BAVARIAN NORDIC
ANNUAL REPORT 2010

BAVARIAN NORDIC

Front page:

In May 2010, Bavarian Nordic initiated the delivery of IMVAMUNE® smallpox vaccine to the U.S. Strategic National Stockpile under the contract with BARDA to deliver 20 million doses of IMVAMUNE®. Deliveries were initiated upon notification from the FDA that Bavarian Nordic had fulfilled all preclinical, clinical and manufacturing requirements to potentially support the use of IMVAMUNE® in HIV infected subjects following a declared emergency.

During 2010, more than 2 million doses of IMVAMUNE® were delivered.

CONTENTS

A BIOTECH BREAKTHROUGH

2010 was an eventful year in Bavarian Nordic. The Company reached a turning point, when the FDA in March allowed us to produce and deliver our IMVAMUNE® smallpox vaccine to the U.S. Strategic Stockpile.

It marked the success of our dedicated and strong efforts to build up a unique and highly specialized manufacturing facility and organization. Subsequently we shipped the first 2 million vaccines under the contract for 20 million doses with the US government. These were also the first vaccines to be successfully developed and delivered under the US government's Project BioShield, which was launched to improve medical countermeasures to protect the American people from potential bioterror. As preferred collaboration partner with the US government, we aim to build further on this relationship for our continuous efforts to provide safer and improved vaccines for the protection of public health.

Although we faced challenges in the scale up of the production, we managed to overcome these while at the same time keeping a strong focus on the deliveries throughout the year. And now, with IMVAMUNE® in operation, we are able to broaden our focus towards new applications for our MVA-BN® vaccine technology.

In recognition of the different approaches that exist in our two key business

Anders Hedegaard,
President & CEO

areas, we decided to reorganize Bavarian Nordic in 2010 into two divisions; Cancer Vaccines and Infectious Diseases. This reorganization has brought leadership into focus, and facilitated a stronger and more effective management that will spur the development and in-licensing of new projects.

Our Cancer Vaccine division has been working diligent to finalize the preparations for the first programme in Bavarian Nordic to enter pivotal Phase 3 studies; PROSTVAC®. Ever since we in-licensed the vaccine, we have seen an increasing interest in the features that the vaccine offers patients, suffering from advanced prostate cancer. Not least, spurred by the FDA's recent approval of the first-ever immunotherapy for this population.

Key milestones were completed in the development of PROSTVAC® in 2010, primarily due to the regulatory endorsement that has outlined the path for approval of the vaccine by the FDA. We were granted Fast Track status by the FDA, with whom we also held a successful end of Phase 2 meeting. Based on the outcome of the meeting and responses from European health authorities as well, we submitted a clinical trial protocol for the intended Phase 3 trial, which later in the year was endorsed by the FDA with a Special Protocol Assessment Agreement. This means that the Phase 3 study can proceed as designed and, if the predetermined goals are reached, could form the primary clinical basis of product approval under a Biologics Licence Application. Initiating Phase 3 will mark yet another turning point for Bavarian Nordic.

Securing a partner for PROSTVAC® continues to be a key strategic goal for Bavarian Nordic and the Company is in partnership discussions for the continued development and commercialization of PROSTVAC®.

Supported by both existing and new shareholders, we successfully raised more than DKK 500 million in cash in 2010 through a rights issue and later a private placement. However, in the same period, our market capitalisation grew by as much as DKK 2 billion. Looking back at the year clearly explains the success that is reflected by this share performance.

Now, we are looking forward in excitement of the events that lies ahead. Our two lead projects have led the way for growth and although our primary focus remains on the IMVAMUNE® deliveries and PROSTVAC® Phase 3 trials for the next couple of years, we are ready to explore opportunities that lie beyond these to support our strategy for sustainable operations. We are confident that 2011 will be another year of great accomplishments driven by the continued dedication and excellent performance by our employees.

MILESTONES 2010

PROSTVAC®

- Regulatory endorsement of PROSTVAC® by the US health authorities (FDA) with the successful completion of an end of Phase 2 meeting, Fast Track status, and Special Protocol Assessment agreement for the Phase 3 programme
- A scientific paper on the previously reported Phase 2 study with PROSTVAC® was published in the peer-reviewed Journal of Clinical Oncology (JCO), the official journal of ASCO (American Society of Clinical Oncology)

IMVAMUNE®

- Fulfilment of FDA requirements to potentially support the use of IMVAMUNE® in HIV infected subjects following a declared emergency
- Initiation of deliveries to the U.S. Strategic National Stockpile
- 2 million doses delivered
- Performance-based milestone payment of USD 25 million received under the RFP-3 contract
- Phase 2 data from study in atopic dermatitis patients submitted to the FDA, potentially able to expand current planned use of IMVAMUNE® in the US
- Phase 3 protocols submitted to the FDA to support the licensure of IMVAMUNE® under the animal rule
- Milestones in development of freeze-dried IMVAMUNE® completed, triggering the continued funding from the U.S. Government (BARDA)

Other company milestones

- Funding received from the U.S. National Institutes of Health (NIH) to advance Bavarian Nordic's early research in the prevention of filoviruses (Ebola and Marburg virus), using the MVA-BN® platform
- More than DKK 500 million raised in successful rights issue and private placement
- Reorganization of the Company into divisions that support Bavarian Nordic's long-term growth strategy
- Core MVA-BN® patents upheld after aggressive attempts to revoke patents in Europe

OUR FOCUS AND SHORT-TERM OBJECTIVES

With the initiation of deliveries of IMVAMUNE® to the U.S. Strategic National Stockpile in 2010, we set off as an order-producing company, and our overall objective for this part of our business is to strive for profitable operations through efficient management and a continuous focus on optimizing our manufacturing in order to increase the production yield as well as to ensure a timely delivery.

The Phase 3 studies supporting the licensure of IMVAMUNE® in the US under the Animal Rule are planned for 2011. In the meantime, we have been encouraged by Health Canada to submit a New Drug Submission for IMVAMUNE® and we expect this to happen in first half of 2011, leading to a potential licensure in Canada in 2012.

In our Cancer Vaccines Division, the effort is primarily concentrated on the initiation of the pivotal Phase 3 trial with PROSTVAC® during second half of 2011.

Short-term objectives

Cancer

- Finalize the preparations and initiate PROSTVAC® Phase 3 trial
- Establish PROSTVAC® partnership before market commercialization
- Broadening the portfolio by in-licensing, acquisitions and development of new mid- to late-stage cancer targets.

Infectious Diseases

- Continued delivery of IMVAMUNE® under the RFP-3 contract with the US government
- Continued scale up of production during 2011
- Securing new IMVAMUNE® orders
- Filing of NDS for IMVAMUNE® in Canada, obtain regulatory approval.
- Developing new late-stage vaccine candidates for infectious diseases beyond biodefence, supported by partnerships and/or acquisitions.

