ANNUAL REPORT 2014

BAVARIAN NORDIC

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LETTER FROM THE CHAIRMAN

The year 2014 has been a year of change for Bavarian Nordic. We have seen important changes in our executive management, in our board and our technology has received strong recognition by the closing of important deals, with Johnson & Johnson in 2014 and Bristol-Myers Squibb in March 2015, two industry leaders, in each of our business areas.

The economic outcome of all of this for our company, our stakeholders and our shareholders has been very positive. The significant share price increase is the visible confirmation of this. It is also important to note that these deals are a validation of our ability to invent and make products that are meaningful for the healthcare community and for patients.

We are proud that we have been able to considerably participate in the ongoing efforts to solving the Ebola crisis and we will continue our efforts to contribute to a healthier world.

We have reviewed the ways of working of the board. Preparatory work has been performed to form two subcommittees for the board to be appropriately positioned to fulfil its duties as well as being better able to support and advice executive management. These subcommittees will be in effect after the 2015 annual general meeting.

Paul Chaplin has been nominated as our CEO in the spring of the year, and together with James B. Breitmeyer and Ole Larsen, form a very strong leadership team that has all the qualities needed to take the Company forward to future successes.

I would like to take the opportunity to thank both Asger Aamund and Anders Hedegaard for their important contribution to the Company. We are proud and privileged that we have the opportunity to further build this company on their heritage.

It has been a very busy year, but it goes almost without saying, that the impressive list of achievements has only come together thanks to the dedication and hard work of all. Therefore I would like to thank my fellow board members, executive management and all Bavarian Nordic personnel for a tremendous year.

Gerard WM van Odijk
Chairman of the Board of Directors

LETTER FROM THE CEO

It's my pleasure to welcome you to the annual report, for the first time in my new role as CEO at Bavarian Nordic. 2014 was an important year for Bavarian Nordic where a number of significant achievements have helped build a strong strategic foundation for the future. We met our financial and operational targets and even exceeded our own expectations, as new opportunities surfaced during the year.

The Company received new IMVAMUNE contracts and options valued at USD 140 million, further endorsing the long-standing and successful private-public partnership with the U.S. Government on the development and supply of biological countermeasures. A new order for an additional 4 million doses of IMVAMUNE (USD 118 million) maintains the stockpile of this smallpox vaccine at the U.S. Strategic National Stockpile for immunocompromised people. While the funding (USD 22 million) to establish the manufacturing of the freeze-dried version of IMVAMUNE on a higher capacity line is also a strong signal by the U.S. Government of their intent to stockpile this next generation of IMVAMUNE in the years ahead. The Company also secured additional orders in Canada for up to 500,000 doses of IMVAMUNE.

However, the paramount event of 2014 was the partnership with Janssen (part of Johnson & Johnson) on our Ebola vaccine. In response to the current crisis in West Africa, we are proud to be working with a global leader in healthcare to develop and supply a vaccine that may eventually help stem the current outbreak, as well as limit the severe negative impact from future outbreaks.

As an additional validation of our MVA-BN vaccine platform, Janssen chose to evaluate our technology in three additional infectious disease targets, which may result in an expanded collaboration in the short to mid-term future. As part of the agreement, Johnson & Johnson also became a new prominent shareholder in the Company with a holding just shy of 5%.

Finally, we accomplished a major milestone for our lead active immunotherapy candidate PROSTVAC, as patient enrollment in the PROSPECT Phase 3 study was finalized. We remain in close contact with the PROSPECT investigators as the patients complete treatment and results become available through interim and final analysis of the study. In parallel we are also continuing to explore the potential for synergistic combinations of PROSTVAC with other treatments.

The strong momentum has continued in 2015 where we signed an exclusive agreement with Bristol-Myers Squibb, a leading oncology company, for the commercialization of PROSTVAC. The partnership is a strong validation of our cancer immunotherapy platform technology, and as a global leader in the immune-oncology area, Bristol-Myers Squibb provides a strong foundation for exploring the full potential of PROSTVAC in the future treatment paradigm of prostate cancer.

Looking ahead, the road is full of more and exciting events in both the short and mid-term.

Financially, we are in a strong position with approximately DKK 1,100 million expected in cash preparedness at the end of 2015. This gives us the opportunity to invest more aggressively in the development of our pipeline, which contains a

number of unexplored opportunities in areas of high unmet medical need. This will start with initiating a Phase 1 study later this year for an MVA-BN-based vaccine against respiratory syncytial virus.

Building upon Bavarian Nordic's key expertise in manufacturing vaccines, our production plant in Denmark was expanded last year allowing us to manufacture multiple commercial products. In 2015 we will produce and deliver approximately 2 million doses of our Ebola vaccine that with our partner Janssen, is planned to enter efficacy trials later this year. We will also complete the preparations for the future commercial production of PROSTVAC, while also manufacturing clinical trial material to support future clinical trials.

Later this year we also expect to complete the development of the freeze-dried version of IMVAMUNE that will position the Company to be able to initiate deliveries of the next generation of this vaccine to the U.S. Government in 2016.

I would like to thank all Bavarian Nordic employees for their contribution to our strong 2014 results, the many patients who have willingly joined our various clinical trials, and our existing and new shareholders for their continued support.

We are in the middle of very exciting times for Bavarian Nordic and I am happy to welcome you onboard that journey.

Paul Chaplin
President & CEO

SIGNIFICANT MILESTONES

2014 was an important year for Bavarian Nordic where a number of significant achievements have helped build a strong strategic foundation for the future. The paramount event of the year was the Ebola vaccine partnership with Janssen. The string momentum has continued into 2015 where the Company signed an exclusive agreement with Bristol-Myers Squibb on PROSTVAC.

2014

February

Bavarian Nordic's MVA-BN® vaccine platform was selected by the U.S. Government for the development of a new vaccine against two potential biological threats to national security - Burkholderia pseudomallei and Burkholderia mallei.

May

Paul Chaplin, Ph.D. was appointed President & CEO of Bavarian Nordic. He succeeded Anders Hedegaard who decided to seek new challenges outside the company after 7 years serving as CEO. Paul Chaplin has been with Bavarian Nordic for more than 15 years, the last 10 years as part of the executive management team.

July

A Phase 1 study of MVA-BN® Brachyury was initiated by the National Cancer Institute in patients with advanced cancer. Brachyury is tumor-associated antigen which is overexpressed in major solid tumor indications.

April

Under the existing development contract for freeze-dried IMVAMUNE smallpox vaccine, the U.S. Government exercised an option valued at almost USD 22 million to fund the transfer of the already validated manufacturing process to a commercial manufacturing line with a larger capacity.

Asger Aamund, founder and chairman of the board since the inception of Bavarian Nordic in 1994 stepped down. Gerard van Odijk, was elected the new chairman of the board. He has served as member of the board since 2008.

A Phase 2 combination study of CV-301 immunotherapy and BCG (Bacillus Calmette-Guerin) treatment was initiated by the National Cancer Institute in patients with bladder cancer.

August

Contracts were signed with the Canadian Government for the delivery of more than 60,000 doses of IMVAMUNE® smallpox vaccine with options for up to an additional 450,000 doses.

September

The U.S. Government exercised an option valued at USD 118 million for the continued supply of IMVAMUNE to the U.S. Strategic National Stockpile. Under this option, Bavarian Nordic has delivered 4 million doses of IMVAMUNE, bringing the total number of doses delivered to 28 million.

December

A trial investigating MVA-BN® Filo as an Ebola vaccine was initiated when researchers at the University of Oxford included the vaccine as a booster in an ongoing Phase 1 study of the cAd3-EBO Z vaccine which is being co-developed by GSK and the U.S. National Institute of Allergy and Infectious Diseases.

The enrollment target of 1,200 prostate cancer patients was reached in the Phase 3 study of PROSTVAC. Patients were enrolled in more than 200 centers across 15 countries.

February

Updated long-term survival data from an NCI sponsored combination study of PROSTVAC and Yervoy were presented. For patients receiving PROSTVAC and high doses of Yervoy, a median overall survival of 37.2 months was shown, compared to a predicted survival of 18.5 months. Furthermore, approximately 20% of these remain alive at 80 months.

2015

October

Bavarian Nordic entered into a licensing and supply agreement valued at up to USD 187 million with Janssen on MVA-BN® Filo vaccine, which is being investigated in a prime-boost regimen with Janssen AdVac® vaccine against Ebola. As part of the agreement, Janssen's parent company, Johnson & Johnson took a stake of almost 5 % of the shares in Bavarian Nordic.

Janssen furthermore obtained an exclusive option to collaborate on three additional infectious disease targets, following scientific evaluation of MVA-BN-based vaccine candidates in these diseases.

November

After a long-standing validity challenge, the Board of Appeal at the European Patent Office issued its final decision to uphold Bavarian Nordic's European patent on the MVA-BN virus, assigning it even broader protection than previously.

March

Bavarian Nordic entered into an exclusive agreement with Bristol-Myers Squibb for PROSTVAC, under which the Company could receive up to USD 975 million, inclusive of USD 60 million upfront and potential exercise payment; potential development, regulatory and commercialization milestone payments; additional tiered double-digit royalties on future sales. In addition, the companies will collaborate to explore the combination of PROSTVAC with agents from Bristol-Myers Squibb's immune-oncology portfolio.

CONSOLIDATED KEY FIGURES

DKK million	2014	2013	2012	2011	2010
Income statement					
Revenue	1,216.8	1,212.5	1,016.6	523.6	314.1
Production costs	495.1	484.7	513.6	403.4	444.5
Research and development costs	478.9	496.6	340.1	261.7	188.6
Distribution and administrative costs	226.1	197.8	194.6	166.8	155.1
Income before interest and tax (EBIT)	16.7	33.4	(31.7)	(308.3)	(474.1)
Financial items, net	47.7	(27.2)	(17.0)	11.9	(9.4)
Income before company tax	64.4	6.2	(48.7)	(296.4)	(483.4)
Net profit for the year	25.9	(46.7)	(240.0)	(268.4)	(389.9)
Balance sheet					
Total non-current assets	568.1	551.8	644.3	865.2	850.6
Total current assets	1,319.1	900.4	894.9	1,111.4	616.5
Total assets	1,887.3	1,452.2	1,539.2	1,976.6	1,467.1
Equity	1,252.1	976.3	999.7	1,207.6	810.4
Non-current liabilities	51.9	86.7	54.2	105.4	106.5
Current liabilities	583.3	389.3	485.3	663.6	550.2
Cash Flow Statement					
Securities, cash and cash equivalents	979.7	532.1	549.9	584.0	355.7
Cash flow from operating activities	338.7	147.1	20.1	(375.2)	(239.9)
Cash flow from investment activities	(503.7)	(146.5)	71.0	(261.8)	(45.8)
- Investment in intangible assets	(53.6)	(111.0)	(24.3)	(16.5)	(16.2)
- Investment in property, plant and equipment	(52.4)	(44.4)	(20.9)	(31.2)	(45.7)
Cash flow from financing activities	216.2	(7.1)	(9.6)	642.4	471.0
Financial Ratios (in DKK) [1]					
Earnings (basic) per share of DKK 10	1.0	(1.8)	(9.2)	(12.1)	(25.7)
Net asset value per share (historical)	45.2	37.4	38.3	46.3	62.5
Net asset value per share (adjusted) [2]	45.2	35.3	36.1	43.6	29.3
Share price at year-end (historical)	198	89	50	38	245
Share price at year-end (adjusted) [3]	198	89	50	38	190
Share price/Net asset value per share (historical)	4.4	2.4	1.3	0.8	3.9
Share price/Net asset value per share (adjusted) [2] + [3]	4.4	2.5	1.4	0.9	6.5
Number of outstanding shares at year-end	27,671	26,094	26,094	26,094	12,962
Equity share	66%	67%	65%	61%	55%
Number of employees, converted to full-time, at year-end	422	426	450	439	402

1) Earnings per share (EPS) are 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 issue of new shares in 2014, net asset value per share for 2010-2013 have been recalculated based on outstanding shares at year-end 2014

3) Year-end share price for 2010 has been adjusted for rights issue in May 2011

FINANCIAL REVIEW 2014

Since there is no significant difference in the development of the Group and the Parent Company, the financial review is based on the Group's consolidated financial information for the year ended December 31, 2014, with comparative figures for the Group in 2013 in brackets.

Income statement

Revenue
Bavarian Nordic generated revenue of DKK 1,217 million in 2014 (DKK 1,213 million), compared with the Company's guidance of DKK 1,200 million. The majority of the revenue was derived from deliveries of IMVAMUNE to the U.S. Strategic National Stockpile (DKK 1,018 million). Other revenue was related to ongoing development contracts with the U.S. Government (DKK 193 million) and sales of IMVANEX/IMVAMUNE to other customers (DKK 6 million).

Production costs
Production costs amounted to DKK 495 million (DKK 485 million), of which DKK 503 million (DKK 434 million) was directly related to revenue. Other production costs decreased from DKK 51 million in 2013 to DKK -8 million in 2014 (note 4), which primarily was due to an extraordinary production performance with low level of write-downs during 2014 and reversal of DKK 12 million in write-downs from 2013. The write-down for 2014 was DKK 0 million (DKK 54 million). The development in write-downs is shown in note 17.

Research and development costs
Research and development costs incurred in 2014 totaled DKK 572 million (DKK 556 million), which is in line with the expectations of DKK 600 million. The amount includes contract costs recognized as production costs as well as capitalized development costs. The distribution of incurred research and development costs is shown in note 5. Costs related to the development of PROSTVAC totaled DKK 280 million (DKK 250 million).

The Company has amortized DKK 46 million (DKK 148 million) related to the ongoing IMVAMUNE development project, as explained in note 15.

Distribution costs and administrative costs
Distribution costs totaled DKK 45 million (DKK 41 million) and administrative costs totaled DKK 181 million (DKK 157 million). Costs for consultancy and lawyers have been at a higher level than previous years. The increase in distribution costs is related to increased commercial activities after the approval of IMVANEX/IMVAMUNE in EU and Canada.

Earnings before interest and tax
The earnings before interest and tax (EBIT) were DKK 17 million (DKK 33 million). EBIT in the Infectious Diseases division was DKK 453 million (DKK 387 million), which is higher than the original guidance of DKK 400 million. EBIT in the Cancer Immunotherapy division was negative with DKK 411 million (DKK -324 million), which is in line with the original guidance of DKK -400 million.

Net financials
For 2014, Bavarian Nordic posted net financial income of DKK 48 million (DKK 27 million expense). The positive change is attributed to the high USD/DKK exchange rate. The net exchange gain was DKK 53 million (a loss of DKK 22 million), of which unrealized gains related to an intercompany receivable with Bavarian Nordic, Inc. amounted to DKK 38 million (a loss of DKK 12 million).

Tax
Income taxes represented an expense of DKK 38 million (DKK 53 million).

Net profit
Net profit for the year amounted to DKK 26 million (a loss of DKK 47 million). It is proposed that the profit be transferred to free reserves.

Balance sheet

The balance sheet total was DKK 1,887 million as of December 31, 2014 (DKK 1,452 million).

Assets
The intangible assets stood at DKK 109 million (DKK 105 million). The ongoing IMVAMUNE development project amounted to DKK 78 million (DKK 77 million).

Property, plant and equipment increased by DKK 14 million; additions on buildings amounted to DKK 26 million and related to the expansion of the facility in Kvistgaard.

The deferred tax asset has been reduced by DKK 2 million, of which the value of tax losses carried forward has decreased by DKK 31 million.

