right to payment for these occurred in step with the sale of IMVAMUNE doses in 2013. Meanwhile, the company expensed (amortized) DKK 148 million of the capitalized costs relating to the IMVAMUNE development project. The costs are recognized in research and development costs, see notes 5 and 15.

4 Production costs

Accounting policies

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

DKK thousand	2013	2012
Cost of goods sold, IMVAMUNE sale	328,077	416,792
Contract costs	105,250	82,024
Other production costs	51,378	14,737
Production costs	**484,705**	**513,553**

5 Research and development costs

Accounting policies

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

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

Research costs are expensed in the year they occur.

Development costs are generally expensed in the year they occur. In line with industry custom, capitalization of development costs does not begin until it is deemed realistic that the product can be completed and marketed and it is highly likely that a marketing authorization will be received. In addition, there must be sufficient certainty that the future earnings to the Company will cover not only production costs, direct distribution and administrative costs, but also the development costs.

However, the Company has chosen to capitalize the development costs attributable to the development of IMVAMUNE, as the RFP-3 contract with the U.S. Government initially comprised the delivery of 20 million doses and an option to buy additional doses. For this reason, capitalization of the development costs attributable to this development project began as from the date of regulatory approval of the clinical trial.

Capitalized development costs regarding the registration of IMVAMUNE under the RFP-3 contract with the U.S. Government are expensed (amortized) and recognized in the income statement under research and development costs when the related income on delivery of the development results have been earned and recognized as revenue. When the development has been completed and IMVAMUNE has been approved by the FDA, the remaining carrying amount will be amortized in step with the delivery of doses over the expected economic life of the asset.

5 Research and development costs – continued

Grants that compensate the Group for research and development expenses incurred, which are recognized directly in the income statement, are set off against the costs of research and development at the time when a final and binding right to the grant has been obtained.

DKK thousand	2013	2012
Research and development costs occured this year	556,090	437,310
Of which:		
Contract costs recognized as production costs (note 4)	(105,250)	(82,024)
Capitalized development costs (note 15)	(102,277)	(15,163)
	348,563	340,123
Expensing (amortization) of prior-year costs attributable to the IMVAMUNE development project (note 15)	148,045	-
Research and development costs	**496,608**	**340,123**

6 Distribution costs

Accounting policies

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

7 Adminstrative costs

Accounting policies

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

8 Staff costs

DKK thousand	2013	2012
Wages and salaries	272,893	273,036
Contribution based pension	18,781	18,952
Social security expenses	12,153	11,411
Other staff expenses	24,763	22,864
Share-based payment	12,343	16,861
Staff costs	**340,933**	**343,124**
Staff expenses are distributed as follows:		
Production costs	122,446	122,428
Research and development costs	107,259	122,641
Distribution costs	15,031	12,492
Administrative costs	90,460	79,371
Capitalized salaries	5,737	6,192
Staff costs	**340,933**	**343,124**
Average number of employees converted to full-time	441	448
Number of employees as of December 31 converted to full-time	426	450

The Group only has defined contribution plans and pays regular fixed contributions to independent pension funds and insurance companies.

Staff costs include the following costs:

Board of Directors:		
Remuneration to the Board of Directors	1,750	1,400
Share-based payment	685	1,934
President of the Company:		
Salary	4,798	4,408
Paid bonus	2,358	1,800
Other employee benefits	195	183
Contribution based pension	-	-
Share-based payment	739	1,556
Other group management:		
Salaries	9,275	7,823
Paid bonus	4,068	3,232
Other employee benefits	939	936
Contribution based pension	368	343
Share-based payment	1,276	2,974
Severance costs	3,543	-
Total management remuneration	**29,994**	**26,589**

In 2013 Group management included CEO Anders Hedegaard (President of the Company), CFO Ole Larsen, Division President Infectious Diseases Paul Chaplin and Division President Cancer Immunotherapy James B. Breitmeyer who replaced Reiner Laus in February 2013.

Severance pay to Reiner Laus (DKK 3.5 million) includes share-based payment of DKK 0.8 million.

Provisions for incentive agreements with Paul Chaplin and James B. Breitmeyer are recognized in staff costs, while provisions relating to Reiner Laus' incentive agreement are recognized in other administrative costs. See note 23 for further details.

Incentive programs for management and other employees are disclosed in note 27.

Members of the group management have contracts of employment containing standard terms for members of the group management of Danish listed companies, including the periods of notice that both parties are required to give and competition clauses. If a contract of employment of a member of the group management is terminated by the Company without misconduct on the part of such member, the member of the group management is entitled to compensation, which, depending on the circumstances, may amount to a maximum of 12-18 months' remuneration. In case of takeover, the compensation can amount to 24-36 months' remuneration.

9 Depreciation, amortization and impairment losses

DKK thousand	2013	2012
Depreciation, amortization and impairment losses included in:		
Production costs	31,551	32,505
Research and development costs	6,252	14,578
Distribution costs	15	8
Administrative costs	8,401	9,360
Depreciation, amortization and impairment losses	**46,219**	**56,451**
Hereof profit ()/loss from disposed fixed assets	2,368	45

The losses recognized in 2013 are mainly related to sale of assets from the facility in Berlin.

10 Fees to auditor appointed at the annual general meeting

DKK thousand	2013	2012
Statutory audit of annual accounts	761	841
Other assurance services	120	121
Tax advisory	550	654
Other services	225	163
Fees	**1,656**	**1,779**

11 Financial income

Accounting policies

Interest income is recognized in the income statement at the amounts relating to the financial year. Financial income also includes net positive value adjustments of financial instruments and securities as well as net currency gains.

DKK thousand	2013	2012
Financial income from bank and deposit contracts	29	667
Interest income from financial assets not measured at fair value in the income statement	29	667
Financial income from securities	6,583	7,017
Fair value adjustments on securities	-	1,237
Financial income	**6,612**	**8,921**

12 Financial expenses

Accounting policies

Interest expenses are recognized in the income statement at the amounts relating to the financial year. Financial expenses also include net negative value adjustments of financial instruments and securities, net currency losses and adjustment of the net present value of provisions.

DKK thousand	2013	2012
Interest expenses on debt	4,889	5,668
Interest expenses on financial liabilities not measured at fair value in the income statement	4,889	5,668
Fair value adjustments on securities	4,012	-
Adjustment of net present value of provisions	1,605	2,291
Net loss on derivative financial instruments at fair value in the income statement (held for trading)	1,133	12,925
Net foreign exchange losses	22,186	5,081
Financial expenses	**33,825**	**25,965**

13 Tax for the year

Accounting policies

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

The tax effect of costs that have been recognized directly in equity is recognized in equity under the relevant items.

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

Deferred tax is measured using the balance sheet liability method on all temporary differences between accounting values and tax values. Deferred tax liabilities arising from temporary tax differences are recognized in the balance sheet as a provision.

Deferred tax assets arising from temporary deductible differences and tax losses carried forward are recognized when it is probable that they can be realized by offsetting them against tax on future income within a few years. At each balance sheet date, it is assessed whether it is likely that there will be sufficient future taxable income for the deferred tax asset to be utilized.

Deferred tax is calculated at the tax rates applicable on the balance sheet date for the income years in which the tax asset is expected to be utilized.

Significant accounting estimates

Management is required to make an estimate in the recognition of deferred tax assets. The assessment is made based on budgets and forecasts approved by the Board of Directors that include revenue from existing and expected future contracts for the sale of IMVAMUNE and other development projects to the U.S. Government.

The write-down of DKK 182 million will be reassessed once a year, as a minimum.