OUR COMPANY

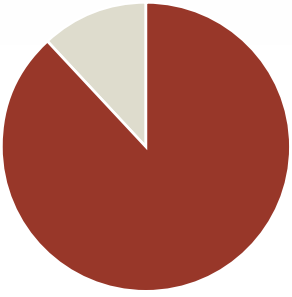
Our business is operated in two divisions, each led by its own Division President. A holding function with the President & CEO oversees the divisions and operates all Group-related functions such as group management, IR, Finance, IT, HR, Legal and Facility. Holding employed 45 by the end of 2010.

Cancer Vaccines Division

Our Cancer Vaccines division is headed by Reiner Laus and comprises a research centre in Mountain View, USA and a pilot production facility in Berlin, Germany. A total of 77 people were employed in the division by year-end 2010.

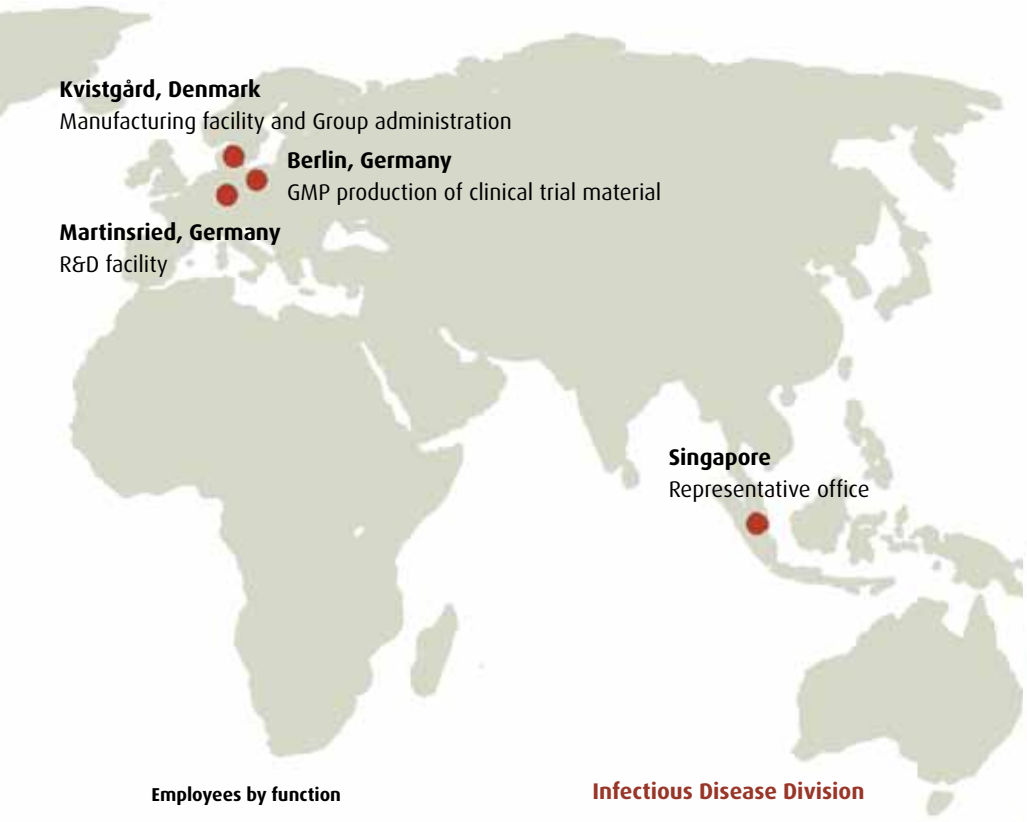
The cancer pipeline is focused in therapeutic vaccines and includes two projects in prostate cancer; PROSTVAC® (Phase 2) and MVA-BN® PRO (Phase 1/2) and one project in breast cancer; MVA-BN® HER2 (Phase 1/2).

Employees by function

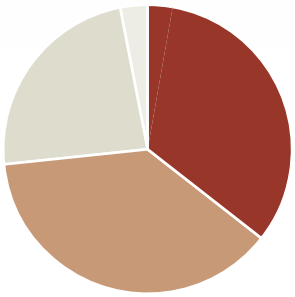


R & D	68
Sales and Administration	9

Reiner Laus,
Division President Cancer Vaccines, Executive Vice President



Employees by function



R & D	98
Manufacturing	9
Quality	70
Sales and Administration	9

Infectious Disease Division

Our Infectious Disease Division is led by Paul Chaplin, and comprises our research facility in Martinsried, Germany, manufacturing facility in Kvistgård, Denmark, a government relations office in Washington, USA and an office in Singapore. A total of 290 people were employed in the division by year-end 2010.

The infectious disease pipeline is focused in prophylactic vaccines and includes a smallpox vaccine candidate; IMVAMUNE® (Phase 2), an anthrax vaccine candidate; MVA-BN® Anthrax (Preclinical), a RSV vaccine candidate; MVA-BN® RSV (Preclinical) and a HIV vaccine candidate; MVA-BN® HIV multiantigen (Phase 1/2).

Paul Chaplin,
Division President Infectious Diseases, Executive Vice President

KEY FIGURES

Group Key Figures 2006-2010

DKK million	2010	2009	2008	2007	2006
Income statement					
Revenue	314.1	74.8	208.8	332.1	175.3
Production costs	444.5	140.1	196.7	64.5	136.3
Research and development costs	210.8	164.0	129.6	243.6	118.4
Distribution and administrative costs	132.9	111.9	92.0	89.1	124.4
Income before interest and tax (EBIT)	(474.1)	(341.2)	(209.5)	(65.0)	(203.8)
Financial items, net	(9.4)	10.1	26.2	14.5	(1.0)
Income before company tax	(483.4)	(331.1)	(183.3)	(50.5)	(204.8)
Net profit for the year	(389.9)	(266.3)	(150.4)	(63.5)	(160.9)
Balance sheet					
Total non-current assets	829.2	715.1	594.2	538.8	568.2
Total current assets	637.9	556.0	1,100.0	1,193.2	386.2
Total assets	1,467.1	1,271.1	1,694.3	1,732.1	954.4
Equity at year-end	810.4	704.2	1,015.1	1,217.7	691.4
Long-term current liabilities	106.5	113.0	52.7	134.7	150.6
Short-term current liabilities	550.2	453.9	626.5	379.7	112.4
Cash Flow Statement					
Securities, cash and cash equivalents	355.7	185.0	795.9	913.6	332.7
Cash flow from operating activities	(239.9)	(484.0)	(22.4)	163.2	(194.5)
Cash flow from investment activities	(45.8)	26.1	(81.5)	(16.1)	(192.2)
Investment in tangible assets	45.7	50.6	12.0	5.8	73.9
Cash flow from financing activities	471.0	(30.8)	(15.1)	440.4	219.0
Financial Ratios (in DKK)					
Earnings per share					
– basic earnings per share of DKK 10	(33.5)	(34.0)	(18.7)	(8.0)	(25.8)
– diluted earnings per share of DKK 10	(33.5)	(34.0)	(18.7)	(8.0)	(25.8)
Net asset value per share	62.5	88.6	129.9	155.8	108.4
Share price at the year-end	245	144	132	293	582
Share price/Net asset value per share	3.9	1.6	1.0	1.9	5.4
Number of outstanding shares at the year-end	12,962	7,952	7,816	7,816	6,376
Equity share	55%	55%	60%	70%	72%
Number of employees, converted to full-time, at year-end	412	354	294	264	233

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

FINANCIAL REVIEW 2010

Unless otherwise stated, the financial review is based on the Group's consolidated financial information for the year ended 31 December 2010 as included in this Annual Report with comparative figures for the Group in 2009 in brackets.