Inventories amounted to DKK 122 million (DKK 234 million). Write-downs amounted to DKK 46 million (DKK 69 million) as of December 31, 2014 and relates to the full or partial write-down of inventories that are expected not to 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 218 million (DKK 135 million). Most of these receivables were trade receivables of DKK 187 million (DKK 110 million).

As of December 31, 2014, cash and securities stood at DKK 980 million (DKK 532 million). Cash and cash equivalents are primarily placed in deposit accounts with highly rated banks. Securities consist of short-term Danish government and mortgage bonds.

Equity
After the transfer of the profit for the year, equity stood at DKK 1,252 million (DKK 976 million).

Creditors
The Group's borrowings dropped to DKK 35 million (DKK 80 million) in connection with repayment of the USD construction loan. Furthermore the Group also cancelled an unutilized credit facility of DKK 100 million.

Trade payables amounted to DKK 59 million (DKK 114 million). Other liabilities totaled DKK 143 million (DKK 114 million).

In 2014, the Company entered into a global license and supply agreement for the MVA-BN Filovirus (Ebola and Marburg) vaccine candidate with Crucell Holland B.V. Under this contract the Company received a prepayment of DKK 356 million. Total prepayments at December 31, 2014 amounted to DKK 375 million (DKK 150 million). For detailed information on prepayments, see note 25.

OUTLOOK FOR 2015

In 2015, the Company expects revenue at the level of DKK 1,000 million and a break even result before interest and tax (EBIT).

The Company expects to deliver and revenue recognize bulk material totaling approximately 2 million doses of MVA-BN Filovirus vaccine under the Janssen license agreement and 0.3 million doses of IMVAMUNE to the U.S. Strategic National Stockpile, the Public Health Agency of Canada and Canadian Department of National Defence.

Additional revenue is expected from ongoing research and development contracts including the additional funding awarded for the Phase 3 trial for IMVAMUNE, the contract for freeze-dried IMVAMUNE and the contracts for Ebola/Marburg. The upfront payment from the PROSTVAC option- and license agreement with Bristol-Myers Squibb will be revenue recognized when the option is exercised.

The cash preparedness at year end is expected to be in the level of DKK 1,100 million.

As of the reporting date, all known external USD exposure is hedged.

Total research and development costs of approximately DKK 600 million are expected and distributed as shown below.

Research and development costs to occur	**DKK**	**600**	**million**
Of which:			
Contract costs recognized as production costs	DKK	100	million
Capitalized development costs	DKK	25	million
	DKK	**475**	**million**
Expensing (amortization) of prior-year costs attributable to the IMVAMUNE development project	DKK	5	million
Research and development costs recognized in P&L	**DKK**	**480**	**million**

All numbers are approximate

OUR STRATEGY

Bavarian Nordic's strategic ambition is focused on growth strategies that through private and public partnerships will develop and commercialize novel vaccines and immunotherapies against infectious diseases and cancer that address high unmet medical needs.

The strategy is currently underpinned by the Company's proven vaccine platforms, a unique manufacturing infrastructure, expertise in viral-based vaccines and strong partnerships with governmental institutions (NIH, NCI, BARDA) and the pharmaceutical industry.

Strategy	Short term objectives and opportunities
PROSTVAC Commercialize PROSTVAC globally through partnership with Bristol-Myers Squibb	• Advance clinical studies exploring the therapeutic potential of PROSTVAC in combination with Yervoy and other potential checkpoint inhibitors as part of the clinical collaboration with Bristol-Myers Squibb • Finalize validation of the commercial manufacturing process and prepare launch material • Interim analyses of the Phase 3 clinical trial
IMVAMUNE Maintain global leadership in smallpox preparedness and build a long-term revenue stream based on worldwide sales of IMVANEX/IMVAMUNE	• Complete Phase 2 study of freeze-dried IMVAMUNE to support a pre-EUA submission (requirement for stockpiling) (2015) • Complete transfer of validated freeze-dried manufacturing process to a commercial scale facility (2015) • Secure IMVANEX/IMVAMUNE orders from rest of world
Ebola partnership with Janssen Establish a global leadership in Ebola preparedness and treatment through collaboration with Janssen	• Manufacture and deliver MVA-BN Filo vaccine to Janssen (targeting 2 million doses to contribute to the prime-boost regimen) (2015) • Initiation of Phase 2 and Phase 3 clinical trials of the Ebola prime-boost vaccine regimen • Potential new orders for MVA-BN Filo • Potential expanded collaboration with Janssen on additional infectious disease targets
Growing a balanced pipeline Establish a global leadership position in the rapidly growing field of cancer immunotherapy by expanding our pipeline and introducing new combinations involving cancer immunotherapies Utilize the proprietary vaccine platforms to expand the infectious disease vaccine pipeline to meet high unmet medical needs	• Investigational New Drug submission for MVA-BN RSV followed by initiation of Phase 1 study (H1, 2015)

Product pipeline

Product	Indication	Partner	Phase 1	Phase 2	Phase 3	Market
IMVANEX/IMVAMUNE 1-4)	Smallpox	BARDA				●
IMVAMUNE freeze-dried[1)]	Smallpox	BARDA		●		
PROSTVAC	Prostate Cancer	Bristol-Myers Squibb			●	
PROSTVAC + enzalutamide	Prostate cancer	NCI		●		
PROSTVAC + ipilimumab	Prostate cancer	NCI	●			
CV-301 Bladder combination[1)]	Bladder cancer	NCI		●		
MVA-BN Brachyury[1)]	Metastatic tumors	NCI	●			
MVA-BN Filo + AdVac®[1)]	Ebola/Marburg	Janssen, NIH	●			
MVA-BN RSV	RSV		in 2015			

[1)] Externally 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

BARDA: Biomedical Advanced Research and Development Authority
NCI: National Cancer Institute
NIH: National institutes of Health

The clinical pipeline currently comprises nine active programs in infectious diseases and cancer, most of which are funded externally through either private or governmental partnerships. A recent assessment of the portfolio has led to a prioritization that has resulted in a number of changes, including:

- Increased focus on combinatorial treatments in cancer, using Bavarian Nordic's immunotherapy platform in combination with immune checkpoint inhibitors to target relevant indications with an unmet medical need. As a result, the CV-301 portfolio is being refocused with non-small cell lung cancer as the first indication. Following the production of clinical material in 2015 the first trial is anticipated in 2016.
- Discontinuation of clinical development of MVA-BN-based vaccines for breast and prostate cancer.

In addition to the clinical pipeline, Bavarian Nordic has ongoing contracts with the U.S. Government for the preclinical evaluation of recombinant MVA-BN vaccine candidates for selected biological threats (e.g. foot-and-mouth disease virus and Burkholderia).

OUR TECHNOLOGY PLATFORMS

Bavarian Nordic has built its foundation around two poxviral-based vaccine platform technologies, that have the potential to support a broad product pipeline in both infectious diseases and cancer immunotherapies.

The Company has built its foundation around two poxviral-based vaccine platform technologies, Modified Vaccinia Ankara – Bavarian Nordic (MVA-BN) and Vaccinia-Fowlpox-TRICOM (VF-TRICOM) that have the potential to support a broad product pipeline in both infectious diseases and cancer immunotherapies. Both technologies can be manufactured at commercial scale at Bavarian Nordic's own facility, which was recently expanded to accommodate the production of multiple products.

MVA-BN
MVA-BN is approved as a smallpox vaccine in Canada and the EU (under the trade names IMVAMUNE and IMVANEX respectively). However, MVA-BN is capable of acting as a delivery vehicle for genes expressing proteins from other diseases and as such is a robust and adaptable vaccine platform suitable for addressing a wide variety of infectious diseases and cancers.

A major advantage of MVA-BN is the virus' inability to replicate in a vaccinated individual, in contrast to the original smallpox vaccines. The replication cycle is blocked at a very late stage, which ensures that new viruses are not generated and released in the body. This means that the virus cannot spread in a vaccinated person, which likely contributes to the favorable safety profile observed for

MVA-BN-based vaccines in more than a dozen clinical studies conducted by Bavarian Nordic. More than 7,600 individuals, nearly 1,000 of whom are immunocompromised, have been vaccinated with MVA-BN-based vaccines, showing the platform displays high immunogenicity and a favorable safety profile.

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 200 pending patent applications and about 650 granted/issued patents, including patent applications covering new inventions that will be filed in additional jurisdictions. 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.

VF-TRICOM
Bavarian Nordic's cancer immunotherapy candidates, PROSTVAC and CV-301 both employ the VF-TRICOM technology, which includes a vaccinia-based priming dose (V) followed by multiple fowlpox-based boosting doses (F), and incorporates 3 human immune costimulatory molecules (TRICOM: TRIad of COstimulatory Molecules) engineered to enhance immune system response to the tumor target. Both the priming and boosting doses encode one or more tumor-associated antigens, intended to activate the body's immune system against these antigens. The data from clinical studies conducted to date suggest that this heterologous prime/boost regimen leads to an anticancer immune response of greater magnitude and quality than regimens using only a homologous repeating treatment approach.

Bavarian Nordic has exclusively licensed certain patents covering PROSTVAC and CV-301. The two portfolios comprise about 24 pending patent applications and more than 170 granted/issued patents. These portfolios strategically position Bavarian Nordic to develop PROSTVAC and CV-301 in the field of recombinant vaccine patents and their uses. In addition, the Company has obtained non-exclusive rights to related patents and technologies.

OUR MANUFACTURING

Bavarian Nordic's large scale manufacturing site stands out as one of the Company's most important assets to leverage and create future value of the Company's R&D activities.

Across the pharmaceutical industry, vaccine manufacturing is considered the most challenging and demanding process from a control and quality point of view. Having built experience through many years, Bavarian Nordic's large scale manufacturing site in Kvistgaard, Denmark stands out as one of the Company's most important assets to leverage and create future value of the Company's R&D activities.

To fully benefit from the in-house expertise in poxvirus-based vaccine manufacturing, as well as to optimize the use of the facility, Bavarian Nordic has transformed it into a multipurpose facility to meet the Company's manufacturing requirements in the short, medium and long-term. This allows for a more flexible manufacturing approach and reduces dependence upon subcontractors. The facility already had the necessary quality systems and other support functions in place, thus limiting the required investment for expansion. Construction was finalized during the summer of 2014 on time and on budget.

Over the past years, the Company has succeeded in significantly optimizing the production efficiency, and accordingly has turned smallpox vaccine production into a profitable business. This is reflected by increasing gross margins over time on vaccines deliveries to the U.S. Government. Another example is the recent experience with production of a new Ebola vaccine where the yield was increased significantly over very short time, enabling the Company to double the estimates for the final drug product. Over time, further improvements of the manufacturing process and its productivity are expected, thus aiming to further improve the profitability of the current and future expected contracts.

In 2015 we plan to manufacture IMVAMUNE, Ebola vaccines, clinical batches to support future trials and collaborations, while also preparing for the PROSTVAC manufacturing process for commercial launch.

PROSTVAC

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). A robust data package has been established that includes 13 ongoing or completed clinical Phase 1, Phase 2 and Phase 3 studies, where more than 1,200 patients have been treated with PROSTVAC, which has been generally well-tolerated.

A randomized, placebo-controlled Phase 2 study 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 the pivotal Phase 3 clinical trial (PROSPECT). Other clinical studies of PROSTVAC in combination with immune checkpoint inhibitors, radiation, hormonal therapy or chemotherapy, either concomitantly or sequentially, have indicated possible therapeutic synergies for these treatment combinations.

PROSTVAC is being developed under a cooperative research and development agreement (CRADA) with the U.S. National Cancer Institute (NCI). An agreement was entered with Bristol-Myers Squibb in March 2015, providing them an exclusive option to license and commercialize PROSTVAC.

The PROSPECT Phase 3 study
The PROSPECT study is a global randomized, double-blind, placebo-controlled study in patients with asymptomatic or minimally symptomatic mCRPC. The trial is being conducted under a Special Protocol Assessment agreement with the FDA. A total of 1,298 patients have been enrolled at more than 200 investigative sites in 15 countries.

The primary objective of the 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 that of patients receiving placebo. The final analysis of the study will occur when 534 deaths have occurred in either one or both comparisons of the active treatment arms vs. placebo.

Although the study is powered to detect a difference in survival between active treatment and placebo at final analysis, three pre-specified interim analyses of data have been integrated in the statistical plan to evaluate whether the trial should continue as planned or potentially be stopped early for efficacy. In such case, a Biologics License Application may be filed at an earlier stage, potentially shortening the overall development time.

What are targeted active immunotherapies?

Targeted active 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 aim to decrease decrease the tumor growth rate, potentially resulting in a prolonged overall survival while maintaining a favorable risk-benefit profile. This offers a strong scientific rationale to evaluate active immunotherapy not only as monotherapy, but also in combination with other treatments, including immune checkpoint inhibitors, hormonal therapy, and radiation therapy.

Other ongoing PROSTVAC clinical studies

PROSTVAC is currently the subject of four NCI-sponsored Phase 2 clinical studies.

PROSTVAC combined with enzalutamide (Xtandi®) to treat metastatic castration-resistant prostate cancer. Enzalutamide is a next-generation androgen deprivation therapy approved by the FDA. The study is expected to enroll 76 patients who will be randomized to receive enzalutamide with PROSTVAC treatment or enzalutamide alone. The primary endpoint is progression-free survival.

PROSTVAC combined with enzalutamide to treat non-metastatic castration sensitive prostate cancer. The study is expected to enroll 34 patients who will be randomized to receive enzalutamide with PROSTVAC treatment or enzalutamide alone. The primary endpoint is based on PSA kinetics (tumor re-growth rate after enzalutamide is discontinued).

PROSTVAC combined with flutamide (anti-androgen therapy) versus flutamide alone in 62 patients with non-metastatic prostate cancer. The study is fully enrolled and awaiting final data. Preliminary 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).

PROSTVAC as neoadjuvant therapy in patients with prostate cancer undergoing treatment with radical prostatectomy. The study is expected to enroll 27 patients. The primary endpoint is the effect of PROSTVAC treatment on immune cells (measured by CD4 and CD8 cell infiltrate response) in the prostate.

PROSTVAC AGREEMENT WITH BRISTOL-MYERS SQUIBB

In March 2015, Bavarian Nordic entered into an agreement with Bristol-Myers Squib, potentially valued at up to nearly USD 1 billion. The agreement provides Bristol-Myers Squibb an exclusive option to license and commercialize PROSTVAC globally.

The agreement is a strong validation of Bavarian Nordic's cancer immunotherapy platform technology which may benefit other current and future projects in the Company's pipeline.

Terms of the agreement
Under the terms of the agreement, Bavarian Nordic received an upfront payment of USD 60 million and could be entitled to a payment of USD 80 million upon exercise of the option, which could occur after data from the ongoing Phase 3 trial is available.

In addition, Bavarian Nordic could be entitled to additional incremental payments starting at USD 50 million, but with a potential to exceed USD 230 million should the median overall survival benefit of PROSTVAC exceed the efficacy seen in Phase 2 results. Furthermore, Bavarian Nordic could receive regulatory milestone payments of USD 110 million, up to USD 495 million in sales milestones as well as tiered double-digit royalties on future sales of PROSTVAC.

The parties have also agreed to enter into a supply contract, under which Bavarian Nordic will undertake the future commercial manufacturing of PROSTVAC.

Bristol-Myers Squibb – a partner of choice

Bristol-Myers Squibb is a leading global pharmaceutical company with a strong presence in the immuno-oncology market and as such is considered an ideal partner for Bavarian Nordic to explore the full potential of PROSTVAC as a stand-alone treatment as well as in combination with immune checkpoint inhibitors from Bristol-Myers Squibb's portfolio.