DKK thousand	2013	2012
Tax recognized in the income statement		
Current tax on profit for the year	1,443	2,229
Change in deferred tax	10,990	189,047
Adjustment of deferred tax due to changed tax rates	37,961	-
Adjustments to current tax for previous years	793	-
Adjustments to deferred tax for previous years	1,744	-
Tax for the year recognized in the income statement	**52,931**	**191,276**

DKK thousand	2013	2012
Tax on income for the year is explained as follows:		
Income before company tax	6,202	(48,725)
Calculated tax (25%) on income before company tax	1,551	(12,181)
Tax effect on:		
Different tax percentage in foreign subsidiaries	250	(424)
Tax value of financial losses in foreign subsidiaries, not recognized	9,230	12,557
Permanent differences	1,402	4,142
Write-down on tax losses carried forward	-	182,000
Adjustment of deferred tax due to changed tax rates	37,961	-
Adjustments to deferred tax for previous years	1,744	-
Adjustment of deferred tax calculation previous years	-	5,168
Adjustments to current tax for previous years	793	-
Other corrections	-	14
Tax on income for the year	**52,931**	**191,276**
Tax recognized in the comprehensive income		
Tax on fair value adjustment of financial instruments entered into to hedge future cash flow	183	3,594
Tax for the year recognized in the comprehensive income	**183**	**3,594**

Deferred tax

Recognized deferred tax assets relate to temporary differences between valuations for accounting and taxation purposes and tax losses carried forward:

Property, plant and equipment	3,034	2,189
Intangible assets	(15,081)	(17,940)
Obligations	6,574	8,669
Inventories	27	3,277
Accrued project costs	319	(119)
Prepayment from customers	36,854	48,903
Tax losses carried forward	273,904	311,529
Write-down on tax losses carried forward	(182,000)	(182,000)
Recognized deferred tax assets	**123,631**	**174,508**

Deferred tax assets arising from temporary deductible differences and tax losses carried forward are recognized to the extent they are expected to be offset against future taxable income within a few years. Recognized tax losses carried forward relate to Bavarian Nordic A/S and the two danish subsidiaries Aktieselskabet af 1. juni 2011 I and BN Infectious Diseases A/S.

In the calculation of deferred tax as of December 31, 2013, the Company has taken into account the gradual reduction of the Danish corporation tax rate from 25% in 2013 to 22% in 2016. This reduction means that the calculated deferred tax as of December 31, 2013 is DKK 38 million lower than it would have been, had the 25% tax rate been retained. The main reason is that it is expected that most of the

Company's tax losses carried forward will not be utilized until 2016 or later years.

Due to the Danish Parliament's adoption in June 2012 of Bill no. L173 that restricts the use of tax losses carried forward, the Company partially wrote down the deferred tax asset by DKK 182 million in 2012. Based on budgets and forecasts that include existing and expected future contracts for the sale of IMVAMUNE and other development projects to the U.S. Government, management believes that the write-down of DKK 182 million should be retained as of December 31, 2013.

The Company retains the right to use the value of the tax loss of DKK 182 million that has been written down.

The tax value of non-recognized tax losses and tax credits carried forward in subsidiaries, subject to certain limitations, amounts to DKK 158.6 million (DKK 144.8 million).

14 Earnings per share (EPS)

Accounting policies
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.

DKK thousand	2013	2012
Result for the Parent Company´s shareholders	(46,729)	(240,001)
Average number of shares (thousand units)	26,094	26,094
Earnings per share of DKK 10	(1.8)	(9.2)
Diluted earnings per share of DKK 10	(1.8)	(9.2)

In accordance with IFRS 33.41, the weighted average number of shares for the purpose of calculating diluted earnings, equals earnings per share, as the inclusion of potential shares would improve earnings per share as net profit for the year is negative. As of December 31, 2013, the following outstanding warrants were excluded in the calculation of average number of shares for the purpose of calculating diluted earnings per share:

2013-programs	651,000	-
2012-programs	478,900	502,875
2011-program	363,650	372,550
2010-programs	410,883	424,347
2009-programs	368,484	397,375
2008-program	-	244,062
Outstanding warrants, cf. note 27	**2,272,917**	**1,941,209**

15 Intangible assets

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

Capitalized development costs regarding the registration of IMVAMUNE under the RFP-3 contract with the U.S. Government are expensed (amortized) and recognized in the income statement under research and development costs when the related income on delivery of the development results have been earned and recognized as revenue, which may be before the completion of the development project and obtaining of approval. When the development has been completed and IMVAMUNE has been approved by the FDA, the remaining carrying amount will be amortized in step with the delivery of doses over the expected economic life of the asset.

Expensing (amortization) of capitalized development costs prior to the completion of the development project is shown as disposals under cost. Amortization made after obtaining approval is shown under accumulated amortization.

Purchased rights or rights acquired in connection with acquisitions which fulfil the requirements for recognition are measured at cost. Amortization is provided on a straight-line basis over the useful economic lives of the assets, max. 15 years.

Software is amortized on a straight-line basis over 3 years.

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

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

Significant accounting estimates
Management has assessed that development costs relating to the registration of IMVAMUNE under the RFP-3 contract with the U.S. Government continue to meet the conditions for capitalization.

In 2013, the company started expensing (amortizing) capitalized development costs under the IMVAMUNE project, as the company is receiving payment for the delivered development results as from 2013 and recognizing payments as revenue when received. Management believes that the development results have been delivered at the time when the company's right to payment has vested, and that the delivered development results represent a separate value to the U.S. Government. Accordingly, expensing (amortization) of the development costs is commenced before completion of the project and approval of IMVAMUNE.

15 Intangible assets – continued

2013

DKK thousand	Acquired patents and licenses	Software	IMVAMUNE development project	Other intangible assets in progress	Total
Costs as of January 1, 2013	25,741	51,592	122,723	3,519	203,575
Additions	5,954	492	102,277	2,302	111,025
Transfer	-	667	-	(667)	-
Transfer to Property, plant and equipment	-	-	-	(1,205)	(1,205)
Disposals	-	(237)	(148,045)	-	(148,282)
Exchange rate adjustments	(822)	(16)	-	-	(838)
Cost as of December 31, 2013	**30,873**	**52,498**	**76,955**	**3,949**	**164,275**
Amortization as of January 1, 2013	8,631	46,459	-	-	55,090
Amortization	1,894	3,083	-	-	4,977
Disposals	-	(237)	-	-	(237)
Exchange rate adjustments	(169)	(15)	-	-	(184)
Amortization as of December 31, 2013	**10,356**	**49,290**	**-**	**-**	**59,646**
Carrying amount as of December 31, 2013	**20,517**	**3,208**	**76,955**	**3,949**	**104,629**
Geographical split of intangible assets - 2013					
Denmark					84,474
Germany					75
USA					20,080
Total intangible assets					**104,629**

IMVAMUNE development project includes development costs related to the registration of IMVAMUNE under the RFP-3 contract. The disposals relates to delivery of development results, see the accounting policies described above.

Other intangible assets in progress include investments in software.

2012

DKK thousand	Acquired patents and licenses	Software	IMVAMUNE development project	Other intangible assets in progress	Total
Costs as of January 1, 2012	20,283	49,752	107,560	1,841	179,436
Additions	5,659	907	15,163	2,612	24,341
Transfer	-	934	-	(934)	-
Exchange rate adjustments	(201)	(1)	-	-	(202)
Cost as of December 31, 2012	**25,741**	**51,592**	**122,723**	**3,519**	**203,575**
Amortization as of January 1, 2012	7,225	40,285	-	-	47,510
Amortization	1,450	6,175	-	-	7,625
Exchange rate adjustments	(44)	(1)	-	-	(45)
Amortization as of December 31, 2012	**8,631**	**46,459**	**-**	**-**	**55,090**
Carrying amount as of December 31, 2012	**17,110**	**5,133**	**122,723**	**3,519**	**148,485**
Geographical split of intangible assets - 2012					
Denmark					132,102
Germany					139
USA					16,244
Total intangible assets					**148,485**

16 Property, plant and equipment

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

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

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

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

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

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

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

Significant accounting estimates
The 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 2013 did not give rise to any changes as compared with 2012.

2013

DKK thousand	Land and buildings	Leasehold improvement	Plant and machinery	Fixtures and fittings, other plant and equipment	Assets under construction	Total
Costs as of January 1, 2013	236,710	22,251	237,829	100,477	16,777	614,044
Additions	1,097	880	1,288	3,901	37,244	44,410
Transfer	5,359	-	7,682	1,616	(14,657)	-
Transfer from intangible assets	-	-	1,205	-	-	1,205
Disposals	-	(10,564)	(69)	(28,620)	(54)	(39,307)
Exchange rate adjustments	-	(130)	1	(583)	(3)	(715)
Cost as of December 31, 2013	**243,166**	**12,437**	**247,936**	**76,791**	**39,307**	**619,637**
Depreciation and impairment losses as of January 1, 2013	53,055	20,987	146,262	73,206	-	293,510
Depreciation	12,026	606	18,922	7,320	-	38,874
Disposals	-	(10,332)	(44)	(24,556)	-	(34,932)
Exchange rate adjustments	-	(117)	-	(444)	-	(561)
Depreciation and impairment losses as of December 31, 2013	**65,081**	**11,144**	**165,140**	**55,526**	**-**	**296,891**
Carrying amount as of December 31, 2013	**178,085**	**1,293**	**82,796**	**21,265**	**39,307**	**322,746**

Geographical split of property, plant and equipment - 2013	
Denmark	314,845
Germany	2,550
USA	5,351
Total property, plant and equipment	**322,746**

Property, plant and equipment under construction mainly includes investment related to the PROSTVAC facility in Kvistgaard (DKK 31.1 million).