A pre-tax loss of DKK 483 million (DKK 331 million) was recorded for the year. The Company had expected a loss for 2010 of DKK 450 million. The negative deviation is mainly because the Company had slightly lower revenue than expected and has progressed further than expected with preparations for PROSTVAC® Phase 3 studies, leading to increased costs.

The Group's cash preparedness was DKK 460 million at the end of the year (DKK 205 million).

Equity stood at DKK 810 million at 31 December 2010 (DKK 704 million).

In the autumn 2010 it was decided to reorganize the company's primary business areas into two divisions; Cancer Vaccines and Infectious Diseases. Certain financial segment information has been included in this annual report and can be found in the notes.

Income statement

Revenue
Bavarian Nordic generated revenue of DKK 314 million in 2010 (DKK 75 million). The revenue is primarily composed of revenue from deliveries of 2 million doses of IMVAMUNE® to the US health authorities. The remaining revenue mainly comes from ongoing contracts with the US health authorities (development contracts RFP-2 and freeze-dried IMVAMUNE®).

Production costs
Production costs, which amounted to DKK 444 million (DKK 140 million), include costs incurred to generate the recognized revenue and costs of external suppliers, payroll costs, depreciation and amortisation. The increase compared to 2009 is related to the increase in revenue. In addition, the Company has made material write-downs of inventories, net DKK 94 million (income DKK 9 million), since the bulk vaccine which was produced during the initial scale-up in spring 2010 did not meet all the predefined specifications, leading to write down of inventories. The development in write-downs is shown in note 15.

Research and development costs
Research and development costs totalled DKK 211 million (DKK 164 million) excluding capitalized costs, which totalled DKK 12 million (DKK 38 million). The development costs primarily consist of in-house payroll costs and costs related to projects. The increase is primarily due to increased activities in the cancer business area.

Distribution costs and administrative costs
Distribution costs and administrative costs in 2010 totalled DKK 133 million (DKK 112 million). The increase is mainly due to severance costs to two former members of group management, consultant expenses related to reorganization of the Group, and tax advice in connection with the award of a potential partner agreement on PROSTVAC®.

Financials
During 2010, Bavarian Nordic posted net financial expenses of DKK 9 million (net income DKK 10 million). The decrease is primarily attributable to lower interest income on bank balances and fixed deposits as a result of lower net free liquidity during the year.

Tax
Income taxes represented an income of DKK 94 million (DKK 65 million) and is primarily attributable to deferred tax adjustments associated with tax losses carried forward.

Net profit
A net loss of DKK 390 million after tax was posted in 2010 (a loss of DKK 266 million). It is proposed that the loss be transferred to free reserves.

Balance sheet

The balance sheet total was DKK 1,467 million as of 31 December 2010 (DKK 1,271 million).

Assets
Non-current assets stood at DKK 829 million (DKK 715 million). The increase is primarily due to an increase of research and development costs related to the registration of IMVAMUNE® under the RFP-3 contract, new facilities at Kvistgård, refurbishment of buildings and pilot plant in Berlin as well as an increase in the tax asset as a result of the loss in the period.

Development costs for IMVAMUNE® related to the registration of the vaccine, have been capitalized by DKK 108 million (DKK 96 million) under intangible assets as an investment in progress.

Based on the contracts already concluded and expectations for future operations, the tax assets at the end of 2010 are recognized in the balance sheet in the amount of DKK 334 million (DKK 234 million).

Inventories amounted to DKK 121 million, which is half in relation to 2009 (DKK 246 million). The decrease is due to delivery of 2 million doses IMVAMUNE® to the US health authorities and material write-downs in the year. The write-downs as of 31 December 2010 amounted to DKK 108 million (DKK 34 million) and relate to partial write-down of inventories, where final release of vaccines have not taken place and full write-down of inventories that are not expected to be released when the final quality test is completed.

Inventories comprise of raw materials for production at the Kvistgård facility, work in progress and manufactured goods and commodities.

Receivables stood at DKK 161 million (DKK 125 million). Most of these receivables are pre-payments for future fillings, DKK 95 million (DKK 69 million). Trade receivables have increased due to deliveries of IMVAMUNE® to the US health authorities.

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

As of 31 December 2010 cash and securities stood at DKK 356 million (DKK 185 million).

The fixed-term deposits are denominated in Danish kroner and are at interest rates reflecting the short term Danish money market. The investments in bonds are also denominated in Danish kroner at year-end 2010.

Equity

After the transfer of the loss for the year, equity stood at DKK 810 million (DKK 704 million). The DKK 106 million increase is primarily attributable to two capital injections in 2010 with net proceeds of DKK 501 million, which is partly offset by negative retained earnings of DKK 390 million.

Creditors
The Group's borrowings are reduced to DKK 107 million (DKK 119 million) in connection with ordinary repayment of debt.

Trade payables amounted to DKK 50 million (DKK 48 million). Other creditors totalled DKK 103 million (DKK 112 million) and includes negative fair value of financial instruments DKK 32 million (DKK 10 million).

In connection with the award of the RFP-3 contract in 2007, an advance payment of DKK 277 million (USD 50 million) was received and in 2010 the Company achieved a milestone payment of DKK 148 million (USD 25 million). These payments are subject to a repayment obligation if Bavarian Nordic does not meet the requirements including delivery of 20 million IMVAMUNE® doses under the contract. Both prepayment and milestone payments are recognised as liabilities and will be recognised as revenue as doses are delivered. In 2010, 2 million doses have been delivered and thus DKK 43 million recognised as revenue.

OUTLOOK FOR 2011

With the reorganization of the Company's primary business areas into two divisions; Cancer Vaccines and Infectious Diseases, Bavarian Nordic has increased its focus on initiating the Phase 3 trial on PROSTVAC® and on the production of IMVAMUNE® for the continued deliveries to the U.S. Government.

In 2011, Bavarian Nordic expects to deliver 4 million doses of IMVAMUNE® to the U.S. Strategic National Stockpile, of which approximately 3 million will be revenue recognized but only around 2 million contribute to the 2011 cash flow due to anticipated late delivery and acceptance from BARDA in the fourth quarter of 2011.