Bristol-Myers Squibb has the anti-CTLA-4 antibody Yervoy (ipilimumab) — the first approved immune checkpoint inhibitor as well as the fully human PD-1 inhibitor Opdivo (nivolumab) which received FDA approval in March 2015.

Exploring the full potential of PROSTVAC in combination trials

As part of the agreement, the companies have also entered into an agreement by which they may conduct one or more exploratory combination studies of PROSTVAC and agents from Bristol-Myers Squibb's immuno-oncology portfolio. An investigator sponsored Phase 2 study is already in the planning stages to investigate the combination of PROSTVAC and ipilimumab later this year.

PROSTVAC and ipilimumab combination results warrant further investigation
In February 2015, Bavarian Nordic announced promising updated overall survival data from an NCI sponsored Phase 1 combination study of PROSTVAC and ipilimumab.

30 patients with metastatic castration-resistant prostate cancer were enrolled in the study at a time where docetaxel was the only FDA-approved treatment that improved overall survival. The predicted median overall survival (OS) was 18.5 months. Patients were treated with PROSTVAC plus escalating doses of ipilimumab. The observed median OS was 31.3 months for all dose cohorts and 37.2 months for patients treated at 10 mg/kg based. Furthermore, approximately 20% of patients at 10 mg/kg remain alive at 80 months.

These data represent perhaps the most compelling survival benefit seen to date in this late-stage setting, and provide a strong rationale to continue to evaluate the combination of PROSTVAC and checkpoint inhibitors in follow-on clinical studies.

IMVAMUNE

Through the development of novel vaccines for protection of the public in health emergencies, we have established a successful business in infectious diseases, encompassing a full value chain of research, development and manufacturing capability, initially focused on our smallpox vaccine, IMVAMUNE.

IMVAMUNE® smallpox vaccine
Approved in Canada and in the European Union (marketed under the trade name IMVANEX®)

IMVAMUNE is a non-replicating smallpox vaccine, suitable for use in people for whom replicating smallpox vaccines are contraindicated (e.g. people with HIV and atopic dermatitis). The vaccine is the only non-replicating smallpox vaccine approved for use in the general adult population. In the U.S., IMVAMUNE is stockpiled for emergency use in people for whom replicating smallpox vaccines are contraindicated. Registration studies are underway to support FDA approval for use of the vaccine in the entire population.

The development of IMVAMUNE is funded by the U.S. Government, through contracts with the Biomedical Advanced Research and Development Authority (BARDA), a division of the U.S. Department of Health and Human Services (HHS) and the National Institutes of Health (NIH). Contracts awarded to date for the development and supply of the vaccine 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.

Deliveries to the U.S. Strategic National Stockpile (SNS)
Since 2010, Bavarian Nordic has delivered 28 million doses of IMVAMUNE to the SNS. The deliveries of the initial 20 million doses were completed in 2013 and the subsequent replenishment orders for 8 million doses were initiated in 2013 with the final deliveries occurring in early 2015.

Bavarian Nordic is well positioned for future delivery contracts with the U.S. Government. By awarding a contract to develop a freeze-dried formulation of IMVAMUNE, the U.S. Government signaled its strong commitment to develop an improved formulation of IMVAMUNE that can be procured and stockpiled for emergency use in the SNS.

Sales outside U.S.
In August 2014, Bavarian Nordic signed two contracts with the Canadian authorities for the delivery of a total of 65,700 doses of IMVAMUNE. Deliveries were initiated in 2014 and will run into 2015. The contracts contain options for more than 450,000 additional doses.

Before being approved in the EU and Canada, commercial quantities of the vaccine were produced and sold to other governments globally under their national emergency rules. Bavarian Nordic continues to explore additional market opportunities and expects further sales outside the U.S. in the coming years.

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 which is designed to demonstrate non-inferiority between IMVAMUNE and ACAM2000, the current U.S. licensed smallpox vaccine.

In the first Phase 3 study, a total of 3,000 people were vaccinated with three different manufacturing lots of IMVAMUNE (1,000 subjects per IMVAMUNE lot) and the safety compared to 1,000 subjects receiving placebo. Data from the trial are expected in 2015.

The second Phase 3 study comparing the safety and immunogenicity of IMVAMUNE to ACAM2000 was initiated at a U.S. military garrison in South Korea in the first quarter of 2015.

Freeze-dried IMVAMUNE
In April 2014, the U.S. Government exercised an option at a value of USD 22 million under the ongoing development contract to fund the transfer of the manufacturing process to a new manufacturing line with a larger commercial capacity in preparation for future production of this formulation of the vaccine.

Data to support the clinical requirements for emergency use of the freeze-dried vaccine in the U.S. are currently being finalized and will be submitted to the FDA in 2015.

These activities will potentially support the production and supply of freeze-dried IMVAMUNE in 2016. Procurement would need to be conducted through a new contract, which would be awarded following a public tender from the U.S. Government.

U.S. Government contracts as of December 31, 2014

USD million	P&L		Cash Flow		
	Contract value	Revenue recognized	To be recognized	Received	To be received
IMVAMUNE RFP-3 Clinical development and registration of IMVAMUNE Delivery of 28 million doses	778	757	21	735	43
IMVAMUNE RFP-1 and RFP-2 Preclinical/early clinical development of IMVAMUNE	130	130	0	130	0
IMVAMUNE Freeze-dried RFP Development of freeze-dried IMVAMUNE	95	54	41	47	48
MVA-BN Ebola/Marburg Preclinical development	18	4	14	4	14
MVA-BN Foot-and-mouth disease Preclinical development	1	1	0	1	0
MVA-BN Burkholderia Preclinical development	1	1	0	1	0
TOTAL	**1,023**	**947**	**76**	**918**	**105**

EBOLA PARTNERSHIP WITH JANSSEN

In 2014, Bavarian Nordic joined the fight against Ebola. In response to the current crisis in West Africa, Bavarian Nordic and its partners accelerated the development and production of a new vaccine, which may eventually be deployed in a campaign to help stem the outbreak. Two million doses of Bavarian Nordic's vaccine are expected to be available during 2015.

This important development was possible because Bavarian Nordic recognized the public health dangers of Ebola and initiated a filovirus vaccine program in 2010,, when a collaboration agreement was entered with the U.S. National Institute of Allergy and Infectious Diseases (NIAID), part of the National Institutes of Health (NIH). The aim was to advance the MVA-BN technology to develop a vaccine against two filoviruses, Ebola and Marburg, for which no approved treatment exists.

The multivalent vaccine candidate, MVA-BN Filo, contains the glycoprotein of Ebola Zaire (the species responsible for the current outbreak in Western Africa), Ebola Sudan and Marburg. This construct is designed to provide protection from the three most common causes of viral hemorrhagic fevers.

In a study conducted under NIAID's preclinical services program, MVA-BN Filo was investigated in a prime-boost regimen with the Ad26.ZEBOV vaccine from Janssen. When both vaccines were administered two months apart, complete protection from death due to Ebola Zaire was achieved.

The findings from this and other preclinical studies indicate that a more robust and durable immune response is achieved with a prime-boost vaccine that includes MVA.

License and supply agreement with Janssen on MVA-BN Filo

The promising preclinical results with MVA-BN Filo spurred a sudden interest from the public as well as the pharmaceutical industry. In record time, a deal was signed in October 2014 with Crucell Holland B.V., one of the Janssen Pharmaceutical Companies of Johnson & Johnson.

The deal was part of a commitment made by Johnson & Johnson of more than US$200 million to accelerate and significantly expand the production of an Ebola vaccine program.

Under the terms of the agreement Bavarian Nordic granted Janssen an exclusive license for MVA-BN Filo. Bavarian Nordic received an upfront payment of US$ 25 million and is entitled to receive up to US$ 20 million in development and regulatory milestones, in addition to royalties for commercial sales outside Africa, where the Company has refrained from receiving royalties. Janssen will be fully responsible for all costs associated with the development and commercialization of the vaccine.

Furthermore, Bavarian Nordic will manufacture bulk vaccine anticipated to yield approximately 2 million doses of MVA-BN Filo based on an agreed number of production batches, for which the Company has received an initial payment of US$ 70.8 million and will receive additional US$ 28.5 million pro rata with deliveries in 2015.

Additionally, under the agreement, Johnson & Johnson Development Corporation

invested approximately US$ 43 million for new shares of Bavarian Nordic, thus obtaining nearly a 5% ownership inthe Company.

In emergency outbreak situations like the current ongoing Ebola outbreak in Western Africa, the agreement does not exclude Bavarian Nordic from collaborating with other parties in the development and supply of Ebola vaccines for pre-clinical and clinical studies.

In addition to the ongoing and planned trials of the MVA-BN Filo/Ad26.ZEBOV prime-boost regimen, MVA-BN Filo has been employed as a booster in a Phase 1 study of cAd3-EBO Z, an Ebola candidate vaccine co-developed by GSK and NIAID. The trial, sponsored by the University of Oxford, is assessing the monovalent cAd3-EBO Z vaccine in 60 healthy adults in three cohorts receiving various doses of the cAd3-EBO Z vaccine. Half of the subjects in each cohort will also receive a booster dose of the MVA-BN Filo vaccine. Preliminary results from the study are anticipated in the first half of 2015.

Additional infectious diseases targets under Janssen collaboration

Following the Ebola vaccine agreement, Bavarian Nordic and Janssen agreed to collaborate on the evaluation of MVA-BN for three additional infectious disease targets. Janssen is granted the exclusive option to collaborate on one or more of the targets following preclinical evaluation of MVA-BN-based vaccine candidates, which will be developed by Bavarian Nordic.

Clinical development of the prime-boost Ebola vaccine regimen

Backed by worldwide health authorities, the clinical development of the AdVac/MVA-BN Filo prime-boost vaccine regimen is being fast-tracked by Janssen and Bavarian Nordic. The first in human trial of the vaccine regimen was initiated in January 2015.

The first Phase 1 study, which is led by the Oxford Vaccines Group, part of the University of Oxford, is evaluating the safety and tolerability of the prime-boost regimen in 72 healthy adult volunteers, randomized into four groups to receive different regimens combining the two vaccine components.

A second Phase 1 study was initiated in the U.S. The study will enroll 92 healthy volunteers and is also designed to investigate the safety and tolerability of various regimens combining the two vaccine components.

A third Phase 1 study has been planned for initiation in Africa in the first quarter of 2015.

Phase 2 and 3 trials in Europe and Africa, subject to review of the preliminary Phase 1 data, will be carried out in parallel.

GROWTH OPPORTUNITIES IN THE PIPELINE

A solid financial position offers the opportunity for Bavarian Nordic to accelerate the development of our pipeline, which contains a number of projects with a large commercial potential. The initial focus will be initiating clinical trials of an MVA-BN-based RSV vaccine and of CV-301 in non-small cell lung cancer. Additional growth opportunities could arise from our robust collaboration with the NCI on cancer immunotherapies, or from private or governmental partnerships.

RSV (respiratory syncytial virus)

The development of an RSV vaccine using the MVA-BN vaccine platform is a key opportunity to further diversify the infectious disease pipeline and address a high unmet medical need, as currently there are no approved RSV vaccines.

RSV is the most common cause of lower respiratory tract infection in infants and children worldwide, resulting in a high number of hospitalizations. Most infants are infected before 1 year of age, and virtually everyone gets an RSV infection by 2 years of age. In addition, RSV causes serious disease in elderly and immune compromised individuals, and results in a comparable number of deaths in the elderly population as influenza. It is estimated that more than 64 million people are infected globally each year, thus representing a blockbuster market opportunity for a safe and effective vaccine.

Bavarian Nordic's recombinant MVA-BN-based RSV vaccine candidate has been shown to induce a balanced humoral and cellular immune response against both RSV subtypes in preclinical models. Furthermore, the candidate has been shown to be highly efficacious in preclinical models, including in studies sponsored by the NIH. Following a positive pre-IND discussion with the FDA, an NIH sponsored toxicity study has been initiated that will support the filing of an IND and initiation of a Phase 1 study in healthy adults in the first half of 2015.

MVA-BN Brachyury

MVA-BN Brachyury is a novel, active immunotherapy developed using Bavarian Nordic's proprietary validated MVA-BN platform. It is designed to induce a robust T cell immune response against Brachyury, a tumor-associated antigen which is overexpressed in major solid tumor indications. Brachyury is reported to play a key role in the metastases and progression of tumors. Tumors which overexpress Brachyury are believed to be highly resistant to current therapies and are associated with decreased survival rates.

An NCI-sponsored Phase 1 study of MVA-BN Brachyury in patients with advanced cancer is ongoing. The study is an open label, Phase 1 trial that will enroll patients with advanced cancer into three cohorts (3-6 patients per dose cohort) with dose escalation of MVA-BN Brachyury. Additional patients may be enrolled at the maximum tolerated dose. The objective of the study is to determine the safety and tolerability of escalating doses of MVA-BN Brachyury and to evaluate immunologic responses as measured by an increase in Brachyury-specific T cells.

CV-301 for multiple cancers

CV-301 is an active cancer immunotherapy candidate which targets two tumor-associated antigens (CEA and MUC-1) that are over-expressed in major cancer types, including lung, bladder, head & neck and colorectal cancer. CV-301 and its precursors have been tested in 16 ongoing or completed NCI-sponsored clinical studies in various cancers, and more than 400 patients have been treated with the product candidate. NCI continues to investigate CV-301 in various clinical settings as part of the CRADA signed in 2011.

Combination treatments continue to play an ever more important role in the rapidly changing cancer treatment paradigm. The synergistic clinical benefit seen with PROSTVAC in combination settings is believed also to apply to CV-301. Specifically, recent preclinical data provide a clear rationale for combining CV-301 with immune checkpoint inhibitors.

Immune checkpoint inhibitors have shown promising efficacy as single agent treatments in clinical studies in various cancers. However, the majority of cancer patients are not responding to immune checkpoint inhibitors, and this is related to low or negative PD-L1 expression. This limited effect is believed to be in part due to individual patients lacking a proper immune response to attack the tumors. CV-301 equips the immune system with the ability to seek out and destroy these tumors.

In light of these developments, Bavarian Nordic has revised its strategy for the development of CV-301 towards combinatorial use of CV-301 with immune checkpoint inhibitors. While the Company has rights to multiple indications for CV-301, the initial target will be non-small cell lung cancer (NSCLC), which is often advanced and difficult to treat.

While CV-301 is currently undergoing a clinical trial in bladder cancer, the Company has worked to improve the CV-301 construct and will initiate production of new clinical trial material in the coming months.

CV-301 in non-small cell lung cancer
Lung cancer is the second most common cancer and is by far the leading cause of cancer death. Each year, more people die of lung cancer than of colon, breast, and prostate cancers combined. About 85% of lung cancers are non-small cell lung cancer (NSCLC) which has different subtypes (squamous cell carcinoma, adenocarcinoma, and large cell carcinoma). Analysts estimate that the global market for NSCLC treatments will increase from US$ 5 billion in 2013 to almost US$ 8 billion by 2020.

About 70% of NSCLC patients are reported to have low or negative PD-L1 expression, which is often correlated to a lesser response to checkpoint inhibition. This presents a significant opportunity to deploy optimized combination immunotherapy regimens for broader treatment efficacy.

With this strong rationale for combining active immunotherapy with immune checkpoint inhibitors, Bavarian Nordic has selected NSCLC as the primary indication for the development of a treatment that combines CV-301 with an immune checkpoint inhibitor such as an anti-PD-1 agent. The objective is to improve the progression-free survival, which offers relatively fast access to data. Regulatory discussions will take place in 2015, where also trial material will be manufactured to support a clinical Phase 1 study in 2016.