The disposals primarily relates to close down of the facility in Berlin.

Mortgage loans of DKK 37 million are secured by mortgages totaling DKK 50 million on the property Bøgeskovvej 9/Hejreskovvej 10A, Kvistgaard. In addition, as of December 31, 2013, mortgage deeds for a total of DKK 75 million have been issued in security of a construction loan of DKK 43 million.

The carrying amount of assets mortgaged in security of mortgage and construction loans is DKK 261 million.

16 Property, plant and equipment – continued

2012

DKK thousand	Land and buildings	Leasehold improvement	Plant and machinery	Fixtures and fittings, other plant and equipment	Assets under construction	Total
Costs as of January 1, 2012	234,728	22,080	236,915	90,482	9,717	593,922
Additions	1,869	157	336	9,472	9,032	20,866
Transfer	113	-	578	1,131	(1,822)	-
Disposals	-	-	-	(591)	(154)	(745)
Exchange rate adjustments	-	14	-	(17)	4	1
Cost as of December 31, 2012	**236,710**	**22,251**	**237,829**	**100,477**	**16,777**	**614,044**
Depreciation as of January 1, 2012	41,680	12,249	126,815	64,398	-	245,142
Depreciation	11,375	2,632	19,447	7,314	-	40,768
Impairment losses	-	6,108	-	1,905	-	8,013
Disposals	-	-	-	(417)	-	(417)
Exchange rate adjustments	-	(2)	-	6	-	4
Depreciation as of December 31, 2012	**53,055**	**20,987**	**146,262**	**73,206**	**-**	**293,510**
Carrying amount as of December 31, 2012	**183,655**	**1,264**	**91,567**	**27,271**	**16,777**	**320,534**
Geographical split of property, plant and equipment - 2012						
Denmark						307,546
Germany						7,391
USA						5,597
Total property, plant and equipment						**320,534**

Property, plant and equipment under construction mainly includes investment in equipment for production in Kvistgaard (DKK 11,6 million).

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

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

17 Inventories

Accounting policies

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

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

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

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.

Significant accounting estimates

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

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

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

DKK thousand	2013	2012
Raw materials and supply materials	14,901	25,336
Work in progress	237,272	183,343
Manufactured goods and commodities	50,008	51,985
Write-down on inventory	(68,530)	(31,463)
Inventories	**233,651**	**229,201**
Write-down on inventory as of January 1	(31,463)	(55,408)
Write-down for the year	(53,913)	(19,469)
Use of write-down	2,475	35,999
Reversal of write-down	14,371	7,415
Write-down on inventory as of December 31	**(68,530)**	**(31,463)**
Cost of goods sold amounts to, cf. note 4	328,077	416,792

18 Trade receivables

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

DKK thousand	2013	2012
Trade receivables from IMVAMUNE sale	88,790	36,208
Trade receivables from contract work	21,327	20,384
Trade receivables	**110,117**	**56,592**

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

19 Other receivables

Accounting policies
See note 18.

DKK thousand	2013	2012
Deposits	831	733
Receivable VAT and duties	8,571	5,381
Interest receivables	2,955	3,126
Other receivables	1,088	1,563
Other receivables	**13,445**	**10,803**
Classified as:		
Non-current assets	831	733
Current assets	12,614	10,070
Other receivables	**13,445**	**10,803**

20 Prepayments

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

DKK thousand	2013	2012
Prepayments filling costs	-	35,094
Accrued project costs	1,301	476
Other prepayments	10,605	12,109
Prepayments	**11,906**	**47,679**

21 Other liabilities

Accouting policies
Derivative financial instruments and liability relating to phantom shares are measured at fair value.

Other financial liabilities are measured at initial recognition at fair value less any transaction costs. Subsequent other financial liabilities are measured at amortized cost using the effective interest method, whereby the difference between proceeds and the nominal value is recognized in the income statement as a financial expense over the period.

DKK thousand	2013	2012
Derivative financial instruments at fair value in the equity	-	732
Derivative financial instruments at fair value in the income statement	733	18,220
Liability relating to phantom shares	2,747	489
Payable salaries, holiday accrual etc.	58,402	51,032
Other accrued costs	52,185	45,667
Other liabilities	**114,067**	**116,140**

For a further description of financial instruments see note 22. The phantom share programs are descriped in note 27.

22 Financial risks and financial instruments

Accounting policies

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 based on the official exchange rates, market interest rates and other market data such as volatility adjusted for the special characteristics of each instrument.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as fair value hedges of a recognized asset or a recognized liability are recognized in the income statement together with any changes in the value of the hedged asset or hedged liability. Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as effective hedges of future transactions are recognized as comprehensive income. The ineffective portion is recognized immediately in the income statement. When the hedged transactions are realized, cumulative changes are recognized as part of the cost of the transactions in question.

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

Securities

Securities consist of listed bonds, which are measured at fair value as of the balance sheet date. Bonds with a maturity of less than three months on the date of acquisition are recognized in the line item "Cash and cash equivalents". Bavarian Nordic's portfolio of securities is treated as "financial items at fair value through profit or loss", as the portfolio is accounted for and valued on the basis of the fair value in compliance with Bavarian Nordic's investment policy.

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

DKK thousand	2013	2012
Categories of financial instruments		
Trade receivables	110,117	56,592
Other receivables	12,614	10,070
Cash and cash equivalents	346,799	353,545
Loan and receivables	**469,530**	**420,207**
Securities	185,282	196,359
Financial assets measured at fair value in the income statement	**185,282**	**196,359**
Derivative financial instruments to hedge future cash flows (interest)	-	732
Financial liabilities used as hedging instruments	**-**	**732**
Mortgage debt	36,981	38,708
Bank debt	43,334	50,670
Trade payables	113,510	104,167
Other liabilities	110,587	96,699
Financial liabilities measured at amortized cost	**304,412**	**290,244**
Derivative financial instruments at fair value in the income statement (held for trading, currency)	733	18,220
Liability relating to phantom shares	2,747	489
Financial liabilities measured at fair value in the income statement	**3,480**	**18,709**

Policy for managing financial risks

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

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

Market risks

The Group is exposed to interest rate and foreign exchange risks as described below. Management believes that the Group is not sensitive to price risks as its raw material purchases make up a very modest part of its total production costs.

Interest rate risk

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.

Exchange rate 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. Regular assessments are made of whether the remaining net position should be hedged by forward exchange contracts.

The exposure to EUR is not hedged as management believes that fluctuations in EUR are limited and, thus, do not have a significant impact on financial performance.

Exchange rate risks in respect of recognized financial assets and liabilities

The Group's exposure to currency is shown below.

DKK thousand	Cash and cash equivalents, securities	Receivables	Liabilities	Net position	Covered	Non-secure net position
2013						
EUR	4,992	1,214	(71,549)	(65,343)	-	(65,343)
USD	137,652	110,806	(124,963)	123,495	-	123,495
2012						
EUR	1,024	2,155	(29,258)	(26,079)	-	(26,079)
USD	90,948	56,677	(128,764)	18,861	-	18,861

Sensitivity analysis on exchange rates

The table below shows the net effect it would have had on equity if the year-end exchange rates of USD and EUR had been 15% or 1%, respectively, higher than the actual exchange rates, and the net effect on profit for the year if the exchange rates of USD and EUR had been 15% or 1%, respectively, higher during the whole year than the actual exchange rates.