Bavarian Nordic's guidance for revenues and pre-tax results include the financial effects of initiating the PROSTVAC® Phase 3 trial in 2011.

The Company is currently reviewing alternate options to fund the continued development of PROSTVAC®, in particular opportunities to pursue an independent development in parallel with continuing the partnership discussions. As part of this review of options the Company is considering a rights issue to generate sufficient funds that in combination with positive cash flow from existing operations in coming years can fund the pivotal PROSTVAC® Phase 3 trial. The Company intends to finalize its considerations and present the conclusions at the Annual General Meeting on 26 April 2011, where the Company expects to provide guidance for its 2011 year-end cash preparedness as well.

In 2011, the Company expects revenue at the level of DKK 500 million and a pre-tax loss at the level of DKK 350 million. The revenue of DKK 500 million is expected to be generated from deliveries of IMVAMUNE® under the RFP-3 contract and revenue from ongoing research contracts, including the contract for freeze-dried IMVAMUNE® and the RFP-2 IMVAMUNE® contract.

The free cash flow from operations and investments for 2011 are projected to be negative by approximately DKK 600 million and are expected to be almost equally split between the two divisions. In the Infectious Disease Division, these financial effects are primarily due to the scale up in production from two to four batches per week, as well as the time gap between deliveries in late 2011 and payment. In January, the Company successfully scaled up production from two to three batches per week and a scale-up to four batches per week is projected for the third quarter of 2011. In the Cancer Vaccines Division, the negative cash flow is mostly related to the initiation of the Phase 3 trial for PROSTVAC®. The trial cost is estimated to be USD 150m over the period 2011 to 2015.

In case no alternate options to fund the continued development of PROSTVAC® in 2011 materialises, Bavarian Nordic will be in a situation where the Group would have to postpone the initiation of the pivotal Phase 3 trial for PROSTVAC® and reduce existing research and development programmes except for IMVAMUNE® and reduce costs in the supporting functions and investments in order to continue operations.

Prospects for IMVAMUNE® 2012-13

The delivery of the expected remaining 14 million doses after 2011 under the RFP-3 contract is anticipated to be approximately evenly split between 2012 and 2013. In summary, the projected delivery schedule of IMVAMUNE® is expected to enable the Bavarian Nordic Infectious Disease Division to be cash flow positive as of fourth quarter of 2011 and onwards.

In 2012-2013, the accumulated free cash flow for the Infectious Disease Division is expected to be positive by approximately DKK 350 million including costs for the Phase 3 trial for IMVAMUNE®, but excluding the cash from the hold back of USD 50 million.

THE DIVERSE FOCUS IN BOTH **INFECTIOUS DISEASES** AND **CANCER** HAS LED TO THE ESTABLISHMENT OF TWO SEPARATE BUSINESS DIVISIONS

THE ESTABLISHMENT OF DIVISIONS FACILITATES A **STRONGER** AND MORE EFFECTIVE MANAGEMENT STRUCTURE AND OFFERS A NUMBER OF **BENEFITS** TO THE COMPANY

OUR STRATEGY

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

Though our commitment to the development of safer vaccines for the protection of the public against potential bioterror agents, we have established a successful business in biodefence, encompassing a full value chain of research and manufacturing facilities, based on our patented and proven technology platform; MVA-BN®, suitable for developing new vaccine targets in both prophylactic and therapeutic settings.

Leveraging on these competencies, our focus has broadened over the last years through the establishment of a cancer business unit focused on the development of new and improved therapies for the treatment of cancer to fulfil unmet medical needs.

This diverse focus in both infectious diseases and cancer has led to the establishment of two separate business divisions; Cancer Vaccines and Infectious Diseases, each led by its own Division President. The establishment of two divisions facilitates a stronger and more effective management structure and offers a number of benefits to the Company, including:

- Optimization of resource management and investments
- Acceleration of development and in-licensing of new projects within cancer and infectious diseases
- Multiple funding options and separate strategic partnership opportunities

Cancer Vaccines

Bavarian Nordic is pursuing the development of active immunotherapy, currently targeting two of the major cancers; breast and prostate cancer. Viral vector-based vaccines, like MVA-BN®, offer the advantage that the virus will induce both a strong humoral and a cellular immune response, thus activating all arms of the immune system.

Utilizing the MVA-BN® platform technology, the Company is seeking to develop improved therapies for the treatment of cancers, in which current approved therapies are limited in terms of efficacy and safety. Currently, MVA-BN® is investigated in clinical Phase 1/2 studies as vaccine candidate for the treatment of breast and prostate cancer.

Through the in-licensing of other technologies, the Company builds on its expertise in viral vector-based vaccines to enhance and further develop other emerging technologies like PROSTVAC®, which in clinical trials has demonstrated a superior efficacy, while at the same time offering an advantageous safety profile and ease of administration.

Preparations for pivotal Phase 3 studies with PROSTVAC® are ongoing with expected enrolment to start in the second half of 2011.

It is our strategy to expand the cancer portfolio beyond the current programmes with more late-stage projects through the continuous development of own research projects, scientific partnerships and through acquisitions.

Infectious Diseases

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

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

Next to smallpox, the U.S. Government is strongly focused on the development of countermeasures against anthrax, and Bavarian Nordic assesses that the Company is well-positioned to obtain funding for the continued development of an anthrax vaccine. Utilizing the MVA-BN® platform, such a vaccine would be a combined smallpox and anthrax vaccine and thus it would simultaneously address two of the gravest bioterrorism threats, while at the same time offering a number of attractive synergies.

Funding has already been received from the U.S. Government to investigate the potential of an MVA-BN® based vaccine against filoviruses (Ebola and Marburg's disease), also considered potential bioterror agents. Preclinical activities in these indications will be completed with the aim of determining the potential to advance these into clinical studies, depending on further government funding

Infectious diseases beyond biodefence
The infectious disease strategy is to use the established biodefence business to support the parallel development of vaccines against other infectious diseases that fulfil a significant unmet medical need. The continued support for IMVAMUNE® and MVA-BN®-based vaccines is ratification by a third party of the utility of the platform to develop effective and safer vaccines against lethal diseases. Indeed, the advanced stage of development of IMVAMUNE®, coupled with the proven manufacturing capabilities for MVA-BN®-based vaccines reduces the risks associated with initiating new vaccine programs based on MVA-BN®.

Following the proof of concept study which demonstrated a MVA-BN®-based vaccine (against measles) was well tolerated and immunogenic in a paediatric population (6 months – 5 years old), Bavarian Nordic will initially focus on the development of a prophylactic vaccine against Respiratory Syncytial Virus (RSV).