CV-301 in bladder cancer
In April 2014, an NCI-sponsored, randomized, prospective Phase 2 study of CV-301 alone or in combination with BCG (Bacillus Calmette-Guerin) treatment in bladder cancer was initiated.

CV-301 is thought to activate a potent antitumor immune response against bladder cancer cells which express the CEA and MUC-1 antigens. Together with a BCG-induced immune response, the combination therapy has the potential to improve survival in patients whose disease has progressed following an induction course of BCG.

The study is expected to enroll 54 patients with high grade non-muscle invasive bladder cancer whose cancer has progressed after initial BCG treatment. The primary endpoint is to determine if there is an improvement in disease-free survival for patients receiving CV-301 immunotherapy in combination with BCG treatment compared to those receiving BCG treatment alone.

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 2014, the Company increased its robustness and thereby decreased the risk in the production through implementation of a variety of changes throughout the entire production process. The Company also focused on recruitment in the Phase 3 trial of PROSTVAC and the enrollment target of 1,200 patients was reached in December. The primary risk to the revenue in 2014 was related to the production and deliveries of IMVAMUNE to the U.S. and thus an important point of focus.

The primary risks in 2015 relate to the continued tech transfer of PROSTVAC, production and deliveries of bulk drug substance of MVA-BN Filo to Janssen and the recruitment of patients for the Phase 3 trial of IMVAMUNE.

Risk factors
Expectations and assumptions in the annual report concerning Bavarian Nordic's business - the market for vaccines against smallpox, Ebola, 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:

- Securing new IMVAMUNE delivery contracts with the U.S. Government
- Securing IMVAMUNE/IMVANEX contracts with other governments
- Continued improvements in production of IMVAMUNE
- Preparations for commercial manufacturing of PROSTVAC and commercial manufacturing of MVA-BN Filo 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, future revenue and net finances
- Performance of Bavarian Nordic's subcontractors
- Duration and outcome 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
- Tax risks
- Risks related to IT in general including protection against attempts to intrude firewall and servers
- All staff are performing according to the Company's Standard Operational Procedures and Policies in order to reduce risk for production and delivery failures as well as fraud or other losses

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 currency contracts can be settled when the contracts are due for extension. As long as the DKK is linked to the EUR the Company's revenue and costs in EUR will not be hedged.

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 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 monthly and to the Board of Directors quarterly. In non-quarterly months the Board of Directors receive an executive summary.

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.

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 Good Laboratory Practice (GLP), Good Clinical Practice (GCP) and Good Manufacturing Practice (GMP). There are effective procedures for identifying, monitoring and reporting IT risks and security measures set up to respond to emerging events.

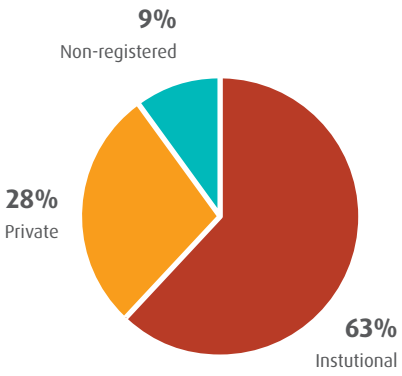
THE BAVARIAN NORDIC SHARE

The strong progress, many important operational milestones, solid financial position, and not least the partnership agreement with Janssen on Ebola, have all been appreciated by the capital markets in 2014. Looking ahead, 2015 is also projected to be a busy and decisive year for the company with a number of important value creating milestones.

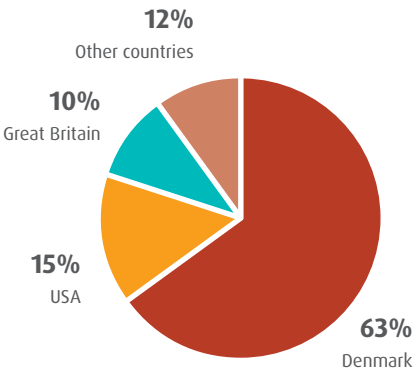
The price of Bavarian Nordic's share increased almost 122 per cent during the year, with the price at year-end 2014 DKK 197.5, versus DKK 89 at year-end 2013 reaching a market cap of close to USD 1bn. The share price increased under strong and increasing trading volume predominantly from international institutional healthcare specialist investors.

American Depositary Receipts
Bavarian Nordic has 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.

Distribution of share capital
by shareholder category



Geographic distribution of shareholders
in percentage of registered share capital



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

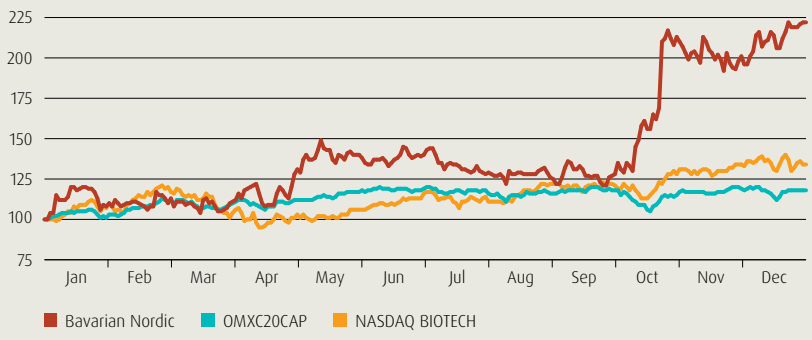
Developments in the share capital
The share capital was increased in 2014 by DKK 15,768,860 as result of capital increases following exercise of warrants by employees as well as issue of new shares through a direct placement to Johnson & Johnson Development Corporation (JJDC) in connection with the license agreement and supply agreement for the Company's MVA-BN Filo vaccine candidate with Janssen. JJDC subscribed for 1,331,984 new shares at a subscription price of DKK 188.44 per share of DKK 10, raising gross proceeds to Bavarian Nordic of DKK 251 million. All shares are listed on the Nasdaq Copenhagen exchange.

Ownership
As of December 31, 2014, Bavarian Nordic had 22,311 registered shareholders owning 25,131,879 shares, which corresponds to 91 per cent of the share capital. The

Core data

Share capital	DKK 276,712,470
Nominal value per share	DKK 10
Number of shares	27,671,247
Voting rights	One vote per share
Free float	100%
Stock exchange	Nasdaq Copenhagen
Ticker symbol	BAVA
ID code	DK0015998017
Bloomberg code	BAVA:DC
Reuters code	BAVA.CO
ADR ticker symbol	BVNRY

Share price development compared to indices



number of registered shareholders increased by 9 % in 2014. 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 increased its foreign ownership, in particular in the U.S., where the ownership increased by 50 per cent over the year mainly due to the Johnson & Johnson Development Corporation investment. Bavarian Nordic does not hold any of its own shares.

As of March 11, 2015, the following shareholders had publicly informed Bavarian Nordic that they owned five per cent or more of the Company's shares: Arbejdsmarkedets Tillægspension (ATP), Hillerød, Denmark (10.2%).

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.

Annual General Meeting
The 2015 Annual General Meeting will be held at 4 pm CET on Thursday, April 23, 2015, at the Comwell Borupgaard, Nørrevej 80, DK-3070 Snekkersten, Denmark.

Investor relations
The Company wishes to continue to develop its active 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. 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
Bavarian Nordic is followed by a number of domestic and international who regularly make comments and recommendations based on the Company's performance and factors that may influence its business and future development of the share price. During 2014, three new analysts from the United Kingdom and the U.S. initiated coverage of the Bavarian Nordic share. Analyst details are found on the Company's website.

Services for shareholders
The Company has established a shareholder portal where registered shareholders can sign up for a number of electronic information services, as well as request admission cards and/or vote by proxy for the general meetings. The portal is found at www.bavarian-nordic.com/shareholder.

Financial calendar 2015

23 April 2015	Annual General Meeting
5 May 2015	Financial Statements for the first quarter of 2015 (Q1)
25 August 2015	Financial Statements for the first half of 2015 (Q2)
3 November 2015	Financial Statements for the first nine months of 2015 (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.

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CORPORATE SOCIAL RESPONSIBILITY

In Bavarian Nordic, we contribute to the society by developing and manufacturing vaccines that provide protection against deadly diseases and new therapies holding the potential to improve the future treatment of cancer patients. While seeking to create a growing, sustainable business, we are committed to being socially and environmentally responsible and to comply with all relevant laws, standards and guidelines. We maintain a strong corporate governance structure and communicate openly and transparently about our CSR efforts, which are primarily concentrated on five focus areas: *our products*, *our environment*, *our employees*, *our suppliers* and *business ethics*.

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

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

Highlights from 2014
To meet the current and future production requirements, we completed the expansion of our manufacturing facility, thus increasing the total floor space by 11%. Nevertheless, by implementing energy saving measures, we managed to reduce the overall energy consumption at the site by 7%.

Our aggregate climate impact was only slightly higher by 6% compared to 2013, despite significantly increased manufacturing activities as result of transitioning to multiple product manufacturing. Due to a better utilization of energy and resources, we managed to reduce our relative climate impact by 22%.

In line with our targets, we also reduced the relative consumption of chemicals and raw materials on largely all parameters, which is a result of improved manufacturing efficiency, but also attributed to improvements in the sourcing of raw materials for our different manufacturing campaigns.

We are focused on health and employee well-being and were pleased to record a drop in sickness absence, landing at a rate of 3.1%, which is below the average for Danish companies and also below our target of 4%. We also reported a very low rate of occupational accidents compared to other companies.

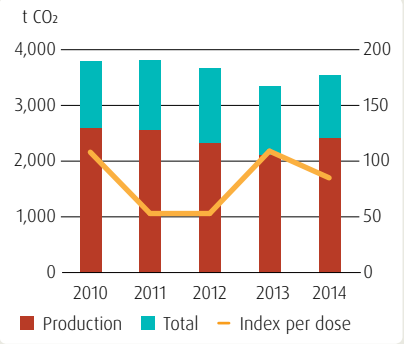
Goals
Our CSR goals are driven by rational operational measures that support the Company's general strategy of creating a profitable business. We are constantly working to identify areas that are crucial to the Company's business and are expected to have a positive impact on performance in working towards to the CSR targets set.

As an overall goal, we seek to minimize the environmental impact from our production. To help achieve this goal, we will work to increase recycling of waste and reduce the relative consumption of chemicals in our production. We will also work to maintain the relative energy consumption from production below our target.

By continuing a proactive work, a high level of employee involvement and awareness, we seek to maintain a low level of absence and occupational accidents.

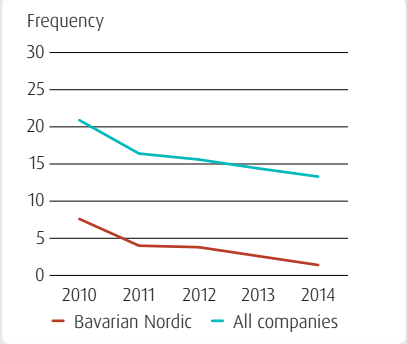
Selected data from the CSR report

Carbon footprint



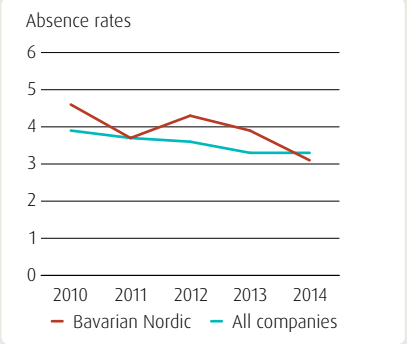
Total CO_2 emissions and indexed CO_2 emissions per dose of vaccine.

Occupational accidents



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

Sickness absence



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

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 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, Bavarian Nordic publishes a statutory report on Corporate Governance, cf. Section 107 b of the Danish Financial Statements Act.

The statutory report 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 ("the Board") and the Corporate Management. The Board 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 supervises the Company in a general sense and ensures that it is managed in an adequate manner and in accordance with applicable law and the Company's articles of association.

The work and composition of the Board of Directors
The Board discharges its duties in accordance with the rules of procedure of the Board. The rules of procedure are reviewed and updated by all members of the Board.

The Board consists of five 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 are elected; currently the Board has no employee representation. The Board elects a chairman from among its members.

All members of the Board are men. The Board has set a target for representation of the under-represented gender: 15%, equivalent to one person, and the target must be met in 2017 at the latest. The target was set taking into account the composition of the current Board and the boards of peer companies, but also considered ensuring continuity on the Board, which is why the target is considered to be both realistic and ambitious.

In 2014, the Company maintained an equal distribution of men and women in other managerial positions with 47% and 53 % respectively.

In 2014, nine 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 receive a fee, which has been 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 2014 was DKK 500 thousand, and fees paid to each of the ordinary members amounted to DKK 250 thousand, equivalent to a total of DKK 1,500 thousand. The members of the Board did not receive any other remuneration from Bavarian Nordic in 2014. The members of the Board have previously been awarded warrants cf. the Company's guidelines for incentive remuneration (see also note 27 in the consolidated financial statements).

Practices of the Corporate Management
The Corporate Management is currently Paul Chaplin, President and CEO of the Company and Ole Larsen, CFO of the Company. Members of the Corporate Management are appointed by the Board, 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. The day-to-day operations do not include transactions of an unusual nature or of material importance to the affairs of Bavarian Nordic.

MANAGEMENT OF BAVARIAN NORDIC

Board of Directors

Gerard van Odijk
Chairman of the Board since 2014; member since 2008. Re-elected in 2014 for a one-year term. Independent. Dr. van Odijk is a Dutch national, born in 1957.

Independent advisor for the pharmaceutical industry. Formerly president and CEO of Teva Pharmaceuticals Europe B.V. Member of the board of UDG Healthcare plc and of and of Alvogen Lux Holdings SARL. Dr. van Odijk received his M.D. from the University of Utrecht.

Special competences: Medical qualifications and extensive executive background within publicly traded companies in the international pharmaceutical industry.

Anders Gersel Pedersen
Deputy chairman since 2014; member since 2010. Re-elected in 2014 for a one-year term. Independent. Dr. Pedersen is a Danish national, born in 1951.

Executive vice president of research and development at H. Lundbeck A/S. Deputy chairman of the board of Genmab A/S and a member of the board of directors of ALK-Abelló A/S. 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.

Special competences: Scientific qualifications, particularly in oncology, and extensive board and management experience from publicly traded, international pharmaceutical and biotech industries.

Claus Braestrup
Member of the Board since 2008. Re-elected in 2014 for a one-year term. Independent. Dr. Braestrup is a Danish national, born in 1945.

Formerly president and CEO of H. Lundbeck A/S. Chairman of the board of Saniona AB and a member of the board of Evolva Holding SA, Gyros AB and Evotec AG. Dr. Braestrup has a doctorate in medicine from the University of Copenhagen.

Special competences: Scientific qualifications and extensive executive experience from publicly traded, international pharmaceutical companies.

Erik Gregers Hansen
Member of the Board since 2010. Re-elected in 2014 for a one-year term. Independent. Mr. Hansen is a Danish national, born in 1952.

Director of Rigas Invest ApS. Chairman of the board of Pre-Seed Innovation A/S, Polaris Management A/S, TTiT Ejendomme A/S. Member of the board of Bagger-Sørensen & Co. A/S (deputy chairman) and six of its subsidiaries, Bagger-Sørensen Foundation, Lesanco ApS, Ecco Sko A/S, OKONO A/S, PFA Holding A/S, PFA Pension Forsikringsaktieselskab, TTIT A/S, Wide Invest ApS and Aser Ltd. Member of the executive boards of Rigas Invest ApS, BFB Aps, Tresor Asset Advisers ApS, Tresor ApS, Berco ApS, Polaris Invest II ApS and Hansen Advisers ApS. Mr. Hansen holds an MSc in finance and accounting.