DKK thousand	Likely change in exchange rate	Hypothetical change in equity	Hypothetical change in profit
2013			
Change if higher USD-rate than actual rate	15%	(17,435)	180,196
Change if higher EUR-rate than actual rate	1%	34	(1,739)
2012			
Change if higher USD-rate than actual rate	15%	(26,481)	123,753
Change if higher EUR-rate than actual rate	1%	341	(3,192)

Hedging of expected future cash flows

So far, the exposure to interest rate fluctuations on the floating rate long-term construction loan denominated in USD has been hedged by an interest rate swap. In connection with the renegotiation of the USD construction loan in the summer of 2013, it was decided not to take out a new interest rate swap as the Company currently does not expect the floating rate to increase significantly. Regular assessments are made of whether to hedge this exposure again.

22 Financial risks and financial instruments – continued

	2013			2012		
DKK thousand	Contract amount based on agreed rates	Fair value as of December 31	Fair value adjustment recognized in other comprehensive income	Contract amount based on agreed rates	Fair value as of December 31	Fair value adjustment recognized in other comprehensive income
Interest rate swap						
USD - fixed rate 2.3046% p.a.	-	-	732	50,672	(732)	816
Forward currency contract						
Sale of USD 0 million (USD 46 million)	-	-	-	-	-	7,383
Total		**-**	**732**		**(732)**	**8,199**

Derivative financial instruments not designated as hedge accounting

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

	2013			2012		
DKK thousand	Residual maturity	Contract amount based on agreed rates	Fair value as of December 31	Residual maturity	Contract amount based on agreed rates	Fair value as of December 31
Forward currency contracts						
Sale of USD 0 million (USD 21 million)		-	-	0-3 months	98,418	(17,470)
Purchase of USD 33 million (USD 27 million)	0-3 months	176,399	(733)	0-3 months	153,434	(750)
Total			**(733)**			**(18,220)**

Cash risks

The Group´s bank deposits are placed in deposit accounts without bond. The Group's cash and cash equivalents totaled DKK 346.8 million as of December 31, 2013 (DKK 353.5 million).

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

	2013		2012	
DKK thousand	Fair value as of December 31	Effective interest	Fair value as of December 31	Effective interest
Bond portfolio				
Within 0-2 years	102,848	0.2%	17,303	0.3%
Within 2-5 years	53,674	1.0%	137,758	0.7%
After 5 years	28,760	3.8%	41,298	3.2%
Total	**185,282**	**1.0%**	**196,359**	**1.2%**

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

With respect to the Group´s bank deposits at floating rates and mortgage debt, an increase in the applicable interest rate by 1 percentage point would have had a positive effect on the Group's profit and equity of DKK 0-1 million. A corresponding fall in the interest rate would have had an equivalent negative effect. Note 24 shows the due dates of financial liabilities.

The Company has a credit facility of DKK 120 million. As of December 31, 2013 the credit facility is not used.

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

As of December 31, 2013, none of the receivables were overdue.

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

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

Fair value hierarchy for financial instruments measured at fair value

2013

DKK thousand	Level 1	Level 2	Total
Securities	185,282	-	185,282
Financial assets measured at fair value in the income statement	**185,282**	**-**	**185,282**
Derivative financial instruments at fair value in the income statement (held for trading, currency)	-	(733)	(733)
Financial liabilities measured at fair value in the income statement	**-**	**(733)**	**(733)**

2012

DKK thousand	Level 1	Level 2	Total
Securities	196,359	-	196,359
Financial assets measured at fair value in the income statement	**196,359**	**-**	**196,359**
Derivative financial instruments to hedge future cash flow (interest)	-	(732)	(732)
Financial liabilities used as hedging instruments	**-**	**(732)**	**(732)**
Derivative financial instruments at fair value in the income statement (held for trading, currency)	-	(18,220)	(18,220)
Financial liabilities measured at fair value in the income statement	**-**	**(18,220)**	**(18,220)**

Securities (level 1)
The portfolio of publicly traded government bonds and publicly traded mortgage bonds is valued at listed prices and price quotas.

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

23 Provisions

Accounting policies

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

Provisions are measured as the best estimate of the costs needed at the balance sheet date to settle obligations. Provisions also include contingent payments at the conclusion of agreements, contracts, etc. Contingent payments are measured at fair value calculated as the probability that the results, which trigger future payments, are achieved and a fixed discount factor. Where payment is subject to continuing employment with the Group, the provision is built up over the vesting period. Changes to the assessed fair value of the contingent payments due to changes in risk factors are recognized in administrative costs. Adjustment of net present value is recognized as a financial expense.

Significant accounting estimates

A management discretion is required on recognition of contingent payments (incentive agreements with current and former members of the group management). Management considers in the light of expectations for the coming year's research and development achievements the likelihood that expected results will trigger contingent payments. Contingent payments were DKK 16 million as of December 31, 2013 (DKK 18 million as of December 31, 2012).

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.

DKK thousand	2013	2012
Provisions as of January 1	32,052	15,256
Additions during the year	311	16,796
Disposals during the year	(15,260)	-
Provisions as of December 31	**17,103**	**32,052**

DKK thousand	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
2013	2,273	11,947	2,883	17,103
2012	14,790	15,059	2,203	32,052

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

The total outstanding consideration to Paul Chaplin amounts to a maximum of DKK 31 million (risk-adjusted net present value: DKK 1 million).

In connection with the appointment of James B. Breitmeyer a long-term incentive agreement was signed. The incentive scheme offers one-off payments ranging from USD 300.000 up to USD 1 million. The one-off payments are subject to achievement of various potential future milestones in relation to PROSTVAC and are furthermore conditional upon continuing employment with the Company at the time of the achievement of the respective milestone event.

The total outstanding consideration to James B. Breitmeyer amounts to a maximum of DKK 12 million (risk-adjusted net present value: DKK 5 million).

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

The total outstanding consideration to Reiner Laus amounts to a maximum of DKK 49 million (risk-adjusted net present value: DKK 14 million). The agreement remains unchanged after Reiner Laus' resignation.

The Company decided at the end of 2012 to discontinue its operations at the facility in Berlin where the production of clinical trial material to the MVA-BN®-based vaccine candidates has taken place. As of December 31, 2012 accruals were made for severance pay, salary during notice period and rental commitments. The accrual amounted to DKK 14 million. As of December 31, 2013, a provision of DKK 1 million has been made for repayment of investment grants received from the German authorities as, following the closure of the facility in Berlin, Bavarian Nordic no longer meets all the criteria for receipt of the grants already disbursed.

24 Credit Institutions

Accounting policies

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

DKK thousand	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
2013				
Mortgage[1)]	601	2,669	17,377	20,647
Mortgage[2)]	1,203	5,392	9,739	16,334
Construction loan (USD)[3)]	6,677	36,657	-	43,334
Total	**8,481**	**44,718**	**27,116**	**80,315**
2012				
Mortgage[1)]	577	2,561	18,086	21,224
Mortgage[2)]	1,150	5,154	11,180	17,484
Construction loan (USD)[4)]	50,670	-	-	50,670
Total	**52,397**	**7,715**	**29,266**	**89,378**

[1)] Fixed interest 4.1684%
[2)] Fixed interest 4.5352%
[3)] Variable interest
[4)] The floating rate loan is changed to fixed interest of 2.3046% p.a. via a SWAP

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

The construction loan was to be renegotiated in 2013, why the total loan was classified as short term as per December 31, 2012.

25 Prepayment from customers

Accounting policies

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

DKK thousand	2013	2012
Prepayment from customers as of January 1	195,612	406,443
Prepayments received during the year	274,826	41,367
Recognized as income during the year	(320,013)	(252,198)
Prepayment from customers as of December 31	**150,425**	**195,612**

In 2013, the Company completed the delivery of the 20 million doses of IMVAMUNE under the RFP-3 contract. Accordingly, the total prepayment of USD 100 million received in the years 2007-2011 had been fully recognized as of December 31, 2013. The Company no longer has a repayment obligation.

In April 2013, Bavarian Nordic received a new order from the U.S. Government for the delivery of up to 8 million doses of IMVAMUNE. The Company has received a total prepayment of DKK 158 million relating to the delivery of the first 4 million doses. If Bavarian Nordic fails to fulfill the contract, the Company has a repayment obligation. It is the Company's assessment that the repayment obligation is reduced in step with delivery of vaccines, and a proportionate share of the prepayment is recognized as revenue in step with the delivery of the 4 million doses. At year-end 2013, 1.4 million doses had been delivered and DKK 102 million had not yet been recognized as revenue.