The body's natural defence against RSV is only transient, which means that re-infections are common, resulting in flu-like symptoms, although RSV can lead to lower respiratory infections, pneumonia, respiratory failure and death. Indeed, RSV is a leading cause of death (from an infection) in infants and is also associated with comparable deaths in adults, particularly risk populations (elderly, immunocompromised, underlying respiratory conditions) as influenza. Currently, there is no vaccine against RSV to protect the estimated 200 million people at risk from annual RSV infections.

In addition to RSV, a key part of the Infectious Disease strategy is to partner to further develop the platform. A key example is the MVA-BN® HIV multiantigen, which has completed Phase 1/2 clinical trials, demonstrating proof of concept. While Bavarian Nordic will not fund the further development alone, we continue to look for a partner, because even though the vaccine has shown great promise in the clinical the Company would need to spread the significant risks associated with the development of a HIV vaccine.

BAVARIAN NORDIC PROVIDES UPDATE ON STRATEGY FOR PROSTVAC®

Following recent agreement with the FDA on the Special Protocol Assessment (SPA) received in December 2010 for the pivotal Phase 3 trial of PROSTVAC®, it is the Company's belief that the development of PROSTVAC® carries a more favourable regulatory approval threshold than previously anticipated, indicating greater upside potential.

PROSTVAC® represents a significant product opportunity for Bavarian Nordic. PROSTVAC® is an "off-the-shelf" therapeutic vaccine moving into late stage clinical development that in a fully controlled Phase 2 study has demonstrated the potential to extend the lives of people with advanced prostate cancer by 8.5 months (approx. 50% increase) compared to placebo. PROSTVAC® has created enthusiasm in the medical community and has received positive feedback as a potential new and efficient vaccine for prostate cancer.

It is the Company's opinion, that this potential is not fully recognised in the current proposed deal terms, and that there could be more benefits in terms of shareholder value from retaining control in a full in house development program.

The Company believes that the overall development plan and the timing of the PROSTVAC® Phase 3 trial shall be maintained in order to secure speed to market.

Bavarian Nordic has ongoing partnership discussions for the development and commercialization of PROSTVAC®. While securing a partner for PROSTVAC® continues to be a key strategic goal for Bavarian Nordic, the Company believes that maintaining the momentum in the development of PROSTVAC® is critical for maximizing value for shareholders.

Therefore, the Company is currently reviewing alternate options to fund the continued development of PROSTVAC®, in particular opportunities to pursue an independent development in parallel with continuing the partnership discussions. As part of this review the Company is considering a rights issue to generate sufficient funds that in combination with positive cash flow from existing operations in coming years can fund the pivotal PROSTVAC® Phase 3 trial. The Company intends to finalize its considerations and present the conclusions at the Annual General Meeting on 26 April 2011.

.

OUR TECHNOLOGY

Bavarian Nordic's core technology platform is based on the patented MVA-BN® (Modified Vaccinia Ankara – Bavarian Nordic) virus, an enhanced version of Modified Vaccinia Ankara (MVA) virus, which is a highly attenuated strain of the poxvirus vaccinia. MVA was developed towards the end of the campaign for the eradication of smallpox and used successfully to pre-vaccinate more than 120,000 individuals against smallpox in Germany in the 1970s.

Besides being a smallpox vaccine, MVA-BN® has been shown as one of the safest multivalent vaccine vectors for the development of vaccines against infectious diseases and cancer.

MVA-BN® is under clinical evaluation in a total of 14 completed or ongoing trials as a smallpox vaccine. More than 3,400 individuals, including nearly 1,000 immunocompromised have been vaccinated with MVA-BN®-based vaccines, demonstrating high immunogenicity and at the same time, no serious adverse reactions.

The MVA-BN® has an attractive safety profile due to the virus' inability to replicate in a vaccinated individual. The replication cycle is blocked at a very late stage which ensures that new viruses are not generated and released. This means that the virus cannot spread in the vaccinated person and side-effects, normally associated with replicating vaccinia viruses, do not appear with MVA-BN®.

Studies with MVA-BN® in immunocompromised individuals have also confirmed its safety and immunogenicity profile, making MVA-BN®-based vaccines suitable for the development of vaccines for immunocompromised populations.

In-licensed technologies
Through the in-licensing of other technologies, Bavarian Nordic builds on its solid expertise in poxviruses. The therapeutic prostate cancer vaccine, PROSTVAC®, that was acquired in 2008 as part of a collaboration with the National Cancer Institute (NCI), employs two different poxviruses in a prime-boost regime. Thus Bavarian Nordic is able to leverage not only its know-how, but also its manufacturing competencies for delivering new and improved cancer therapies.

INTELLECTUAL PROPERTY RIGHTS

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

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

Bavarian Nordic's patent portfolio directed to aspects of MVA consists of 34 patent families, comprising more than 350 pending patent applications and more than 650 granted/issued patents.

Bavarian Nordic's competitive IP protection gives exclusive rights to manufacture, sell and market its MVA based technology globally.

Besides its core IP, Bavarian Nordic has obtained protection for, and continues to file further applications to protect relevant supporting technologies. Bavarian Nordic has also acquired exclusive rights to non-MVA technologies including other viruses and production processes from other patent holders.

Strong IP position successfully defended

At several occasions during 2010, Bavarian Nordic successfully defended its strong IP position on the MVA-BN® technology.

In January, Bavarian Nordic and Oxford BioMedica reached a global settlement ending all pending litigation and oppositions filed at the European Patent Office on matters relating to MVA-BN®. Under the agreement, Bavarian Nordic granted a license to its MVA-BN® patents in return for Oxford BioMedica making milestone payments and royalties.

In October, the Company successfully defended its core patent covering the MVA-BN® technology despite aggressive attempts from competitors to revoke the patent in Europe. An opposition proceeding had been pending at the European Patent Office for several years with seven companies opposing the patent. After an oral hearing in the first instance the Opposition Division rendered its decision to uphold the patent with certain amended claims.

Furthermore, two companies had filed oppositions against the Company's European Patent disclosing the use of MVA derived viruses for inducing a general immune stimulation for protection against e.g. smallpox in neonates, i.e. young children with an immature immune system. This patent was also upheld with amended claims by the Opposition Division

WITH THE FDA APPROVAL OF THE FIRST-EVER IMMUNOTHERAPY TO FIGHT **PROSTATE CANCER** IN 2010, THE WAY HAS BEEN PAVED FOR OTHER **IMMUNOTHERAPIES**

BAVARIAN NORDIC'S **PROSTVAC®** IS POISED TO BECOME THE SECOND PROSTATE **CANCER VACCINE** BASED IMMUNOTHERAPY COMMERCIALLY AVAILABLE

CANCER VACCINE DIVISION

PROSTVAC®

With the FDA approval of the first-ever immunotherapy to fight prostate cancer in 2010, the way has been paved for other immunotherapies. This has raised further interest in the field. Bavarian Nordic's PROSTVAC® is poised to become the second prostate cancer vaccine based immunotherapy commercially available. In Phase 2 clinical trials PROSTVAC® was associated with a remarkable prolongation of overall survival, and has been well tolerated, especially for an oncology product.