Special competences: 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 2014 for a one-year term. Independent. Mr. Kürstein is a Danish national, born in 1956.

President of Radiometer Medical ApS. Chairman of the board of Radiometer Medical ApS and vice chairman of the board of FOSS A/S. 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.

Special competences: Extensive board and management experience from publicly traded, international healthcare companies. He is well-experienced in U.S. affairs.

Executive Management

Paul Chaplin
President and Chief Executive Officer

Mr. Chaplin joined Bavarian Nordic in 1999. He was appointed executive vice president in 2004 and President & CEO in 2014. Prior to joining the Company, Mr. Chaplin worked for several years both in the UK and Australia developing vaccines against infectious diseases. Mr. Chaplin is co-chair of the Alliance for BioSecurity. Mr. Chaplin holds a Ph.D. in Immunology from Bristol University, and he is the general manager of Bavarian Nordic GmbH. He is a British national, born in 1967.

Ole Larsen
Executive Vice President, Chief Financial Officer

Mr. Larsen joined Bavarian Nordic in 2008 from Nordisk Film where he was CFO. Mr. Larsen holds an M.Sc. in economics and business administration from Copenhagen Business School, and he is a Danish national, born in 1965.

James B. Breitmeyer
Executive Vice President, Chief Development Officer

Dr. Breitmeyer joined Bavarian Nordic in 2013 from Cadence Pharmaceuticals Inc., where he was Executive Vice President of Development and Chief Medical Officer. Dr. Breitmeyer serves as a board member of Zogenix, Inc. Dr. Breitmeyer received his M.D. and Ph.D. degrees 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. Dr. Breitmeyer is an American national, born in 1953.

Shares and warrants held by members of the Board and Executive Management

	Shareholdings			Warrants		
	Jan. 1, 2014	Changes during the year	Dec. 31, 2014	Jan. 1, 2014	Changes during the year	Dec. 31, 2014
Gerard van Odijk	4,000	-	4,000	29,761	-14,761	15,000
Anders Gersel Pedersen	-	-	-	21,733	-6,733	15,000
Claus Braestrup	3,000	3,385	6,385	29,761	-19,761	10,000
Erik Gregers Hansen	14,000	-	14,000	21,733	-6,733	15,000
Peter Kürstein	6,250	-	6,250	10,000	-	10,000
Paul Chaplin	11,800	-	11,800	124,286	5,714	130,000
Ole Larsen	3,000	-	3,000	124,286	-4,286	120,000
James B. Breitmeyer	-	-	-	80,000	40,000	120,000

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.

STATEMENT BY MANAGEMENT ON THE ANNUAL REPORT

The Board of Directors and the Corporate Management have today considered and approved the annual report of Bavarian Nordic A/S for the financial year January 1 - December 31, 2014.

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, 2014 as well as of the results of their operations and the Group's cash flows for the financial year January 1 - December 31, 2014.

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.

Kvistgaard, March 11, 2015

Corporate Management

Paul Chaplin
President and CEO

Ole Larsen
CFO

Board of Directors

Gerard van Odijk
Chairman of the Board

Anders Gersel Pedersen
Deputy chairman

Claus Bræstrup

Erik G. Hansen

Peter Kürstein

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, 2014, 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, 2014, and of the results of its operations and cash flows for the financial year January 1 – December 31, 2014 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, 2014, and of the results of its operations for the financial year January 1 – December 31, 2014 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 11, 2015

Deloitte
Statsautoriseret Revisionspartnerselskab

Jørgen Holm Andersen
State Authorised
Public Accountant

Martin Faarborg
State Authorised
Public Accountant

CONSOLIDATED FINANCIAL STATEMENTS

Notes

INCOME STATEMENT FOR THE PERIOD JANUARY 1 – DECEMBER 31

DKK thousand	Note	2014	2013
Revenue	3	1,216,815	1,212,501
Production costs	4,8,9	495,081	484,705
Gross profit		**721,734**	**727,796**
Research and development costs	5,8,9	478,930	496,608
Distribution costs	6,8,9	45,107	40,782
Administrative costs	7,8,9,10	181,022	156,991
Total operating costs		**705,059**	**694,381**
Income before interest and tax (EBIT)		**16,675**	**33,415**
Financial income	11	57,385	6,612
Financial expenses	12	9,700	33,825
Income before company tax		**64,360**	**6,202**
Tax on income for the year	13	38,420	52,931
Net profit for the year		**25,940**	**(46,729)**
Earnings per share (EPS) – DKK			
Basic earnings per share of DKK 10	14	1.0	(1.8)
Diluted earnings per share of DKK 10	14	1.0	(1.8)

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

DKK thousand	Note	2014	2013
Net profit for the year		**25,940**	**(46,729)**
Items that may subsequently be reclassified to the income statement:			
Exchange rate adjustments on translating foreign operations		(41,552)	12,708
Fair value of financial instruments entered into to hedge future cash flow: Fair value adjustments of the year	22	-	732
Tax on other comprehensive income	13	-	(183)
Other comprehensive income after tax		**(41,552)**	**13,257**
Total comprehensive income		**(15,612)**	**(33,472)**

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

DKK thousand	Note	2014	2013
Income before interest and tax (EBIT)		**16,675**	**33,415**
Depreciation and amortization	9	44,946	46,219
Expensing (amortization) of IMVAMUNE development project	15	45,535	148,045
Share-based payment	8	21,317	12,343
Adjustment for other non-cash items		-	161
Changes in inventories		111,803	(4,449)
Changes in receivables		(78,322)	(18,843)
Changes in provisions		3,616	(16,554)
Changes in current liabilities		180,222	(40,281)
Cash flow from operations (operating activities)		**345,792**	**160,056**
Received financial income		19,412	6,555
Paid financial expenses		(4,177)	(17,669)
Paid corporation taxes		(22,278)	(1,858)
Cash flow from operating activities		**338,749**	**147,084**
Investments in and additions to intangible assets	15	(53,595)	(111,025)
Investments in property, plant and equipment	16	(52,392)	(44,410)
Disposal of property, plant and equipment		53	1,847
Investments in/disposal of financial assets		39	(98)
Investments in/disposal of securities		(397,770)	7,179
Cash flow from investment activities		**(503,665)**	**(146,507)**
Payment on mortgage and construction loan		(49,019)	(7,105)
Proceeds from warrant programs exercised		14,357	-
Proceeds from direct placement		251,000	-
Costs related to issue of new shares		(100)	-
Cash flow from financing activities		**216,238**	**(7,105)**
Cash flow of the year		**51,322**	**(6,528)**
Cash as of January 1		346,799	353,545
Currency adjustments January 1		236	(218)
Cash as of December 31		**398,357**	**346,799**
Securities – highly liquid bonds		581,350	185,282
Credit lines		20,000	120,000
Cash preparedness		**999,707**	**652,081**

STATEMENT OF FINANCIAL POSITION – ASSETS AS OF DECEMBER 31

DKK thousand	Note	2014	2013
Non-current assets			
Acquired patents and licenses		24,719	20,517
Software		4,835	3,208
IMVAMUNE development project		78,357	76,955
Other intangible assets in progress		1,283	3,949
Intangible assets	15	**109,194**	**104,629**
Land and buildings		226,144	178,085
Leasehold improvements		892	1,293
Plant and machinery		64,606	82,796
Other fixtures and fittings, other plant and equipment		20,900	21,265
Assets under construction		24,031	39,307
Property, plant and equipment	16	**336,573**	**322,746**
Other receivables	19	792	831
Financial assets		**792**	**831**
Deferred tax assets	13	**121,586**	**123,631**
Total non-current assets		**568,145**	**551,837**
Current assets			
Inventories	17	**121,847**	**233,651**
Trade receivables	18	186,783	110,117
Tax receivables		4,913	-
Other receivables	19	14,516	12,614
Prepayments	20	11,357	11,906
Receivables		**217,569**	**134,637**
Securities	22	581,350	185,282
Cash and cash equivalents		398,357	346,799
Securities, cash and cash equivalents		**979,707**	**532,081**
Total current assets		**1,319,123**	**900,369**
Total assets		**1,887,268**	**1,452,206**

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

DKK thousand	Note	2014	2013
Equity			
Share capital		276,712	260,944
Retained earnings		972,321	652,021
Other reserves		3,061	63,325
Equity		**1,252,094**	**976,290**
Liabilities			
Provisions	23	18,603	14,830
Credit institutions	24	33,293	71,834
Non-current liabilities		**51,896**	**86,664**
Credit institutions	24	1,885	8,481
Prepayment from customers	25	375,190	150,425
Trade payables		58,666	113,510
Company tax		40	496
Provisions	23	4,214	2,273
Other liabilities	21	143,283	114,067
Current liabilities		**583,278**	**389,252**
Total liabilities		**635,174**	**475,916**
Total equity and liabilities		**1,887,268**	**1,452,206**

Financial risks and financial instruments	22
Related party transactions	26
Share-based payment	27
Contingent liabilities and other contractual obligations	28
Significant events after the balance sheet date	29

STATEMENT OF CHANGES IN EQUITY

DKK thousand	Share-capital	Retained earnings	Reserves for currency adjustment	Share-based payment	Equity
Equity as of January 1, 2014	**260,944**	**652,021**	**6,367**	**56,958**	**976,290**
Comprehensive income for the year					
Net profit for the year	-	25,940	-	-	25,940
Other comprehensive income					
Exchange rate adjustments, on translating foreign operations	-	-	(41,552)	-	(41,552)
Total comprehensive income for the year	**-**	**25,940**	**(41,552)**	**-**	**(15,612)**
Transactions with owners					
Share-based payment	-	-	-	6,888	6,888
Warrant programs exercised	2,448	18,342	-	(6,433)	14,357
Warrant programs expired	-	38,438	-	(38,438)	-
Capital increase through direct placement	13,320	237,680	-	-	251,000
Costs related to issue of new shares	-	(100)	-	-	(100)
Tax related to items recognized directly in equity	-	-	-	19,271	19,271
Total transactions with owners	**15,768**	**294,360**	**-**	**(18,712)**	**291,416**
Equity as of December 31, 2014	**276,712**	**972,321**	**(35,185)**	**38,246**	**1,252,094**

The share capital comprises a total of 27,671,247 shares of DKK 10 as of December 31, 2014 (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, 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, on translating foreign operations	-	-	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 programs 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.

Transactions on the share capital have been the following:

DKK thousand	2014	2013	2012	2011	2010
Share capital as of January 1	260,944	260,944	260,944	129,620	79,517
Issue of new shares	15,768	-	-	131,324	50,103
Share capital as of December 31	**276,712**	**260,944**	**260,944**	**260,944**	**129,620**

Rules on changing Articles of Association
Changing the Articles of Association requires 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

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 consolidated financial statements of listed companies. Danish disclosure requirements for the presentation of consolidated financial statements are imposed by the Statutory Order on Adoption of IFRS issued under the Danish Financial Statements Act and by the Nasdaq Copenhagen.

The parent company financial statements are prepared according to the Danish Financial Statements Act and presented separately at the end of the consolidated financial statements. See pages 64 – 75.

The accounting policies are unchanged from last year.

The consolidated financial statements are presented in Danish kroner (DKK), which is the functional currency of the parent company.

The consolidated financial statements are 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.

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, 2014. The implementation of new or revised standards and interpretations that are in force have not changed the accounting policies and thus not affected net profit for the year or the financial position.

Standards and interpretations not yet in force
At the date of publication of the consolidated financial statements, a number of new and amended standards and interpretations have not yet entered into force or have not yet been adopted by the EU. Therefore, they are not incorporated in the consolidated financial statements.

IASB has issued IFRS 9 "Financial Instruments", which awaits EU endorsement. IFRS 9 "Financial Instruments" is part of IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement", and the new standard will change the classification, presentation and measurement of financial instruments and hedging requirements. Bavarian Nordic is assessing the impact of the standard, but it is not expected to have any material impact on future consolidated financial statements.

IFRS 15 "Revenue from Contracts with Customers" was issued in May 2014 and is effective for annual periods beginning on or after 1 January 2017. The standard has not yet been endorsed by the EU. Entities will apply a five-step model to determine when, how and at what amount revenue is to be recognized depending on whether certain criteria are met. Before implementation of the standard, Bavarian Nordic will assess whether IFRS 15 "Revenue from Contracts with Customers" has an impact on current and new significant agreements. The new standard is not expected to have any material impact on future consolidated financial statements.

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.

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

Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Exchange differences between the exchange rate at the date of the transaction and the exchange rate at the date of payment or the balance sheet date, respectively, are recognized in the income statement under financials. Property, plant and equipment and intangible assets, inventories and other non-monetary assets acquired in foreign currency and measured based on historical cost are translated at the exchange rates at the transaction date.

Transactions hedged by forward currency instruments are recognized at the hedged exchange rate.

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.

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:

$$\frac{\text{Net profit for the year x 100}}{\text{Average number of shares}}$$

Net asset value per share:

$$\frac{\text{Equity}}{\text{Number of shares at year-end}}$$

Share price/Net asset value per share:

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

Equity share, %:

$$\frac{\text{Equity x 100}}{\text{Total assets}}$$

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 judgments which significantly affect the amounts recognized in the consolidated financial statements:

- Deferred tax asset (note 13)
- Capitalization of development costs (note 15)
- Useful lives of property, plant and equipment (note 16)
- Inventories, including impairment and 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 2014.

2 Segment reporting

Accouting policies

In 2014 Bavarian Nordic consisted of 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 divisions were merged in March 2015 and hence the Group will no longer prepare segment reporting.

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.

2014

DKK thousand	Cancer Immunotherapy	Infectious Diseases	Holding	Total
IMVAMUNE sale	-	1,024,236	-	1,024,236
IMVAMUNE sale, development results	-	-	-	-
Contract work	-	192,579	-	192,579
Revenue	-	1,216,815	-	1,216,815
Depreciation and amortization	3,711	36,401	4,834	44,946
Income before interest and tax (external income/costs)	(311,049)	426,320	(98,596)	16,675
Purchase ()/sale of internal services	(87,103)	87,103	-	-
Distribution of the holding costs	(12,797)	(60,610)	73,407	-
Income before interest and tax	**(410,949)**	**452,813**	**(25,189)**	**16,675**
Investments in intangible assets and property, plant and equipment	3,877	99,390	2,720	105,987

Revenue for the following customers represent more than 10% of total revenue in Infectious Diseases:
Biomedical Advanced Research and Development Authority (BARDA), USA, DKK 1,190 million.

2013

DKK thousand	Cancer Immunotherapy	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 and amortization	6,661	34,949	4,609	46,219
Income before interest and tax (external income/costs)	(308,803)	429,046	(86,828)	33,415
Purchase ()/sale of internal services	(4,416)	4,416	-	-
Distribution of the holding costs	(11,199)	(46,895)	58,094	-
Income before interest and tax	**(324,418)**	**386,567**	**(28,734)**	**33,415**
Investments in intangible assets and property, plant and equipment	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 million.

2 Segment reporting – continued

DKK thousand	2014	2013
Geographic split of revenue:		
USA	1,208,440	1,210,712
Canada	-	1,506
Other geographic markets	8,375	283
Revenue	**1,216,815**	**1,212,501**

No revenue has been achieved on the Danish market in 2014 and 2013.

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.

Furthermore, revenue includes income from research and development partnerships. The revenue is recognized when it is probable that future economic benefits will flow to the Company and these benefits can be measured reliably. Non-refundable payments that are not attributable to subsequent research and development activities are recognized when the related right to the payment is obtained, whereas payments attributable to subsequent research and development activities are recognized over the term of the activities. When combined contracts are entered into, the elements of the contracts are identified and assessed separately for accounting purposes.