In 2012 the FDA requested to expand the Phase 3 study of IMVAMUNE by an additional 1,000 subjects, bringing the total enrollment in the study to 4,000 patients. The Company has received funding of USD 25 million from U.S. Government to cover the additional costs of the expansion of the study. The funding was disbursed by way of four milestone payments, the last three of which were received in 2013. Milestone payments are recognized as revenue in step with the recognition of the cost of the Phase 3 study. 25% of the Phase 3 costs are being expensed while the remaining 75% is being capitalized as IMVAMUNE develop project as described in note 15. There is no repayment obligation. As of December 31, 2013, recognition of DKK 46 million in revenue is outstanding.

In 2012 the Company was contracted by the U.S. Government to complete a study covering the possible long-term storage of frozen Bulk Drug Substance (BDS), including collection of long-term stability data on frozen BDS. The contract runs until 2017 and has a total value of USD 5 million, which is being paid out in 6 milestone payments. Milestone payments are being recognized as revenue in step with recognition of the cost of the study. As of December 31, 2013, recognition of DKK 2 million in revenue is outstanding. There is no repayment obligation.

26 Related party transactions

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

Besides the remuneration of the Board of Directors, the President and CEO and other group management, cf. note 8 and note 23, and the share-based payments, cf. note 27, there are no significant transactions with related parties.

Transactions with subsidiaries are eliminated in the consolidated financial statement, in accordance with the accounting policies.

27 Share-based payment

Accounting policies
Share-based incentive plans in which employees can only opt to buy shares in the parent company (warrants) are measured at the equity instruments' fair value at the grant date and recognized in the income statement over the life of the program. The balancing item is recognized directly in equity. The fair value on the date of grant is determined using the Black-Scholes model.

Grant takes place on the date of establishment of the program. Exercise of warrants is subject to continuing employment with the Group.

Cash-based incentive programs in which employees can have the difference between the agreed price and the actual share price settled in cash (phantom shares) are measured at fair value at the date of grant and recognized in the income statement over the period when the final right of cash-settlement is obtained. Granted rights are subsequently re-measured on each balance sheet date and upon final settlement, and any changes in the fair value of the programs are recognized in the income statement. The balancing item is recognized under other liabilities.

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

Grants are made on a monthly basis during the life of the program and are subject to continuing employment with the Group. On expiry of the program, employees who are no longer employed are entitled to settlement of the phantom shares granted during their term of employment.

Incentive plans
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 an incentive plan by way of warrant plans for the Board of Directors, the CEO, other group management and other employees. Furthermore, the Company has established three-year phantom share programs for all employees of the Group.

Warrants
The Board of Directors has been granting warrants to the Company´s management, selected employees of the Company and its subsidiaries and to the Company´s Board of Directors. See the tables below.

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

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

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

2013

Program	Outstanding as of January 1	Additions	Annulled	Terminated	Outstanding as of December 31	Can be exercised as of December 31	Average exercise price (DKK)
October 2008	244,062	-	-	(244,062)	-	-	97
March 2009	24,077	-	-	(24,077)	-	-	77
December 2009	373,298	-	(4,814)	-	368,484	368,484	114
May 2010	326,731	-	(5,385)	-	321,346	321,346	216
August 2010	38,375	-	(8,079)	-	30,296	30,296	192
December 2010	59,241	-	-	-	59,241	-	194
August 2011	372,550	-	(8,900)	-	363,650	-	54
May 2012	78,500	-	(3,500)	-	75,000	-	54
August 2012	424,375	-	(20,475)	-	403,900	-	59
February 2013	-	50,000	-	-	50,000	-	55
August 2013	-	550,000	(19,000)	-	531,000	-	74
December 2013	-	70,000	-	-	70,000	-	97
Total	**1,941,209**	**670,000**	**(70,153)**	**(268,139)**	**2,272,917**	**720,126**	

2013

	Outstanding as of January 1	Additions	Annulled	Terminated	Transferred	Outstanding as of December 31
Board of Directors	132,018	30,000	-	(19,269)	-	142,749
CEO & President	161,166	40,000	-	(32,117)	-	169,049
Other group management	306,945	140,000	-	(48,174)	(70,199)	328,572
Other employees	1,126,870	460,000	(70,153)	(103,550)	(122,240)	1,290,927
Resigned employees	214,210	-	-	(65,029)	192,439	341,620
Total	**1,941,209**	**670,000**	**(70,153)**	**(268,139)**	**-**	**2,272,917**
Weighted average exercise price	**107**	**72**	**93**	**95**	**-**	**99**
Number of warrants which can be exercised as of December 31, 2013						720,126
at an weighted average exercise price of DKK						163

2012

Board of Directors	128,202	30,000	-	-	(26,184)	132,018
CEO & President	126,166	35,000	-	-	-	161,166
Other group management	231,945	75,000	-	-	-	306,945
Other employees	858,616	363,500	(72,887)	-	(22,359)	1,126,870
Resigned employees	165,667	-	-	-	48,543	214,210
Total	**1,510,596**	**503,500**	**(72,887)**	**-**	**-**	**1,941,209**
Weighted average exercise price	**124**	**58**	**124**	**-**	**-**	**107**
Number of warrants which can be exercised as of December 31, 2012						641,437
at an weighted average exercise price of DKK						106

27 Share-based payment – continued

Specification of parameters for Black-Scholes model

	Dec. 2009	May 2010	Aug. 2010	Dec. 2010	Aug. 2011	May 2012	Aug. 2012	Feb. 2013	Aug. 2013	Dec. 2013
Average share price	149.00	212.50	223.00	238.00	50.00	43.30	52.00	45.50	68.00	82.00
Average exercise price at grant	184.00	291.00	259.00	261.00	54.10	54.00	59.10	55.00	73.90	96.50
Average exercise price after rights issue [1]	114.00	216.00	192.00	194.00						
Expected volatility rate	50.9%	62.7%	57.2%	49.5%	73.4%	52.5%	50.0%	28.3%	36.4%	35.4%
Expected life (years)	3.0	3.0	3.0	3.0	3.3	3.3	3.3	3.1	3.3	3.3
Expected dividend per share	-	-	-	-	-	-	-	-	-	-
Risk-free interest rate p.a.	2.10%	2.00%	0.77%	1.63%	1.08%	0.31%	-0.09%	0.22%	0.78%	0.74%
Fair value at grant [2]	48	72	76	78	24	13	16	6	16	17
Fair value after rights issue [3]	25	17	21	23						

[1] Determined at date of rights issue May 27, 2011
[2] Fair value of each warrant at grant applying the Black-Scholes model
[3] Fair value of each warrant at date of rights issue May 27, 2011 applying the Black-Scholes model

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

Recognized costs in 2013 DKK 10.1 million (incl. incremental fair value) compared to DKK 16.4 million in 2012.

Exercise periods

Program	Can be exercised wholly or partly in a period of 14 days commencing from the day of publication of			
December 2013	Annual Report 2016	Interim Report Q2 2017	Annual Report 2017	Interim Report Q2 2018
August 2013	Interim Report Q3 2016	Interim Report Q1 2017	Interim Report Q3 2017	Interim Report Q1 2018
February 2013	Annual Report 2015	Interim Report Q2 2016	Annual Report 2016	Interim Report Q2 2017
August 2012	Interim Report Q3 2015	Interim Report Q1 2016	Interim Report Q3 2016	Interim Report Q1 2017
May 2012	Interim Report Q2 2015	Annual Report 2015	Interim Report Q2 2016	Annual Report 2016
August 2011	Interim Report Q3 2014	Interim Report Q1 2015	Interim Report Q3 2015	Interim Report Q1 2016
December 2010	Annual Report 2013	Interim Report Q2 2014	Annual Report 2014	Interim Report Q2 2015
August 2010	Interim Report Q2 2013	Annual Report 2013	Interim Report Q2 2014	Annual Report 2014
May 2010	Interim Report Q1 2013	Interim Report Q3 2013	Interim Report Q1 2014	Interim Report Q3 2014
December 2009	Interim Report Q3 2012	Interim Report Q1 2013	Interim Report Q3 2013	Interim Report Q1 2014

Phantom shares

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

In 2013, the Company established a new three-year phantom share program covering all employees in the Group. The employees receive up to six phantom shares per month free of charge during the period from January 1, 2014 to December 31, 2016. Each employee who is a full-time employee during the entire term of the plan will be eligible to receive a maximum of 216 phantom shares.