Additionally, PROSTVAC® is also a standardized off-the-shelf vaccine, adding further to its advantage. It will be easier to make PROSTVAC® globally available, and do clinical studies in early stage disease for label expansion.

In 2011, PROSTVAC® is set to enter Phase 3 trials as the first-ever programme in Bavarian Nordic to enter pivotal studies. During 2010, a strong internal effort has been made in order to prepare for the study, and significant milestones were achieved, including the following

- Successful completion of an end of Phase 2 meeting with the FDA
- Scientific Advice from the European Medicines Agency
- Fast Track status granted by the FDA
- Special Protocol Assessment agreement with the FDA

Completing these key milestones outlines the requirements for product registration for PROSTVAC®, for the treatment of patients with asymptomatic or minimally symptomatic metastatic castration-resistant prostate cancer (mCRPC), which is the patient group, initially targeted with the vaccine.

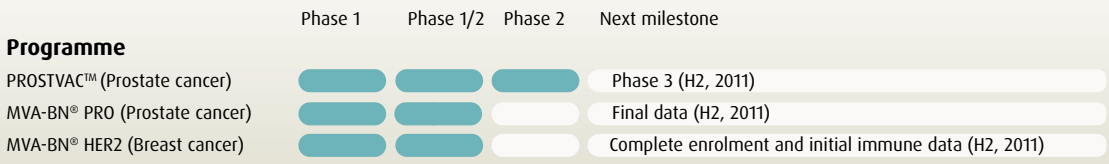
Further to the clinical preparations, an extensive effort has been dedicated to increase the awareness of PROSTVAC® amongst investors, analysts, key opinion leaders, scientific society etc. In parallel, Bavarian Nordic has held partnership discussions with pharmaceutical companies on the continued development and commercialisation of PROSTVAC®.

About PROSTVAC®

PROSTVAC® is an "off-the-shelf" therapeutic vaccine moving into Phase 3 clinical development that has the potential to extend the lives of people with advanced prostate cancer. The vaccine induces a specific, targeted immune response that attacks prostate cancer cells.

PROSTVAC® has undergone large-scale Phase 2 development in metastatic prostate cancer, where results on overall survival are very encouraging. The most definitive assessment of PROSTVAC® has been a randomized, double-blinded, and placebo controlled Phase 2 study.

Pipeline



The results from this study of 125 patients with metastatic prostate cancer after four years of follow-up showed that patients receiving PROSTVAC® had a statistically significantly longer median overall survival by 8.5 months compared to the control group (p=0.006). The hazard ratio estimate for overall survival from the study is 0.56, indicating that the vaccine reduced the risk of death by 44%.

The clinical data behind PROSTVAC® are extensive. The vaccine has undergone clinical testing in multiple prostate cancer disease settings and has been tested in 13 completed and 6 ongoing clinical studies in more than 590 patients. Furthermore, PROSTVAC® has demonstrated a very good safety and tolerability profile, especially for an oncology product.

Additional statistical analysis of the Phase 2 data indicates that PROSTVAC® is universally applicable to a wide range of prostate cancer patients. These results suggest that PROSTVAC® can be used in earlier stages of prostate cancer, thus expanding its market potential.

PROSTVAC® is being developed in collaboration with the National Cancer Institute (NCI) under a Cooperative Research and Development Agreement (CRADA) with Bavarian Nordic's U.S.-based subsidiary, BN ImmunoTherapeutics. This CRADA is aimed at developing new and innovative prostate cancer treatments.

PROSTVAC® granted Fast Track status
In May 2010, PROSTVAC® was granted Fast Track designation by the FDA for its proposed use in the treatment of men with asymptomatic or minimally symptomatic mCRPC. The FDA determined that PROSTVAC® meets the criteria for Fast Track designation as it has demonstrated a potential survival benefit and an excellent safety profile in the intended patient population of men with asymptomatic or minimally symptomatic mCRPC.

The Fast Track programme of the FDA is designed to facilitate the development and expedite the review of new drugs that are intended to treat serious or life-threatening conditions and that demonstrate the potential to address unmet medical needs. Under Fast Track, Bavarian Nordic would also be eligible to submit a Biologics License Application (BLA) on a rolling basis. This permits the FDA to review sections of the BLA in advance of receiving the complete submission.

Special Protocol Assessment
Based on the consolidated feedback from the FDA and the European Medicines Agency upon conclusion of Phase 2, Bavarian Nordic submitted a clinical trial protocol to the Special Protocol Assessment (SPA) process with the FDA in late summer 2010. In December, Bavarian Nordic and the FDA agreed on an SPA for a Phase 3 study required for product registration for PROSTVAC®, for the treatment of patients with asymptomatic or minimally symptomatic mCRPC. This agreement means that the Phase 3 study can proceed as designed and, if successful, would form the primary clinical basis of product approval under a Biologics Licence Application.

PROSTVAC® – selected publications

Overall Survival Analysis of a Phase 2 Randomized Controlled Trial of a Poxviral-Based PSA-Targeted Immunotherapy in Metastatic Castration-Resistant Prostate Cancer
J Clin Oncol. 2010 Mar 1;28(7):1099-105.
PMID: 20100959

A randomized phase II study of flutamide with or without PSA-TRICOM in nonmetastatic castration-resistant prostate cancer (CRPC).
2011 Genitourinary Cancers Symposium, Poster

A complete list of PROSTVAC® publications with abstracts are found at www.bavarian-nordic.com/prostvac

The SPA process is a procedure by which the FDA provides official evaluation and written guidance on the design and size of proposed protocols that are intended to form the basis for a BLA or a New Drug Application (NDA). Final marketing approval depends on the results of efficacy, the adverse event profile and an evaluation of the benefit/risk of treatment demonstrated in the Phase 3 trial.

The PROSTVAC® Phase 3 programme
The Phase 3 programme will include one global, strongly powered, randomized, double-blind, placebo-controlled study that is expected to enrol about 1,200 patients in three study arms. Patients in the two active study arms will receive either PROSTVAC® alone or PROSTVAC® with adjuvant doses of GM-CSF (which was included in Phase 2).

Patients who have metastatic disease and have failed hormone therapy, but who have not yet received other treatment options such as chemotherapy, will be eligible to enrol in the study.

The primary endpoint is Overall Survival (OS). For the study outcome to be positive, either one or both of the treatment arms must be superior to placebo. The Phase 3 trial is sized so that each comparison requires 534 deaths with sensitivity for estimated death hazard ratios of 0.82 or less, corresponding to a reduced risk of death of minimum 18%. This compares favourably to the results from the Phase 2 study, where a 44% reduction was demonstrated.

Bavarian Nordic has signed an agreement with Pharmaceutical Product Development, Inc. (PPD), a leading global contract research organization for the management of the PROSTVAC® Phase 3 trial. The first patients are expected to be enrolled during 2011 following final regulatory approvals and product availability.