DKK thousand	2014	2013
IMVAMUNE sale	1,024,236	839,143
IMVAMUNE sale, development results	-	172,988
Contract work	192,579	200,370
Sale of services	192,579	373,358
Revenue	**1,216,815**	**1,212,501**

In 2013 the company received DKK 215 million in payment for development results under the IMVAMUNE development contract. Of this amount, DKK 173 million were shown in a separate line, relating to development results delivered in previous financial years and DKK 42 million were included in IMVAMUNE sales.

4 Production costs

Accounting policies

Production costs consist of costs incurred in generating the revenue for the year. Costs for raw materials, consumables, production staff and a proportion of production overheads, including maintenance, depreciation and impairment of tangible assets used in production as well as operation, administration and management of the production facility are recognized as production costs. In addition, the costs related to excess capacity and write-down to net realisable value of goods on stock are recognized.

DKK thousand	2014	2013
Cost of goods sold, IMVAMUNE sale	411,112	328,077
Contract costs	91,673	105,250
Other production costs	(7,704)	51,378
Production costs	**495,081**	**484,705**

Other production costs decreased from DKK 51 million in 2013 to DKK -8 million in 2014, which primarily was due to an extraordinary production performance with low level of write-downs during 2014 and reversal of DKK 12 million in write-downs from 2013. The total write-down for 2014 was DKK 0 million (DKK 54 million). The development in write-downs is shown in note 17.

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.

5 Research and development costs – continued

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.

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	2014	2013
Research and development costs occured this year	572,005	556,090
Of which:		
Contract costs recognized as production costs (note 4)	(91,673)	(105,250)
Capitalized development costs (note 15)	(46,937)	(102,277)
	433,395	348,563
Expensing (amortization) of prior-year costs attributable to the IMVAMUNE development project (note 15)	45,535	148,045
Research and development costs	**478,930**	**496,608**

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	2014	2013
Wages and salaries	274,478	272,893
Contribution based pension	19,048	18,781
Social security expenses	15,712	12,153
Other staff expenses	21,966	24,763
Share-based payment	21,317	12,343
Staff costs	**352,521**	**340,933**
Staff expenses are distributed as follows:		
Production costs	129,611	122,446
Research and development costs	110,014	107,259
Distribution costs	18,767	15,031
Administrative costs	89,594	90,460
Capitalized salaries	4,535	5,737
Staff costs	**352,521**	**340,933**
Average number of employees converted to full-time	421	441
Number of employees as of December 31 converted to full-time	422	426

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	1,500	1,750
Share-based payment	535	685
Corporate Management:		
Salary	7,758	4,798
Paid bonus	1,442	2,358
Other employee benefits	427	195
Contribution based pension	189	-
Share-based payment	1,912	739
Other Group Management:		
Salaries	6,004	9,275
Paid bonus	4,527	4,068
Other employee benefits	391	939
Contribution based pension	142	368
Share-based payment	742	1,276
Severance costs	-	3,543
Total management remuneration	**25,569**	**29,994**

In 2014 Group Management included CEO and President of the Company Paul Chaplin (Division President for Infectious Diseases until June 1, 2014), CFO Ole Larsen, Division President for Cancer Immunotherapy James B. Breitmeyer and CEO Anders Hedegaard until June 1, 2014.

As of June 1, 2014 Corporate Management consists of Paul Chaplin and Ole Larsen. Until June 1, 2014 Corporate Management only included Anders Hedegaard.

8 Staff costs – continued

Provisions for incentive agreements with Paul Chaplin and James B. Breitmeyer are recognized in staff costs, while provisions relating to former Division President for Cancer Immunotherapy Reiner Laus, 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 the event of a change of control the compensation can amount to 24 months' remuneration.

Severance pay in 2013 to former Division President for Cancer Immunotherapy Reiner Laus (DKK 3.5 million) includes share-based payment of DKK 0.8 million.

9 Depreciation and amortization

DKK thousand	2014	2013
Depreciation and amortization included in:		
Production costs	33,921	32,539
Research and development costs	2,936	6,252
Distribution costs	15	15
Administrative costs	8,074	7,413
Depreciation and amortization	**44,946**	**46,219**
Hereof loss from disposed fixed assets	33	2,368

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	2014	2013
Statutory audit of annual accounts	761	761
Other assurance services	94	120
Tax advisory	889	550
Other services	166	225
Fees	**1,910**	**1,656**

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	2014	2013
Financial income from bank and deposit contracts	12	29
Interest income from financial assets not measured at fair value in the income statement	12	29
Financial income from securities	4,028	6,583
Net foreign exchange gains	53,345	-
Financial income	**57,385**	**6,612**

Net foreign exchange gains are mainly related to the increasing USD rate during 2014.

Net foreign exchange gains include DKK 37.9 million of unrealized gains related to an intercompany receivable with Bavarian Nordic, Inc.

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	2014	2013
Interest expenses on debt	4,177	4,889
Interest expenses on financial liabilities not measured at fair value in the income statement	4,177	4,889
Fair value adjustments on securities	1,703	4,012
Adjustment of net present value of provisions	2,098	1,605
Net loss on derivative financial instruments at fair value in the income statement	1,722	1,133
Net foreign exchange losses	-	22,186
Financial expenses	**9,700**	**33,825**

Net foreign exchange losses for 2013 include DKK 12.1 million of unrealized losses related to an intercompany receivable with Bavarian Nordic, Inc.

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, 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 once a year, as a minimum, based on latest budgets and forecasts approved by the Board of Directors that include revenue from existing and expected future contracts for the sale of IMVAMUNE/IMVANEX and development projects.

DKK thousand	2014	2013
Tax recognized in the income statement		
Current tax on profit for the year	15,814	1,443
Adjustments to current tax for previous years	1,290	793
Current tax	**17,104**	**2,236**
Change in deferred tax	13,815	10,990
Adjustment of deferred tax due to changed tax rates	-	37,961
Adjustment of deferred tax due to change in estimates of timing	7,473	-
Adjustments to deferred tax for previous years	28	1,744
Deferred tax	**21,316**	**50,695**
Tax for the year recognized in the income statement	**38,420**	**52,931**
Tax on income for the year is explained as follows:		
Income before company tax	64,360	6,202
Calculated tax (24.5%) tax on income before company tax	15,768	1,551
Tax effect on:		
Different tax percentage in foreign subsidiaries	(344)	250
Tax value of financial losses in foreign subsidiaries, not recognized	9,716	9,230
Permanent differences	4,485	1,402
Adjustment of deferred tax due to changed tax rates	-	37,961
Adjustment of deferred tax due to change in estimates of timing	7,473	-
Adjustments to deferred tax for previous years	28	1,744
Adjustments to current tax for previous years	1,290	793
Other corrections	4	-
Tax on income for the year	**38,420**	**52,931**
Tax recognized in the comprehensive income		
Tax on fair value adjustment of financial instruments entered into to hedge future cash flow	-	183
Tax for the year recognized in the comprehensive income	**-**	**183**
Tax recognized in equity		
Tax on share based payment	(19,271)	-
Tax for the year recognized in equity	**(19,271)**	**-**

13 Tax for the year – continued

Deferred tax

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

2014

DKK thousand	January 1, 2014	Recognized in the income statement	Recognized in equity	December 31, 2014
Intangible assets	(15,081)	10,887	-	(4,194)
Property, plant and equipment	3,034	(2,043)	-	991
Inventories	27	(28)	-	(1)
Accrued project costs	319	(249)	-	70
Obligations	6,574	(5,770)	-	804
Prepayment from customers	36,854	1,275	-	38,129
Share-based payment	-	5,294	19,271	24,565
Tax losses carried forward	273,904	(30,682)	-	243,222
Write-down on tax losses carried forward	(182,000)	-	-	(182,000)
Recognized deferred tax assets	**123,631**	**(21,316)**	**19,271**	**121,586**

2013

DKK thousand	January 1, 2013	Recognized in the income statement	Recognized in other comprehen-sive income	December 31, 2013
Intangible assets	(17,940)	2,859	-	(15,081)
Property, plant and equipment	2,189	845	-	3,034
Inventories	3,277	(3,250)	-	27
Accrued project costs	(119)	438	-	319
Obligations	8,669	(1,912)	(183)	6,574
Prepayment from customers	48,903	(12,049)	-	36,854
Tax losses carried forward	311,530	(37,626)	-	273,904
Write-down on tax losses carried forward	(182,000)	-	-	(182,000)
Recognized deferred tax assets	**174,509**	**(50,695)**	**(183)**	**123,631**

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.

The tax value of non-recognized tax losses and tax credits carried forward in subsidiary Bavarian Nordic, Inc. amounts to DKK 204.9 million (DKK 158.6 million) of which DKK 30.7 million (DKK 22.8 million) relates to state tax and DKK 174.2 million (DKK 135.8 million) relates to federal tax.

Bavarian Nordic GmbH and Bavarian Nordic Washington DC, Inc. have no tax losses carried forward.

The impairment test of the recognized tax losses carried forward as of December 31, 2014 has not given any reason to adjust the write-down of DKK 182 million.

The Company's right to use the tax losses carried forward is not time-limited.

In the calculation of deferred tax as of December 31, 2014, the Company has taken into account the gradual reduction of the Danish corporation tax rate from 25% in 2013 to 22% in 2016.

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	2014	2013
Net profit/loss for the year	25,940	(46,729)
Average number of shares (thousand units)	26,359	26,094
Earnings per share of DKK 10	1.0	(1.8)
Diluted earnings per share of DKK 10	1.0	(1.8)

Outstanding warrants have been included in the calculation of diluted earnings per share for 2014 based on IAS 33 examples 5 and 5A. In accordance with IAS 33.41 the outstanding warrants are excluded in the calculation for 2013, as the inclusion of potential shares would improve earnings per share for 2013 as net profit for the year is negative.

2014-program	497,500	-
2013-programs	589,550	651,000
2012-programs	434,525	478,900
2011-program	130,500	363,650
2010-programs	66,646	410,883
2009-programs	-	368,484
Outstanding warrants, cf. note 27	**1,718,721**	**2,272,917**

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

2014

DKK thousand	Acquired patents and licenses	Software	IMVAMUNE development project	Other intangible assets in progress	Total
Costs as of January 1, 2014	30,873	52,498	76,955	3,949	164,275
Additions	4,132	1,242	46,937	1,284	53,595
Transfer	-	3,208	-	(3,208)	-
Transfer to/from property, plant and equipment	-	358	-	(742)	(384)
Disposals	-	(105)	(45,535)	-	(45,640)
Exchange rate adjustments	3,143	42	-	-	3,185
Cost as of December 31, 2014	**38,148**	**57,243**	**78,357**	**1,283**	**175,031**
Amortization as of January 1, 2014	10,356	49,290	-	-	59,646
Amortization	2,377	3,163	-	-	5,540
Disposals	-	(87)	-	-	(87)
Exchange rate adjustments	696	42	-	-	738
Amortization as of December 31, 2014	**13,429**	**52,408**	**-**	**-**	**65,837**
Carrying amount as of December 31, 2014	**24,719**	**4,835**	**78,357**	**1,283**	**109,194**
Geographical split of intangible assets - 2014					
Denmark					84,444
Germany					31
USA					24,719
Total intangible assets					**109,194**

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.

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**

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 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 2014 did not give rise to any changes as compared with 2013.

2014

DKK thousand	Land and buildings	Leasehold improvement	Plant and machinery	Other fixtures and fittings, other plant and equipment	Assets under construction	Total
Costs as of January 1, 2014	243,166	12,437	247,936	76,791	39,307	619,637
Additions	26,079	64	1,027	3,211	22,011	52,392
Transfer	35,001	-	-	1,928	(36,929)	-
Transfer to/from intangible assets	-	-	-	742	(358)	384
Disposals	-	-	-	(8,694)	-	(8,694)
Exchange rate adjustments	(2)	382	-	1,833	-	2,213
Cost as of December 31, 2014	**304,244**	**12,883**	**248,963**	**75,811**	**24,031**	**665,932**
Depreciation as of January 1, 2014	65,081	11,144	165,140	55,526	-	296,891
Depreciation	13,019	504	19,217	6,633	-	39,373
Disposals	-	-	-	(8,625)	-	(8,625)
Exchange rate adjustments	-	343	-	1,377	-	1,720
Depreciation as of December 31, 2014	**78,100**	**11,991**	**184,357**	**54,911**	**-**	**329,359**
Carrying amount as of December 31, 2014	**226,144**	**892**	**64,606**	**20,900**	**24,031**	**336,573**

Geographical split of property, plant and equipment – 2014

Denmark	330,011
Germany	2,467
USA	4,095
Total property, plant and equipment	**336,573**

Property, plant and equipment under construction mainly includes investment in equipment and a small scale filling line at December 31, 2014.

Mortgage loans of DKK 35 million are secured by mortgages totaling DKK 50 million on the property Bøgeskovvej 9/Hejreskovvej 10A, Kvistgaard. In addition, as of December 31, 2014, mortgage deeds for a total of DKK 75 million have been issued. The carrying amount of assets mortgaged in security of mortgage loans is DKK 291 million.

16 Property, plant and equipment – continued

2013

DKK thousand	Land and buildings	Leasehold improve-ment	Plant and machinery	Other 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 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 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 expansion of the facility in Kvistgaard (DKK 31.1 million) at December 31, 2013.

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 taken place. The disposals of assets in 2013 primarily relates to the 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.

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.

17 Inventories – continued

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 "out-of-specification" products, expiry of products and sales risks.

DKK thousand	2014	2013
Raw materials and supply materials	21,676	14,901
Work in progress	115,313	237,272
Manufactured goods and commodities	30,749	50,008
Write-down on inventory	(45,891)	(68,530)
Inventories	**121,847**	**233,651**
Write-down on inventory as of January 1	(68,530)	(31,463)
Write-down for the year	(490)	(53,913)
Use of write-down	11,039	2,475
Reversal of write-down	12,090	14,371
Write-down on inventory as of December 31	**(45,891)**	**(68,530)**
Cost of goods sold amounts to, cf. note 4	411,112	328,077

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	2014	2013
Trade receivables from IMVAMUNE sale	131,488	88,790
Trade receivables from contract work	55,295	21,327
Trade receivables	**186,783**	**110,117**

There are no overdue receivables and there is no provision for bad debts as no losses are expected on trade receivables.

19 Other receivables

Accounting policies
Receivables are measured at initial recognition at fair value and subsequently at amortized value usually equal to the nominal value.

DKK thousand	2014	2013
Deposits	792	831
Receivable VAT and duties	5,919	8,571
Interest receivables	8,448	2,955
Other receivables	149	1,088
Other receivables	**15,308**	**13,445**
Classified as:		
Non-current assets	792	831
Current assets	14,516	12,614
Other receivables	**15,308**	**13,445**

20 Prepayments

Accounting policies
Prepayments recognized under assets include costs paid in respect of subsequent financial years, including project costs incurred that relate to revenue of subsequent years. Prepayments are measured at cost.

DKK thousand	2014	2013
Accrued project costs	313	1,301
Other prepayments	11,044	10,605
Prepayments	**11,357**	**11,906**

21 Other liabilities

Accouting policies
Derivative financial instruments and liability relating to phantom shares are measured at fair value. For further details regarding measurement of fair value for phantom shares see note 27.

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. Amortized cost usually equal to the nominal value.