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

In 2013, the program established in 2010 expired. The program had no value as the exercise price exceeded the price of the Company's shares on the date of exercise. Changes in the program are shown in the table below.

2012-2014 program	2013	2012
Outstanding as of January 1	31,370	-
Granted during the year	31,142	31,370
Outstanding phantom shares as of December 31	**62,512**	**31,370**
Liability in DKK thousand as of December 31	**2,747**	**489**
Specification of parameters for Black-Scholes model		
Share price December 31	89	50
Average share exercise price	45	45
Expected volatility rate	36%	51%
Expected life (years)	1.0	2.0
Expected dividend per share	-	-
Risk-free interest rate p.a.	-0.02%	-0.17%

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

The expense in respect of phantom shares granted in 2013 and revaluation of previously granted phantom shares provided a cost of DKK 2.3 million (2012: DKK 0.5 million).

The liability is included in other liabilities, cf. note 21.

2010-2013 program	2013	2012	2011	2010
Outstanding as of January 1	53,455	32,749	9,938	-
Granted during the year	5,309	20,706	17,927	9,938
Adjustment regarding rights issue	-	-	4,884	-
Expired during the year	(58,764)	-	-	-
Outstanding phantom shares as of December 31	**-**	**53,455**	**32,749**	**9,938**
Liability in DKK thousand as of December 31	**-**	**-**	**43**	**731**
Specification of parameters for Black-Scholes model				
Share price December 31		50	38	245
Average share exercise price		184	184	248
Expected volatility rate		51%	82%	51%
Expected life (years)		0.3	1.3	2.3
Expected dividend per share		-	-	-
Risk-free interest rate p.a.		-0.30%	0.06%	1.02%

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

The expense in respect of phantom shares granted in 2013 and revaluation of previously granted phantom shares provided an income of DKK 0 thousand in 2013 (2012: An income of DKK 43 thousand).

28 Contingent liabilities and other contractual obligations

DKK thousand	2013	2012
Income recognition of part of prepayment, cf. note 25, with repayment obligation in the event of breach of the RFP-3 contract. The repayment obligation has ceased in 2013 upon completion of the delivery of 20 million doses	-	397,562
Income recognition of part of prepayment, cf. note 25, with repayment obligation in the event of breach of the replenishment contract with the U.S. Government. In such event repayment must occur in USD	56,111	-
Operational leasing		
Leasing obligations for cars.		
The rental agreements are irrevocable up to 35 months.		
- Due within 1 year	1,651	1,641
- Due between 1 and 5 years	1,714	1,144
Minimum leasing cost recognized in net profit for the year	2,120	2,022
Rental commitments		
Rental agreements for laboratory and office facilities.		
The rental agreements are irrevocable from 1 to 49 months.		
- Due within 1 year	17,397	17,231
- Due between 1 and 5 years	37,374	47,034
Minimum rental cost recognized in net profit for the year	16,189	17,454
Collaborative agreements		
Contractual obligations with research partners for long-term research projects.		
- Due within 1 year	5,810	9,896
- Due between 1 and 5 years	65,764	19,552
Other contractual obligations		
Other obligations inluce among other things purchase commitments related to filling of vaccines.		
- Due within 1 year	115,293	54,763
- Due between 1 and 5 years	227	630
- Due after 5 years	42	147

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

Incentive agreements
The total outstanding consideration regarding incentive agreements with James B. Breitmeyer, Paul Chaplin and Reiner Laus amounts to a maximum of DKK 92 million. As per December 31, 2013 the provision amounts to DKK 16 million. For further description of the incentive agreement see note 23.

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

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

29 Significant events after the balance sheet date

No significant events of importance to the annual report have occured since December 31, 2013.

FINANCIAL STATEMENTS OF THE PARENT COMPANY

NOTES

INCOME STATEMENT FOR THE PERIOD JANUARY 1 – DECEMBER 31

DKK thousand	Note	2013	2012
Revenue		1,212,501	1,016,636
Production costs	3,4	484,704	513,553
Gross profit		**727,797**	**503,083**
Research and development costs	2,3,4	488,255	322,894
Distribution costs	3	33,755	34,155
Administrative costs	3,4	154,059	145,887
Total operating costs		**676,069**	**502,936**
Income before interest and tax (EBIT)		**51,728**	**147**
Income from investments in subsidiaries	10	5,453	8,714
Financial income	5	17,537	16,215
Financial expenses	6	34,844	26,376
Income before company tax		**39,874**	**(1,300)**
Tax on income for the year	7	49,704	188,806
Net profit for the year		**(9,830)**	**(190,106)**
Proposed appropriation of net profit:			
Retained earnings		**(9,830)**	**(190,106)**

Notes with reference to the consolidated financial statements	**Note**
Revenue	3
Production costs	4
Distribution costs	6
Administrative costs	7

STATEMENT OF FINANCIAL POSITION – ASSETS AS OF DECEMBER 31

DKK thousand	Note	2013	2012
Non-current assets			
Acquired patents and licenses		120,538	130,224
Software		3,122	4,964
IMVAMUNE development project		76,955	122,723
Other intangible assets in progress		3,949	3,519
Intangible assets	8	**204,564**	**261,430**
Land and buildings		177,314	183,654
Leasehold improvements		858	723
Plant and machinery		82,795	91,567
Fixtures and fittings, other plant and equipment		14,681	15,104
Assets under construction		39,195	16,498
Property, plant and equipment	9	**314,843**	**307,546**
Investments in subsidiaries	10	77,213	71,615
Receivables from subsidiaries	10	261,443	218,703
Other receivables		625	518
Financial assets		**339,281**	**290,836**
Deferred tax assets	7	**123,609**	**173,495**
Total non-current assets		**982,297**	**1,033,307**
Current assets			
Inventories	11	**232,941**	**223,663**
Trade receivables		110,117	56,592
Tax receivables		-	1,250
Other receivables		11,399	7,649
Prepayments		6,695	38,697
Receivables		**128,211**	**104,188**
Securities		185,282	196,359
Cash and cash equivalents		342,115	347,049
Securities, cash and cash equivalents		**527,397**	**543,408**
Total current assets		**888,549**	**871,259**
Total assets		**1,870,846**	**1,904,566**

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

DKK thousand	Note	2013	2012
Equity			
Share capital		260,944	260,944
Retained earnings		1,062,510	1,057,832
Other reserves		56,958	60,838
Equity		**1,380,412**	**1,379,614**
Provisions	13	**16,208**	**17,911**
Liabilities			
Credit institutions		71,834	36,981
Non-current liabilities		**71,834**	**36,981**
Credit institutions		8,481	52,397
Prepayment from customers		150,425	195,612
Trade payables		107,643	69,940
Payables to subsidiaries		84,177	83,254
Other liabilities	12	51,666	68,857
Current liabilities		**402,392**	**470,060**
Total liabilities		**474,226**	**507,041**
Total equity and liabilities		**1,870,846**	**1,904,566**
Related party transactions	14		
Lease and rent commitments	15		
Contingent liabilities and other contractual obligations	16		
Mortgages and collateral	17		

Notes with reference to the consolidated financial statements	**Note**
Trade receivables	18
Financial risks and financial instruments	22
Credit institutions	24
Prepayment from customers	25
Share-based payment	27
Significant events after the balance sheet date	29

STATEMENT OF CHANGES IN EQUITY

DKK thousand	Share-capital	Retained earnings	Other reserves	Equity
Equity as of January 1, 2013	260,944	1,172,674	60,838	1,494,456
Effect from change of accounting policy	-	(114,842)	-	(114,842)
Adjusted equity as of January 1, 2013	**260,944**	**1,057,832**	**60,838**	**1,379,614**
Net profit for the year	-	(9,830)	-	(9,830)
Exchange rate adjustments	-	(7)	-	(7)
Fair value of financial instruments entered into to hedge future cash flow:				
Fair value adjustments of the year	-	-	732	732
Tax on equity postings	-	-	(183)	(183)
Share-based payment	-	-	10,086	10,086
Warrant program expired	-	14,515	(14,515)	-
Equity as of December 31, 2013	**260,944**	**1,062,510**	**56,958**	**1,380,412**

Transactions on the share capital and rules on changing Articles of Associations, see statement of changes in group equity.