Ongoing PROSTVAC® studies
Currently, there are six ongoing clinical studies with PROSTVAC®, all of which are conducted by NCI:

- A Phase 1 dose-escalation, combination study with PROSTVAC® and Ipilimumab (CTLA-4 antibody) in 30 patients with metastatic prostate cancer. Clinical endpoint: Safety, PSA response, CT response. Enrolment has been completed with results expected in the second half of 2011.

- A Phase 1 study investigating PROSTVAC® by intra-prostatic injection in 20 patients with progressive or locally recurrent prostate cancer. Clinical endpoint: Safety, PSA response, immune response Enrolment has been completed with results expected in the second half of 2011.

- A Phase 2 study investigating PROSTVAC® in 50 patients with PSA progress after local therapy (surgery and/or radiation). Clinical endpoint: PSA progression at 6 months / PSA velocity. Second stage of trial that combines PROSTVAC with androgen ablation therapy is ongoing with results expected in the second half of 2011

- A Phase 2 study comparing antihormone therapy (flutamide) with or without PROSTVAC® therapy in 65 patients with non-metastatic prostate cancer. Clinical endpoint: Time to progression. Preliminary results from 26 patients suggests an improvement in time to progression (TTP) for those patients receiving PROSTVAC® in combination with flutamide (median TTP = 223 days) compared to flutamide alone (median TTP = 85 days). Enrolment is still ongoing with expected final results in 2012.

- A Phase 2 study comparing the radioactive drug samarium with or without PROSTVAC® therapy in 68 patients with metastatic prostate cancer. Clinical endpoint: 4 month progression free survival. More than half of the planned patients are enrolled with expected results in 2012.

- A Phase 2 randomized study in 144 patients with metastatic castration-resistant prostate cancer (mCRPC), comparing PROSTVAC® followed by docetaxel (chemotherapy), versus docetaxel alone. Clinical endpoint: Survival. Enrolment is ongoing with expected full enrolment in 2012.

MVA-BN® PRO prostate cancer vaccine candidate

Bavarian Nordic's MVA-BN®-based vaccine candidate for the treatment of prostate cancer is designed to express sequences that control immunity to PSA and PAP.

These highly prostate-specific antigens have shown promise as tumour targets when evaluated separately in clinical studies. PSA is also the target of the PROSTVAC® immunotherapy programme. The concomitant targeting of two prevalent antigens to treat prostate cancer is a distinctive feature of MVA-BN® PRO. The Company anticipates that this feature will confer superior cancer vaccine efficacy and alleviate tumour immune evasion.

The dual vaccine properties of MVA-BN® PRO were verified in preclinical studies that showed induction of broad and comprehensive immune responses to both PSA and PAP following administration of MVA-BN® PRO.

Based on the positive preclinical evaluation of MVA-BN® PRO, a Phase 1/2 safety and tolerability study in 18 male patients with non-metastatic hormone-insensitive prostate cancer has begun in the US. Preliminary immune evaluation of T-cell responses has showed vaccine-induced responses to both PSA and PAP. Most importantly, treatment in this patient population also resulted in the induction of T-cell responses to tumour antigens other than PSA and PAP. These preliminary data are encouraging as they suggest that MVA-BN® PRO-induced anti-PSA and PAP responses may have led to tumoricidal activity. Final data from the study are expected in 2011.

Bavarian Nordic will harmonize development of its two prostate cancer therapeutics (PROSTVAC® and MVA-BN® PRO). A vaccine product incorporating the features of PROSTVAC®, plus the safety of MVA priming and the dual antigens of the MVA-BN® PRO approach may generate an improved product.

The intention is to roll the two projects into a unified development plan for a next-generation prostate cancer vaccine that includes the NCI-CRADA. With this approach, Bavarian Nordic will benefit from NCI's expertise and commitment to clinical development of drug candidates.

MVA-BN®-HER2 breast cancer vaccine candidate

Bavarian Nordic's MVA-BN® vaccine candidate for the treatment of breast cancer is designed to express sequences that control immunity to HER2-neu antigen (HER2).

HER2 is a growth factor receptor that is over-expressed by 20 – 30% of patients with localized breast cancer, and is important for the growth of the tumour.

HER2 has been validated as a tumour antigen target through numerous preclinical and clinical studies.

This is notably exemplified by the efficacy of Herceptin, a humanized anti-HER2 monoclonal antibody, approved by the US and European authorities for treatment in both metastatic and adjuvant disease settings. Active immunotherapy against HER2 is being studied by numerous investigators at an early stage of development using a variety of forms of HER2 including wild-type, truncated, peptide fragments, and modified forms. Bavarian Nordic's approach is to utilize the MVA-BN® vector, engineered to encode a modified form of HER2, to generate endogenous immune response to the critical tumour antigen.

Previously, Bavarian Nordic reported data from a Phase 1/2 study with its breast cancer vaccine, MVA-BN®-HER2, in development as therapy of metastatic breast cancer patients. The study met its primary endpoint with regards to safety and by showing an immune response.

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

Based on those data from both clinical and preclinical studies Bavarian Nordic decided to advance the clinical development of MVA-BN®-HER2 in further clinical studies with the new and improved vaccine. A new Phase 1/2 study in the US was initiated in 2010 to evaluate the safety and immunological efficacy of the improved version of the vaccine in an adjuvant therapy setting in 20 patients with HER2 positive breast cancer. Initial immune data from the study will be available during 2011.

IN MAY 2010, BAVARIAN NORDIC INITIATED THE DELIVERY OF **IMVAMUNE®** SMALLPOX VACCINE TO THE U.S. STRATEGIC NATIONAL **STOCKPILE** UNDER THE CONTRACT WITH BARDA TO DELIVER **20 MILLION DOSES**

INFECTIOUS DISEASE DIVISION
BIODEFENCE

IMVAMUNE® – SMALLPOX VACCINE CANDIDATE

IMVAMUNE® is positioned as a new and superior third-generation smallpox vaccine for protection of the general population (18-55 years old).

The likely use of IMVAMUNE® by governments would be for:

- First-line responders (military, police, health care workers, etc.)
- Individuals contraindicated for conventional smallpox vaccines: e.g. individuals with HIV, people with atopic dermatitis (AD) and members of their households. This typically represents approximately 25 % of the general population
- The general population

IMVAMUNE® is currently an unlicensed vaccine and has gained fast track status at the US authorities. Because of the high need for a safer smallpox vaccine, IMVAMUNE® is already in production and available for governments globally under their national emergency rules.