DKK thousand	2014	2013
Derivative financial instruments at fair value in the income statement	710	733
Liability relating to phantom shares	17,176	2,747
Payable salaries, holiday accrual etc.	61,934	58,402
Other accrued costs	63,463	52,185
Other liabilities	**143,283**	**114,067**

For a further description of financial instruments see note 22. The phantom share programs are described 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	2014	2013
Categories of financial instruments		
Trade receivables	186,783	110,117
Other receivables	15,308	13,445
Loan and receivables	**202,091**	**123,562**
Cash and cash equivalents	398,357	346,799
Cash and cash equivalents	**398,357**	**346,799**
Securities	581,350	185,282
Financial assets measured at fair value in the income statement	**581,350**	**185,282**
Mortgage debt	35,178	36,981
Bank debt	-	43,334
Trade payables	58,665	113,510
Other liabilities	125,397	110,587
Financial obligations measured at amortized cost	**219,240**	**304,412**
Derivative financial instruments at fair value in the income statement (currency)	710	733
Liability relating to phantom shares	17,176	2,747
Financial liabilities measured at fair value in the income statement	**17,886**	**3,480**

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.

22 Financial risks and financial instruments – continued

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, looking at maximum one year ahead. Regular assessments are made of whether the remaining net position should be hedged by currency forward contracts or currency option contracts.

The exposure to EUR is not hedged as management believes that fluctuations in EUR are limited due to the Danish fixed-rate policy which we expect to be maintained. Thus the fluctuations in EUR 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
2014						
EUR	7,692	2,010	(13,911)	(4,209)	-	(4,209)
USD	189,469	178,412	(100,821)	267,060	-	267,060
2013						
EUR	4,992	1,214	(71,549)	(65,343)	-	(65,343)
USD	137,652	110,806	(124,963)	123,495	-	123,495

Sensitivity analysis on exchange rates

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

DKK thousand	Likely change in exchange rate	Hypothetical change in equity	Hypothetical change in profit
2014			
Change if higher USD-rate than actual rate	15%	46,979	102,210
Change if higher EUR-rate than actual rate	1%	817	13
2013			
Change if higher USD-rate than actual rate	15%	33,604	76,107
Change if higher EUR-rate than actual rate	1%	772	31

22 Financial risks and financial instruments – continued

Derivative financial instruments not designated as hedge accounting

Currency forward contracts and currency option contracts which are not designated in hedge accounting are classified as held for trading with fair value adjustments recognized in the income statement.

When the Company has temporary excess of USD, the USD are sold and repurchased at a lower USD rate, if possible, entering currceny swaps. The open currency contracts are specified as follows:

	2014			2013		
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
Currency option contracts						
Buy put option of USD 25 million (USD rate 5.80)	0-3 months	145,000	-			
Sell call option of USD 10 million (USD rate 5.80)	0-3 months	58,000	(3,318)			
Buy put option of USD 25 million (USD rate 5.90)	0-3 months	147,525	142			
Sell call option of USD 10 million (USD rate 5.90)	0-3 months	59,010	(2,352)			
Currency swap contracts						
Buy USD 25 million (buy USD 33 million)	0-3 months	148,476	4,818	0-3 months	176,399	(733)
Total			**(710)**			**(733)**

Cash risks

The Group´s bank deposits are placed in deposit accounts without bond. The Group's cash and cash equivalents totaled DKK 398.4 million as of December 31, 2014 (DKK 346.8 million).

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

	2014		2013	
DKK thousand	Fair value as of December 31	Effective interest	Fair value as of December 31	Effective interest
Bond portfolio				
Within 0-2 years	64,396	-1.3%	102,848	0.2%
Within 2-5 years	378,151	0.4%	53,674	1.0%
After 5 years	138,803	3.1%	28,760	3.8%
Total	**581,350**	**1.0%**	**185,282**	**1.0%**

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 4-5 million on the Group´s profit and equity (DKK 5-6 million). A corresponding fall in the interest rate level would have had an equivalent positive effect on profit and equity.

22 Financial risks and financial instruments – continued

The Group's financial liabilities mature as shown below.
Amounts are stated including interest.

DKK thousand	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
2014				
Credit institutions	3.548	14.091	32.771	50.410
Trade payables	58.665	-	-	58.665
Other liabilities	142.613	-	-	142.613
Non-derivative financial liabilities	**204.826**	**14.091**	**32.771**	**251.688**
Derivative financial liabilities	**710**	**-**	**-**	**710**
2013				
Credit institutions	11.615	52.446	36.277	100.338
Trade payables	113.510	-	-	113.510
Other liabilities	113.830	-	-	113.830
Non-derivative financial liabilities	**238.955**	**52.446**	**36.277**	**327.678**
Derivative financial liabilities	**733**	**-**	**-**	**733**

With respect to the Group´s mortgage debt, an increase in the applicable interest rate by 1 percentage point would have had a negative impact on the Group's profit and equity of DKK 0.4 million. A corresponding fall in the interest rate would have had an equivalent positive impact.

The Company has a credit facility of DKK 20 million (DKK 120 million). As of December 31, 2014 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, 2014, 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. The bond portfolio is invested in 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 and its shareholders. The overall goal is to ensure that the Group has a capital structure which supports its long-term growth target.

Fair value hierarchy for financial instruments measured at fair value

DKK thousand	Level 1	Level 2	Total
2014			
Securities	581,350	-	581,350
Financial assets measured at fair value in the income statement	**581,350**	**-**	**581,350**
Derivative financial instruments at fair value in the income statement (currency)	-	(710)	(710)
Financial liabilities measured at fair value in the income statement	**-**	**(710)**	**(710)**
2013			
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 (currency)	-	(733)	(733)
Financial liabilities measured at fair value in the income statement	**-**	**(733)**	**(733)**

22 Financial risks and financial instruments – continued

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)
Currency forward contracts, currency option contract and currency swap contracts 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 22 million as of December 31, 2014 (DKK 16 million as of December 31, 2013).

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.

DKK thousand	2014	2013
Provisions as of January 1	17,103	32,052
Additions during the year	6,001	311
Disposals during the year	(287)	(15,260)
Provisions as of December 31	**22,817**	**17,103**
Long-term incentive agreements:		
Paul Chaplin	1,861	1,113
James B. Breitmeyer	2,291	1,525
Reiner Laus	18,057	13,570
Closure of Berlin facility	608	895
Provisions as of December 31	**22,817**	**17,103**

DKK thousand	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
2014	4,214	16,202	2,401	22,817
2013	2,273	11,947	2,883	17,103

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 but the Company only expects to pay-out a total amount of DKK 2 million before the incentive agreement expires end 2015.

In connection with the appointment of James B. Breitmeyer in 2013 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. The risk-adjusted net present value amounts to DKK 5 million, of which DKK 2 million has been accrued as per December 31, 2014.

As part of an agreement entered into between the Company and the former Division President for Cancer Immunotherapy Reiner Laus re-

23 Provisions – continued

garding the Company's purchase of his shares in Bavarian Nordic, Inc. (formerly 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 predefined milestones.

The total outstanding consideration to Reiner Laus amounts to a maximum of DKK 55 million. The risk-adjusted net present value amounts to DKK 18 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. The Company still have a provision of DKK 1 million for repayment of some investment grants received from the German authorities, as 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
2014				
Mortgage[1)]	626	2,782	16,638	20,046
Mortgage[2)]	1,259	5,640	8,233	15,132
Total	**1,885**	**8,422**	**24,871**	**35,178**
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**

[1)] Fixed interest 4.1684% - expiry 2035
[2)] Fixed interest 4.5352% - expiry 2024
[3)] Variable interest

The fair value of the debt amounts to DKK 38 million (DKK 83 million) based on the market value of the underlying bonds.
The construction loan has been fully repaid in 2014.

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	2014	2013
Prepayment from customers as of January 1	150,425	195,612
Prepayments received during the year	458,857	274,826
Recognized as income during the year	(234,092)	(320,013)
Prepayment from customers as of December 31	**375,190**	**150,425**

In October 2014, Bavarian Nordic entered into a global license and supply agreement for the MVA-BN Filovirus (Ebola and Marburg) vaccine candidate with Crucell Holland B.V. Under this contract the Company has received a prepayment of DKK 356 million for Bulk Drog Substance (BDS) product to be delivered to Crucell during 2015. Revenue will be recognized along with the delivery of the BDS in 2015.

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 received a total prepayment of DKK 158 million relating to the delivery of the first 4 million doses. The delivery of these doses was completed in the first half of 2014. In September 2014 the Company received the order for the last 4 million doses, following a prepayment of DKK 99 million. 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 doses. At year-end 2014, only 276 thousand doses remain to be delivered corresponding to a deferred revenue of DKK 7 million.

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 received in 2012 and 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 development project as described in note 15. The split between expensing (25%) and capitalizing (75%) is based on the original number of subjects in the Phase 3 study (3,000) and the increased number of subjects (4,000). There is no repayment obligation. As of December 31, 2014, recognition of DKK 7 million in revenue is outstanding.

25 Prepayment from customers – continued

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. In 2014 the Company received 1 milestone payment of DKK 4 million. Milestone payments are being recognized as revenue in step with recognition of the cost of the study. As of December 31, 2014, recognition of DKK 5 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 CEO, the CFO 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 statements, 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.

Cash-based incentive programs in which employees can have the difference between the agreed exercise 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.

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. 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 and selected employees of the Company and its subsidiaries. Up until 2013, the Company´s Board of Directors were also granted warrants, but in 2014 it was decided to change the remuneration structure for the Board of Directors.

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

27 Share-based payment – continued

Outstanding warrant plans

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

2014

Program	Outstanding as of January 1	Additions	Exercised	Annulled	Terminated	Outstanding as of December 31	Can be exercised as of December 31	Average exercise price (DKK)
December 2009	368,484	-	(18,502)	(802)	(349,180)	-	-	114
May 2010	321,346	-	-	(1,009)	(320,337)	-	-	216
August 2010	30,296	-	-	(8,753)	-	21,543	21,543	192
December 2010	59,241	-	-	(14,138)	-	45,103	45,103	194
August 2011	363,650	-	(226,400)	(6,750)	-	130,500	130,500	54
May 2012	75,000	-	-	(26,500)	-	48,500	-	54
August 2012	403,900	-	-	(17,875)	-	386,025	-	59
February 2013	50,000	-	-	-	-	50,000	-	55
August 2013	531,000	-	-	(61,450)	-	469,550	-	74
December 2013	70,000	-	-	-	-	70,000	-	97
August 2014	-	505,000	-	(7,500)	-	497,500	-	131
Total	**2,272,917**	**505,000**	**(244,902)**	**(144,777)**	**(669,517)**	**1,718,721**	**197,146**	

2014

	Outstanding as of January 1	Additions	Exercised	Annulled	Terminated	Transferred	Outstanding as of December 31
Board of Directors	142,749	-	(9,000)	-	(47,016)	(21,733)	65,000
CEO & President	169,049	50,000	-	-	(52,316)	(36,733)	130,000
Other group management	328,572	80,000	-	-	(68,373)	(100,199)	240,000
Other employees	1,290,927	375,000	(144,400)	(144,777)	(285,033)	(63,167)	1,028,550
Resigned employees	341,620	-	(91,502)	-	(216,779)	221,832	255,171
Total	**2,272,917**	**505,000**	**(244,902)**	**(144,777)**	**(669,517)**	**-**	**1,718,721**
Weighted average exercise price	**99**	**131**	**59**	**-**	**161**	**-**	**90**
Weighted average share price at exercise			**172**				

Number of warrants which can be exercised as of December 31, 2014	197,146
at a weighted average exercise price of DKK	101

2013

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 a weighted average exercise price of DKK	163

27 Share-based payment – continued

Specification of parameters for Black-Scholes model

	Aug. 2010	Dec. 2010	Aug. 2011	May 2012	Aug. 2012	Feb. 2013	Aug. 2013	Dec. 2013	Aug. 2014
Average share price	223.00	238.00	50.00	43.30	52.00	45.50	68.00	82.00	117.50
Average exercise price at grant	259.00	261.00	54.10	54.00	59.10	55.00	73.90	96.50	131.40
Average exercise price after rights issue[1)]	192.00	194.00							
Expected volatility rate	57.2%	49.5%	73.4%	52.5%	50.0%	28.3%	36.4%	35.4%	39.7%
Expected life (years)	3.0	3.0	3.3	3.3	3.3	3.1	3.3	3.3	3.3
Expected dividend per share	-	-	-	-	-	-	-	-	-
Risk-free interest rate p.a.	0.77%	1.63%	1.08%	0.31%	-0.09%	0.22%	0.78%	0.74%	0.63%
Fair value at grant[2)]	76	78	24	13	16	6	16	17	29
Fair value after rights issue[3)]	21	23							

[1)] Determined at date of rights issue 27 May 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 27 May 2011 applying the Black-Scholes model

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

Recognized costs in 2014 DKK 6.9 million compared to DKK 10.1 million in 2013.

Exercise periods

Program	Can be exercised wholly or partly in a period of 14 days commencing from the day of publication of			
August 2014	Interim Report Q3 2017 Interim Report Q3 2018	Annual Report 2017 Annual Report 2018	Interim Report Q1 2018 Interim Report Q1 2019	Interim Report Q2 2018 Interim Report Q2 2019
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

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. This program will be exercised in January 2015.

In 2013, the Company established a 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.

In 2014, the Company established a 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, 2015 to December 31, 2017. 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.

Grants are made on a monthly basis during the life of the programs as long as the employee is employed with the Group.

27 Share-based payment – continued

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 under the 2012-2014 program and the 2014-2016 program is conditional on the price of the Company´s shares being at least 10% higher than the exercise price at the time of exercise. The exercise under the 2015-2017 program is conditional on the price of the Company´s shares being at least DKK 5 higher than the exercise price at the time of exercise.

On expiry of the programs, former employees are entitled to settlement of the phantom shares granted during their term of employment.

2014-2016 program	2014
Outstanding as of January 1	-
Granted during the year	29,836
Outstanding phantom shares as of December 31	**29,836**
Liability in DKK thousand as of December 31	**3,221**
Specification of parameters for Black-Scholes model	
Share price December 31	198
Average share exercise price	97
Expected volatility rate	49%
Expected life (years)	2.0
Expected dividend per share	-
Risk-free interest rate p.a.	-0.06%

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

The expense in respect of phantom shares granted in 2014 provided a cost of DKK 3.2 million.
The liability is included in other liabilities, cf. note 21.

2012-2014 program	2014	2013	2012
Outstanding as of January 1	62,512	31,370	-
Granted during the year	29,174	31,142	31,370
Outstanding phantom shares as of December 31	**91,686**	**62,512**	**31,370**
Liability in DKK thousand as of December 31	**13,955**	**2,747**	**489**
Specification of parameters for Black-Scholes model			
Share price December 31	198	89	50
Average share exercise price	45	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 program is in the money and will be exercised in January 2015.

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

The expense in respect of phantom shares granted in 2014 and revaluation of previously granted phantom shares provided a cost of DKK 11.2 million (2013: DKK 2.3 million).
The liability is included in other liabilities, cf. note 21.