Other reserves consist of fair value adjustments on heding instruments and costs for share-based payments.

1 Significant accounting policies and significant accounting estimates, assumptions and uncertainties

In continuation of the wish to make its reporting simpler and clearer, Bavarian Nordic has decided to prepare the parent company annual report in accordance with the provisions of the Danish Financial Statements Act instead of IFRS and to present the parent company financial statements separately.

The Company has not applied any special exemptions, cf. the Danish executive order on transition to reporting according to the Danish Financial Statements Act.

Accounting policies
The annual report of the parent company Bavarian Nordic A/S have been prepared in accordance with the Danish Financial Statements Act (Class D) and other accounting regulations for companies listed on NASDAQ OMX Copenhagen.

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

Transition to the Danish Financial Statements Act
The transition to the Danish Financial Statements Act means a reduction in disclosure requirements compared with IFRS. At the same time the company has decided to recognize investments in subsidiaries under the equity method as allowed by Danish Financial Statements Act.

The change in the accounting policy for investments in subsidiaries has affected the parent company's comparative figures for 2012. Thus, the net profit increased by DKK 9 million, while equity is reduced by DKK 115 million.

Other than that, the accounting policies are unchaged from previous year. The accounting policies have been consistently applied for the financial year and for the comparative figures. In the comparative figures for 2012 a minor reclassification has been made between research and development costs and adminstrative costs. Receivables from subsidiaries is presented as a long-term receivable (see note 10) as opposed to previously when the receivable was presented as current. The comparative figures for 2012 have been restated accordingly. The reclassifications have no effect on the profit or equity.

The accounting policies are the same as for the consolidated financial statements with the following additions. See description of the accounting policies in the colsolidated financial statements.

Supplementary accounting policies for the parent company
Accounting policies for investments in subsidiaries are descriped in note 10.

Pursuant to the schedule requirements of the Danish Financial Statements Act, entries recognized in the statement of comprehensive income in the consolidated financial statements are recognized directly in the statement of changes in equity in the parent company's financial statements.

As allowed under section 86 (4) of the Danish Financial Statements Act, no cash flow statement has been prepared for the parent company, as this is included in the consolidated cash flow statement.

2 Research and development costs

Accouting policies
See consolidated financial statements note 5.

DKK thousand	2013	2012
Research and development costs occured this year	547,737	420,081
Of which:		
Contract costs recognized as production costs	(105,250)	(82,024)
Capitalized development costs (note 8)	(102,277)	(15,163)
	340,210	322,894
Expensing (amortization) of prior-year costs attributable to the IMVAMUNE development project (note 8)	148,045	-
Research and development costs	**488,255**	**322,894**

3 Staff costs

Accouting policies
See consolidated financial statements note 8.

DKK thousand	2013	2012
Wages and salaries	146,898	149,623
Contribution based pension	12,754	12,868
Social security expenses	1,522	1,618
Other staff expenses	14,217	14,355
Share-based payment	12,343	16,861
Staff costs	**187,734**	**195,325**
Staff expenses are distributed as follows:		
Production costs	107,760	110,694
Research and development costs	13,801	17,206
Distribution costs	8,152	8,161
Administrative costs	57,673	57,231
Capitalized salaries	348	2,033
Staff costs	**187,734**	**195,325**
Average number of employees converted to full-time	238	247
Number of employees as of December 31 converted to full-time	241	239

The management consists of CEO Anders Hedegaard.

Remuneration to the CEO and the Board of Directors is diclosed in the consolidated financial statements note 8.

Incentive programs for management and other employees are disclosed in the consolidated financial statements note 27.

The CEO's contract of employment contains standard terms for members of the management of Danish listed companies, including the extended period of notice that both parties are required to give. For the Company, the notice is maximum 18 months. In case of takeover, the notice is maximum 36 months.

4 Depreciation, amortization and impairment losses

DKK thousand	2013	2012
Depreciation, amortization and impairment losses included in:		
Production costs	32,464	32,734
Research and development costs	1,124	429
Administrative costs	13,911	16,273
Depreciation, amortization and impairment losses	**47,499**	**49,436**
Hereof profit ()/loss from disposed fixed assets	145	45

5 Financial income

Accouting policies
See consolidated financial statements note 11.

DKK thousand	2013	2012
Financial income from bank and deposit contracts	28	667
Financial income from subsidiaries	10,926	7,294
Financial income from securities	6,583	7,017
Fair value adjustments on securities	-	1,237
Financial income	**17,537**	**16,215**

6 Financial expenses

Accouting policies
See consolidated financial statements note 12.

DKK thousand	2013	2012
Interest expenses on debt	4,889	5,665
Financial expenses to subsidiaries	1,212	524
Fair value adjustments on securities	4,012	-
Adjustment of net present value of provisions	1,605	2,291
Net loss on derivative financial instruments at fair value in the income statement (held for trading)	1,133	12,925
Net foreign exchange losses	21,993	4,971
Financial expenses	**34,844**	**26,376**

7 Tax for the year

Accounting policies and significant accounting estimates
See consolidated financial statements note 13.

DKK thousand	2013	2012
Tax recognized in the income statement		
Current tax on profit for the year	-	(1,250)
Change in deferred tax	9,999	190,056
Adjustment of deferred tax due to changed tax rates	37,961	-
Adjustments to deferred tax for previous years	1,744	-
Tax for the year recognized in the income statement	**49,704**	**188,806**
Tax on income for the year is explained as follows:		
Income before company tax	39,874	(1,300)
Calculated tax (25%) on income before company tax	9,969	(325)
Tax effect on:		
Income from investments in subsidiaries	(1,363)	(2,179)
Permanent differences	1,393	4,142
Write-down on tax losses carried forward	-	182,000
Adjustment of deferred tax due to changed tax rates	37,961	-
Adjustments to deferred tax for previous years	1,744	-
Adjustment of deferred tax calculation previous years	-	5,168
Tax on income for the year	**49,704**	**188,806**

DKK thousand	2013	2012
Tax recognized in equity		
Tax on fair value adjustment of financial instruments entered into to hedge future cash flow	183	3,594
Tax for the year recognized in equity	**183**	**3,594**

Deferred tax
Recognized deferred tax assets relates to temporary differences between valuations for accounting and taxation purposes and tax losses carried forward:

Property, plant and equipment	3,034	2,189
Intangible assets	(15,081)	(17,940)
Obligations	6,574	7,671
Inventories	27	3,277
Accrued project costs	319	(119)
Prepayment from customers	36,854	48,903
Tax losses carried forward	273,882	311,514
Write-down on tax losses carried forward	(182,000)	(182,000)
Recognized deferred tax assets	**123,609**	**173,495**

For further disclosures see the consolidated financial statements note 13.

8 Intangible assets

Accounting policies and significant accounting estimates
See consolidated financial statements note 15.

2013

DKK thousand	Acquired patents and licenses	Software	IMVAMUNE development project	Other intangible assets in progress	Total
Costs as of January 1, 2013	145,429	50,015	122,723	3,519	321,686
Additions	-	492	102,277	2,302	105,071
Transfer	-	667	-	(667)	-
Transfer to property, plant and equipment	-	-	-	(1,205)	(1,205)
Disposals	-	-	(148,045)	-	(148,045)
Cost as of December 31, 2013	**145,429**	**51,174**	**76,955**	**3,949**	**277,507**
Amortization as of January 1, 2013	15,205	45,051	-	-	60,256
Amortization	9,686	3,001	-	-	12,687
Amortization as of December 31, 2013	**24,891**	**48,052**	**-**	**-**	**72,943**
Carrying amount as of December 31, 2013	**120,538**	**3,122**	**76,955**	**3,949**	**204,564**

IMVAMUNE development project include development costs related to the registration of IMVAMUNE under the RFP-3 contract. The disposals relates to delivery of development results, for further description see the accounting policies in the consolidated financial statements note 15.

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

9 Property, plant and equipment

Accounting policies and significant accounting estimates
See consolidated financial statements note 16.

2013

DKK thousand	Land and buildings	Leasehold improvement	Plant and machinery	Fixtures and fittings, other plant and equipment	Assets under construction	Total
Costs as of January 1, 2013	236,709	2,005	237,829	35,379	16,498	528,420
Additions	529	709	1,288	1,357	37,133	41,016
Transfer	5,137	-	7,682	1,617	(14,436)	-
Transfer from intangible assets	-	-	1,205	-	-	1,205
Disposals	-	(532)	(69)	(1,879)	-	(2,480)
Cost as of December 31, 2013	**242,375**	**2,182**	**247,935**	**36,474**	**39,195**	**568,161**
Depreciation as of January 1, 2013	53,055	1,282	146,262	20,275	-	220,874
Depreciation	12,006	342	18,922	3,397	-	34,667
Disposals	-	(300)	(44)	(1,879)	-	(2,223)
Depreciation as of December 31, 2013	**65,061**	**1,324**	**165,140**	**21,793**	**-**	**253,318**
Carrying amount as of December 31, 2013	**177,314**	**858**	**82,795**	**14,681**	**39,195**	**314,843**

Property, plant and equipment under construction mainly includes investment related to the PROSTVAC facility in Kvistgaard (DKK 31.1 million).

For collateral see the consolidated financial statements note 16.

10 Investment in subsidiaries

Accounting policies

Investments in subsidiaries are recognized and measured under the equity method. This means that, in the balance sheet, investments are measured at the pro rata share of the subsidiaries' equity plus or less unamortized positive, or negative, goodwill and plus or less unrealized intra-group profits or losses.

Subsidiaries with a negative equity value are measured at zero value, and any receivables from these subsidiaries are written down by the Company's share of such negative equity if it is deemed irrecoverable. If the negative equity exceeds the amount receivable, the remaining amount is recognized under provisions if the Company has a legal or constructive obligation to cover the liabilities of the relevant subsidiary.

Upon distribution of profit or loss, net revaluation of investments in subsidiaries is transferred to the net revaluation reserve according to the equity method under equity, if the net revaluation is positive. If the net revaluation is negative, it is recognized in retained earnings in equity.

Goodwill is calculated as the difference between cost of the investments and the fair value of the assets and liabilities acquired which have been measured at fair value at the date of acquisition. The amortization period for goodwill is usually five years.
Investments in subsidiaries are written down to the lower of recoverable amount and carrying amount.

Income from investments in subsidiaries' contains pro rata share of subsidiaries profits or losses after elimination of unrealized intra-group profits and losses.

Significant accounting estimates

As of December 31, 2013, Bavarian Nordic, Inc. had negative equity of DKK 284 million, and the Parent Company's receivable from Bavarian Nordic, Inc. was DKK 261 million. In such a situation, management estimates whether there are any events or other circumstances that indicate that the receivable may not be recoverable. Based on the currently expected future cash flows from the sale of PROSTVAC, management estimates that the entire amount can be repaid over a number of years. For this reason, management believes that there is no need for a write-down of the receivable. The receivable is recognized as a long-term receivable.

2013

DKK thousand	Investments in subsidiaries	Receivables from subsidiaries
Costs as of January 1, 2013	186,457	218,703
Additions	152	52,262
Exchange rate adjustments	-	(9,522)
Cost as of December 31, 2013	**186,609**	**261,443**
Net revaluation as of January 1, 2013	-	-
Effect from change of accounting policy	(114,842)	-
Adjusted net revaluation as of January 1, 2013	**(114,842)**	**-**
Net share of profit/loss for the year	5,453	-
Exchange rate adjustments	(7)	-
Net revaluation as of December 31, 2013	**(109,396)**	**-**
Carrying amount as of December 31, 2013	**77,213**	**261,443**

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

In 2013, the subsidiary BN ImmunoTherapeutics GmbH merged with Bavarian Nordic GmbH.

The companies in USA are not under audit obligations.

11 Inventories

Accounting policies and significant accounting estimates
See consolidated financial statements note 17.

DKK thousand	2013	2012
Raw materials and supply materials	14,191	19,798
Work in progress	237,272	183,343
Manufactured goods and commodities	50,008	51,985
Write-down on inventory	(68,530)	(31,463)
Inventories	**232,941**	**223,663**
Write-down on inventory as of January 1	(31,463)	(55,408)
Write-down for the year	(53,913)	(19,469)
Use of write-down	2,475	35,999
Reversal of write-down	14,371	7,415
Write-down on inventory as of December 31	**(68,530)**	**(31,463)**
Cost of goods sold amounts to	328,077	416,792

12 Other liabilities

Accouting policies
See consolidated financial statements note 21.

DKK thousand	2013	2012
Derivative financial instruments at fair value in the equity	-	732
Derivative financial instruments at fair value in the income statement	733	18,220
Liability relating to phantom shares	2,747	489
Payable salaries, holiday accrual etc.	38,099	37,179
Other accrued costs	10,087	12,237
Other liabilities	**51,666**	**68,857**

For further details of derivative financial instruments, see consolidated financial statements note 22. The phantom share programs are disclosed in the consolidated financial statements note 27.

13 Provisions

Accounting policies and significant accounting estimates
See consolidated financial statements note 23.

DKK thousand	2013	2012
Provisions as of January 1	17,911	15,256
Additions during the year	(584)	2,655
Disposals during the year	(1,119)	-
Provisions as of December 31	**16,208**	**17,911**

DKK thousand	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
2013	1,378	11,947	2,883	16,208
2012	649	15,059	2,203	17,911

Provisions include accruals for Paul Chaplin, James B. Breitmeyer and Reiner Laus, see further descripton in the consolidated financial statements note 23.

14 Related party transactions

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

DKK thousand	2013	2012
Transactions with subsidiaries comprise:		
Cost-plus agreements		
Bavarian Nordic A/S' purchase of research and development services from Bavarian Nordic GmbH	116,141	158,780
Bavarian Nordic A/S' purchase of services from Bavarian Nordic Washington DC, Inc.	7,163	8,889
Sub-license agreement, PROSTVAC		
Bavarian Nordic A/S' purchase of PROSTVAC research and development services from Bavarian Nordic, Inc.	248,513	147,091
Service level agreements		
Bavarian Nordic, Inc.'s purchase of quality tests and other services from Bavarian Nordic A/S	186	256
Management fee		
Bavarian Nordic, Inc.'s purchase of management services from Bavarian Nordic A/S	-	284

Internal interests are presented in note 5 and note 6.

Apart from intra-group transactions mentioned above and the remuneration of the Board of Directors and the President and CEO, cf. note 3 in the parent financial statements and note 23 and note 27 in the consolidated financial statements, there are no significant transactions with related parties.

15 Lease and rent commitments

DKK thousand	2013	2012
Due within 1 year	1,724	1,696
Due between 1 and 5 years	1,279	519
Commitments according to rent and lease agreements until expiry	**3,003**	**2,215**

16 Contingent liabilities and other contractual obligations

DKK thousand	2013	2012
Collaborative agreements		
Contractual obligations with research partners for long-term research projects.		
- Due within 1 year	2,255	2,220
- Due between 1 and 5 years	-	311
Other contractual obligations		
Other obligations include among other things purchase commitments related to filling of vaccines.		
- Due within 1 year	114,658	54,497
- Due between 1 and 5 years	181	181

Repayment obligation
Repayment obligation regarding received prepayments see the consolidated financial statements note 28.

Joint taxation
The Parent Company is jointly taxed with all Danish subsidiaries. As the administration company the Parent Company stands surety with the other companies in the joint taxation of Danish corporate taxes and withholding taxes on dividens, interest and royalties. Corporation taxes and withholding taxes payable in the joint taxation pool was DKK 0 as of December 31, 2013. Any adjustments of the taxable joint taxation income or taxes withheld at source may have the effect that the Company's liability increases.

Incentive agreements, Company mortgage, Lawsuits
See the consolidated financial statements note 28.

17 Mortgages and collateral

DKK thousand	2013	2012
Guarantees for subsidiaries		
The Parent Company stands surety for a credit facility to a subsidiary of a maximum of	4,103	4,103
The Parent Company stands surety for letter of credit to subsidiaries of a maximum of	18,373	18,637

Mortgages
See description regarding property, plant and equipment in note 16 in the consolidated financial statements.

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