28 Contingent liabilities and other contractual obligations

DKK thousand	2014	2013
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	99,725	53,962
The prepayments received from Crucell will have to be repaid in the event of breach of contract. In such event repayment must occur in USD Due to the increasing USD rate the obligation exceeds the recognized prepayment in note 25	367,284	-
Operational leasing		
Leasing obligations for cars.		
The rental agreements are irrevocable up to 35 months.		
– Due within 1 year	1,525	1,651
– Due between 1 and 5 years	2,091	1,714
Minimum leasing cost recognized in net profit for the year	2,173	2,120
Rental commitments		
Rental agreements for laboratory and offices facilities.		
The rental agreements are irrevocable from 1 to 49 months.		
– Due within 1 year	19,132	17,397
– Due between 1 and 5 years	32,968	37,374
Minimum rental cost recognized in net profit for the year	18,893	16,189
Collaborative agreements		
Contractual obligations with research partners for long-term research projects.		
– Due within 1 year	13,423	5,810
– Due between 1 and 5 years	55,705	65,764
– Due after 5 years	12,243	-
Other contractual obligations		
Other obligations include among other things purchase commitments related to filling of vaccines.		
– Due within 1 year	27,522	115,293
– Due between 1 and 5 years	180	227
– Due after 5 years	-	42

The PROSPECT study
Bavarian Nordic, Inc. has signed a contract with PPD Development, LP regarding implementation/management of the PROSPECT study. Bavarian Nordic, Inc. may terminate the contract 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-cancelable 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 Paul Chaplin, James B. Breitmeyer and Reiner Laus amounts to a maximum of DKK 98 million. As per December 31, 2014 the provision amounts to DKK 22 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 20 million. In addition, the floating charge secures the line for trading in financial instruments (DKK 50 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

In March 2015 Bavarian Nordic signed an agreement that provides Bristol-Myers Squibb an exclusive option to license and commercialize PROSTVAC. For more information see page 18-19.

FINANCIAL STATEMENTS OF THE PARENT COMPANY

Notes

INCOME STATEMENT FOR THE PERIOD JANUARY 1 – DECEMBER 31

DKK thousand	Note	2014	2013
Revenue		1,216,815	1,212,501
Production costs	3,4	495,081	484,705
Gross profit		**721,734**	**727,796**
Research and development costs	2,3,4	469,206	488,255
Distribution costs	3	46,005	33,754
Administrative costs	3,4	169,060	154,059
Total operating costs		**684,271**	**676,068**
Income before interest and tax (EBIT)		**37,463**	**51,728**
Income from investments in subsidiaries	10	6,586	5,453
Financial income	5	68,723	17,537
Financial expenses	6	10,877	34,844
Income before company tax		**101,895**	**39,874**
Tax on income for the year	7	36,335	49,704
Net profit for the year		**65,560**	**(9,830)**
Proposed appropriation of net profit:			
Retained earnings		**65,560**	**(9,830)**

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	2014	2013
Non-current assets			
Acquired patents and licenses		110,852	120,538
Software		4,804	3,122
IMVAMUNE development project		78,357	76,955
Other intangible assets in progress		1,283	3,949
Intangible assets	8	**195,296**	**204,564**
Land and buildings		225,454	177,314
Leasehold improvements		543	858
Plant and machinery		64,606	82,795
Other fixtures and fittings, other plant and equipment		16,013	14,681
Assets under construction		23,395	39,195
Property, plant and equipment	9	**330,011**	**314,843**
Investments in subsidiaries	10	83,812	77,213
Receivables from subsidiaries	10	345,512	261,443
Other receivables		559	625
Deferred tax assets	7	121,570	123,609
Financial assets		**551,453**	**462,890**
Total non-current assets		**1,076,760**	**982,297**
Current assets			
Inventories	11	**121,336**	**232,941**
Trade receivables		186,783	110,117
Tax receivables		3,429	-
Other receivables		14,017	11,399
Prepayments		2,951	6,695
Receivables		**207,180**	**128,211**
Securities		581,350	185,282
Cash and cash equivalents		378,621	342,115
Securities, cash and cash equivalents		**959,971**	**527,397**
Total current assets		**1,288,487**	**888,549**
Total assets		**2,365,247**	**1,870,846**

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

DKK thousand	Note	2014	2013
Equity			
Share capital		276,712	260,944
Retained earnings		1,422,443	1,062,510
Other reserves		38,246	56,958
Equity		**1,737,401**	**1,380,412**
Provisions	13	**22,209**	**16,208**
Liabilities			
Credit institutions		33,293	71,834
Non-current liabilities		**33,293**	**71,834**
Credit institutions		1,885	8,481
Prepayment from customers		375,190	150,425
Trade payables		46,740	107,643
Payables to subsidiaries		82,159	84,177
Other liabilities	12	66,370	51,666
Current liabilities		**572,344**	**402,392**
Total liabilities		**605,637**	**474,226**
Total equity and liabilities		**2,365,247**	**1,870,846**
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, 2014	260,944	1,062,510	56,958	1,380,412
Net profit for the year	-	65,560	-	65,560
Exchange rate adjustments, investments in subsidiaries	-	13	-	13
Share-based payment	-	-	6,888	6,888
Warrant program exercised	2,448	18,342	(6,433)	14,357
Warrant program expired	-	38,438	(38,438)	-
Capital increase through direct placement	13,320	237,680	-	251,000
Costs related to issue of new shares	-	(100)	-	(100)
Tax related to items recognized directly in equity	-	-	19,271	19,271
Equity as of December 31, 2014	**276,712**	**1,422,443**	**38,246**	**1,737,401**

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

Accounting policies

The financial statements 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 Copenhagen.

The financial statements are presented in Danish kroner (DKK), which also is the functional currency of the company.

The accounting policies are unchanged from previous year. The accounting policies have been consistently applied for the financial year and for the comparative figures.

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

Supplementary accounting policies for the parent company

Accounting policies for investments in subsidiaries are described 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 it is included in the consolidated cash flow statement.

2 Research and development costs

Accouting policies

See consolidated financial statements note 5.

DKK thousand	2014	2013
Research and development costs occured this year	562,281	547,737
Of which:		
Contract costs recognized as production costs	(91,673)	(105,250)
Capitalized development costs (note 8)	(46,937)	(102,277)
	423,671	340,210
Expensing (amortization) of prior-year costs attributable to the IMVAMUNE development project (note 8)	45,535	148,045
Research and development costs	**469,206**	**488,255**

3 Staff costs

Accouting policies

See consolidated financial statements note 8.

DKK thousand	2014	2013
Wages and salaries	154,006	146,898
Contribution based pension	13,162	12,754
Social security expenses	1,653	1,522
Other staff expenses	14,457	14,217
Share-based payment	21,317	12,343
Staff costs	**204,595**	**187,734**
Staff expenses are distributed as follows:		
Production costs	118,497	107,760
Research and development costs	15,636	13,801
Distribution costs	10,309	8,152
Administrative costs	59,805	57,673
Capitalized salaries	348	348
Staff costs	**204,595**	**187,734**
Average number of employees converted to full-time	240	238
Number of employees as of December 31 converted to full-time	238	241

The management consists of CEO Paul Chaplin and CFO Ole Larsen. Paul Chaplin took up the CEO position after Anders Hedegaard as of June 1, 2014.

Remuneration to management 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 the event of a change of control, the term of notice for the Company will be extended to maximum 24 months.

The CFO'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 12 months. In the event of a change of control, the term of notice for the Company will be extended to maximum 24 months.

4 Depreciation and amortization

DKK thousand	2014	2013
Depreciation and amortization included in:		
Production costs	33,921	32,539
Research and development costs	1,134	1,124
Administrative costs	14,022	13,836
Depreciation and amortization	**49,077**	**47,499**
Hereof profit ()/loss from disposed fixed assets	86	145

5 Financial income

Accouting policies
See consolidated financial statements note 11.

DKK thousand	2014	2013
Financial income from bank and deposit contracts	11	28
Financial income from subsidiaries	11,709	10,926
Financial income from securities	4,028	6,583
Net foreign exchange gains	52,975	-
Financial income	**68,723**	**17,537**

6 Financial expenses

Accouting policies
See consolidated financial statements note 12.

DKK thousand	2014	2013
Interest expenses on debt	4,101	4,889
Financial expenses to subsidiaries	1,253	1,212
Fair value adjustments on securities	1,703	4,012
Adjustment of net present value of provisions	2,098	1,605
Net loss on derivative financial instruments at fair value in the income statement	1,722	1,133
Net foreign exchange losses	-	21,993
Financial expenses	**10,877**	**34,844**

7 Tax for the year

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

DKK thousand	2014	2013
Tax recognized in the income statement		
Current tax on profit for the year	14,026	-
Current tax on profit for previous years	999	-
Currrent tax	**15,025**	**-**
Change in deferred tax	13,809	9,999
Adjustment of deferred tax due to changed tax rates	-	37,961
Adjustment of deferred tax due to change in estimates of timing	7,473	-
Adjustments to deferred tax for previous years	28	1,744
Deferred tax	**21,310**	**49,704**
Tax for the year recognized in the income statement	**36,335**	**49,704**
Tax on income for the year is explained as follows:		
Income before company tax	101,895	39,874
Calculated tax (24.5%) on income before company tax	24,964	9,969
Tax effect on:		
Income from investments in subsidiaries	(1,614)	(1,363)
Permanent differences	4,485	1,393
Current tax on profit for previous years	999	
Adjustment of deferred tax due to changed tax rates	7,473	37,961
Adjustments to deferred tax for previous years	28	1,744
Tax on income for the year	**36,335**	**49,704**
Tax recognized in equity		
Tax on fair value adjustment of financial instruments entered into to hedge future cash flow	-	183
Tax on share based payment	(19,271)	-
Tax for the year recognized in equity	**(19,271)**	**183**

7 Tax for the year – continued

Deferred tax

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

DKK thousand	January 1, 2014	Recognized in the income statement	Recognized in equity	December 31, 2014
Intangible assets	(15,081)	10,887	-	(4,194)
Property, plant and equipment	3,034	(2,043)	-	991
Inventories	27	(28)	-	(1)
Accrued project costs	319	(249)	-	70
Obligations	6,574	(5,770)	-	804
Prepayment from customers	36,854	1,275	-	38,129
Share-based payment	-	5,294	19,271	24,565
Tax losses carried forward	273,882	(30,676)	-	243,206
Write-down on tax losses carried forward	(182,000)	-	-	(182,000)
Recognized deferred tax assets	**123,609**	**(21,310)**	**19,271**	**121,570**

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.

2014

DKK thousand	Acquired patents and licenses	Software	IMVAMUNE development project	Other Intangible assets in progress	Total
Costs as of January 1, 2014	145,429	51,174	76,955	3,949	277,507
Additions	-	1,241	46,937	1,284	49,462
Transfer	-	3,208	-	(3,208)	-
Transfer to/from property, plant and equipment	-	358	-	(742)	(384)
Disposals	-	(105)	(45,535)	-	(45,640)
Cost as of December 31, 2014	**145,429**	**55,876**	**78,357**	**1,283**	**280,945**
Amortization as of January 1, 2014	24,891	48,052	-	-	72,943
Amortization	9,686	3,107	-	-	12,793
Disposals	-	(87)	-	-	(87)
Amortization as of December 31, 2014	**34,577**	**51,072**	**-**	**-**	**85,649**
Carrying amount as of December 31, 2014	**110,852**	**4,804**	**78,357**	**1,283**	**195,296**

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. (formerly 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 with a carrying amount of DKK 111 million.

9 Property, plant and equipment

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

2014

DKK thousand	Land and buildings	Leasehold improve-ment	Plant and machinery	Other fixtures and fittings, other plant and equipment	Assets under construction	Total
Costs as of January 1, 2014	242,375	2,182	247,935	36,474	39,195	568,161
Additions	26,079	-	1,027	2,569	21,376	51,051
Transfer	35,001	-	-	1,817	(36,818)	-
Transfer to/from intangible assets	-	-	-	742	(358)	384
Disposals	-	-	-	(8,694)	-	(8,694)
Cost as of December 31, 2014	**303,455**	**2,182**	**248,962**	**32,908**	**23,395**	**610,902**
Depreciation as of January 1, 2014	65,061	1,324	165,140	21,793	-	253,318
Depreciation	12,940	315	19,216	3,727	-	36,198
Disposals	-	-	-	(8,625)	-	(8,625)
Depreciation as of December 31, 2014	**78,001**	**1,639**	**184,356**	**16,895**	**-**	**280,891**
Carrying amount as of December 31, 2014	**225,454**	**543**	**64,606**	**16,013**	**23,395**	**330,011**

Property, plant and equipment under construction mainly includes investment in equipment and a small scale filling line.

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, 2014, Bavarian Nordic, Inc. had negative equity of DKK 374 million, and the Parent Company's receivable from Bavarian Nordic, Inc. was DKK 346 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.

10 Investment in subsidiaries – continued

2014

DKK thousand	Investments in subsidiaries	Receivables from subsidiaries
Costs as of January 1, 2014	186,609	261,443
Additions	-	49,834
Exchange rate adjustments	-	34,235
Cost as of December 31, 2014	**186,609**	**345,512**
Net revaluation as of January 1, 2014	(109,396)	-
Net share of profit/loss for the year	6,586	-
Exchange rate adjustments	13	-
Net revaluation as of December 31, 2014	**(102,797)**	**-**
Carrying amount as of December 31, 2014	**83,812**	**345,512**

Company summary	Domicile	Owner-ship	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		

11 Inventories

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

DKK thousand	2014	2013
Raw materials and supply materials	21,165	14,191
Work in progress	115,313	237,272
Manufactured goods and commodities	30,749	50,008
Write-down on inventory	(45,891)	(68,530)
Inventories	**121,336**	**232,941**
Write-down on inventory as of January 1	(68,530)	(31,463)
Write-down for the year	(490)	(53,913)
Use of write-down	11,039	2,475
Reversal of write-down	12,090	14,371
Write-down on inventory as of December 31	**(45,891)**	**(68,530)**
Cost of goods sold amounts to	411,112	328,077

12 Other liabilities

Accouting policies
See consolidated financial statements note 21.

DKK thousand	2014	2013
Derivative financial instruments at fair value in the income statement	710	733
Liability relating to phantom shares	17,176	2,747
Payable salaries, holiday accrual etc.	39,535	38,099
Other accrued costs	8,949	10,087
Other liabilities	**66,370**	**51,666**

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	2014	2013
Provisions as of January 1	16,208	17,911
Additions during the year	6,001	(584)
Disposals during the year	-	(1,119)
Provisions as of December 31	**22,209**	**16,208**

DKK thousand	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
2014	3,606	16,202	2,401	22,209
2013	1,378	11,947	2,883	16,208

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.

Main intercompany transactions:
Bavarian Nordic GmbH provides research and development services to Bavarian Nordic A/S in relation to the Group's infectious diseases business.

Bavarian Nordic, Inc. provides research and development services to Bavarian Nordic A/S in relation to the clinical development of PROSTVAC and the ongoing Phase 3 study.

Bavarian Nordic Washington DC, Inc. provides services to Bavarian Nordic A/S in terms of commercial affairs work towards the United States Government, with the purpose of ensuring an efficient communication and service to U.S. authorities, in order to maintain existing contracts and explore new product/contract opportunities on the U.S. market.

All services are delivered under cost plus agreements and on arms lengh conditions.

Internal interests are presented in note 5 and note 6. Guarantees for subsidiaries are represented in note 17.

Apart from intra-group transactions mentioned above and the remuneration of the Board of Directors, the CEO and the CFO, 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	2014	2013
Due within 1 year	2,012	1,724
Due between 1 and 5 years	2,396	1,279
Commitments according to rent and lease agreements until expiry	**4,408**	**3,003**

16 Contingent liabilities and other contractual obligations

DKK thousand	2014	2013
Collaborative agreements		
Contractual obligations with research partners for long-term research projects.		
– Due within 1 year	3,286	2,255
Other contractual obligations		
Other obligations include among other things purchase commitments related to filling of vaccines.		
– Due within 1 year	27,522	114,658
– Due between 1 and 5 years	180	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, 2014. 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	2014	2013
Guarantees for subsidiaries		
The Parent Company stands surety for a credit facility to a subsidiary of a maximum of	3,413	3,211
The Parent Company stands surety for letter of credit to subsidiaries of a maximum of	3,723	3,729

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

18 Significant events after the balance sheet date

See the consolidated financial statements note 29.

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