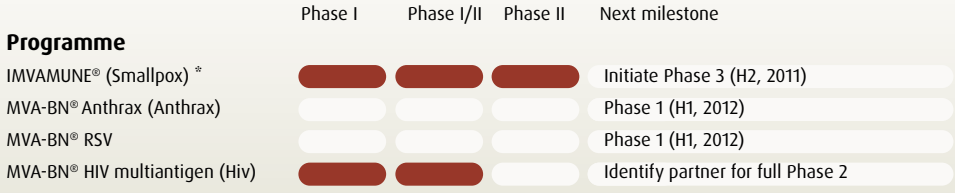
In clinical trials to-date, more than 3,400 individuals have been vaccinated with IMVAMUNE®, demonstrating a favourable safety profile including almost 1,000 individuals with compromised immune systems who are currently not eligible for conventional smallpox vaccines.

The development of IMVAMUNE® is funded by the U.S. Government through contracts with BARDA (Biomedical Advanced Research and Development Authority and NIH (National Institutes of Health). Initial contracts, awarded in 2003 and 2004 were aimed at the early preclinical and clinical development, as well as demonstrating the ability to deliver commercial-scale quantities of IMVAMUNE®. In 2007, Bavarian Nordic was awarded a contract for finalising the development up to registration as well as for the delivery of 20 million doses of the vaccine, intended for emergency use. The contract includes an option for the U.S. Government to order an additional 60 million doses. Under this contract, Bavarian Nordic has received an advance payment of USD 50 million and four milestone payments of USD 25 million each for the successful completion of pre-determined milestones. The advance payment and one milestone payment are subject to repayment if Bavarian Nordic does not fulfil the contractual obligations.

In 2009, Bavarian Nordic was awarded yet another contract from the U.S. Government, funding the development of a freeze-dried version of IMVAMUNE®, which would offer various new advantages in terms of a potential increased shelf-life compared to the current liquid-frozen formulation. The contract is milestone-based with a total prospective value of USD 40 million.

Through the longstanding partnership with Bavarian Nordic on the IMVAMUNE® programme, the U.S. Government has demonstrated its dedication to developing a new smallpox vaccine that can be safely administered to the population, including the immunocompromised. This effort was underpinned in 2010, when BARDA in a Broad Agency Announcement noted the requirement for sufficient quantity of attenuated smallpox vaccine (e.g. IMVAMUNE®) to protect 66 million people comprising those for whom smallpox vaccine is contraindicated and their household contacts.

Pipeline



*) Sold to governments as a vaccine in development

During the last years, Bavarian Nordic has entered several minor contracts for delivery of IMVAMUNE® with other countries. Besides Canada, with whom Bavarian Nordic entered a contract in 2008 following a public tender, contracts with other countries remain undisclosed in terms of size and country.

Deliveries to the U.S. Strategic National Stockpile initiated
In May 2010, Bavarian Nordic initiated the delivery of IMVAMUNE® smallpox vaccine to the U.S. Strategic National Stockpile under the contract with BARDA to deliver 20 million doses of IMVAMUNE®. Deliveries were initiated upon notification from the FDA that Bavarian Nordic had fulfilled all preclinical, clinical and manufacturing requirements to potentially support the use of IMVAMUNE® in HIV infected subjects following a declared emergency.

During 2010, more than 2 million doses of IMVAMUNE® were delivered.

Bavarian Nordic had originally scheduled for delivering 4-5 million doses in 2010, which depended on the successful scale up of the production from 1 to eventually 4 batches per week. However, technical issues were encountered during the initial scale up from 1 to 2 batches per week, causing a temporary halt in production. Following a successful implementation of corrective actions, the production was resumed with 2 batches per week, and early in 2011, it was further increased to 3 batches per week. The plans to further increase the output to 4 batches per week remain on track. The production halt caused a delay in the overall delivery schedule, which will now stretch into 2013.

Performance-based milestone payment of USD 25 million received in 2010
The last milestone payment under the RFP-3 contract was received earlier than previously expected after completion of certain important milestones related to the development and deliveries of IMVAMUNE®.

Phase 3 protocols submitted to the FDA awaiting review
Based on the successful end of Phase 2 meeting for IMVAMUNE®, Bavarian Nordic submitted the final clinical and preclinical protocols for Phase 3 to the FDA in 2010. The FDA have indicated a need for further dialogue on the licensing approach agreed upon at the End of Phase 2 meeting and are in the process of scheduling a scientific workshop comprised of leading international experts. The Phase 3 studies

Overview of contracts with the U.S. Government

Contract	Awarded	Contents	Value
RFP-1	2003	Early clinical and technical development of IMVAMUNE®	USD 29 m
RFP-2	2004	Industrialisation of production process – production and delivery of 500,000 doses. Clinical studies to support emergency use of the vaccine in healthy persons.	> USD 115 m
RFP-3 base	2007	20 million doses of vaccine. Clinical studies designed to support registration of the vaccine for use in healthy persons and for emergency for use of the vaccine in persons infected by HIV.	USD 505 m
RFP Freeze-dried	2009	Validation of production process Preclinical and clinical development to support emergency use	USD 40 m
RFP-3 option	Not yet awarded	Procurement of an additional 60 million doses. Clinical studies designed to support registration of the vaccine for use in persons infected by HIV, children and elderly people.	Minimum USD 1,100 m

supporting the licensure under the Animal Rule are still planned for 2011.

Phase 2 data in patients diagnosed with atopic dermatitis submitted to the FDA

In 2010, Bavarian Nordic submitted the final study report for a large Phase 2 study investigating the safety and immunogenicity of IMVAMUNE® in patients diagnosed with atopic dermatitis (AD), a population that is currently contraindicated to the current licensed smallpox vaccine. The study was designed to fulfil the FDA requirements to potentially support the use of IMVAMUNE® in people with AD following a declared emergency. As such the data could potentially expand the current planned use of IMVAMUNE® in the US. Indeed, the U.S. Government have indicated a need for a safer smallpox vaccine for up to 66 million people, which includes 28 million people diagnosed with AD.

A two dose vaccination schedule with IMVAMUNE® was shown to be well tolerated in all 632 subjects enrolled into the study, including the 350 people diagnosed with AD. As with earlier studies there was no difference in the safety profile of IMVAMUNE® in healthy people or people diagnosed with AD. Moreover, the immune responses induced by IMVAMUNE® in healthy subjects and people diagnosed with AD was shown to be non-inferior, indicating that IMVAMUNE® was safe and immunogenic in this important population.

Phase 2 data in subjects between 56 and 80 years to generate data on safety and immunogenicity of IMVAMUNE® in an elderly population

Bavarian Nordic has completed a randomized, double-blind, placebo-controlled Phase 2 study to evaluate the safety and immunogenicity of IMVAMUNE® in an elderly population. The study was designed to expand the safety data and to compare the immunogenicity of IMVAMUNE® after administration of either one or two doses of IMVAMUNE® in 120 subjects aged between 56-80 years old, all of which had been previously vaccinated against smallpox.

IMVAMUNE® was shown to be safe and well tolerated, and no vaccine related serious or cardiac adverse events were observed. The results clearly indicated that a

SUPPORTIVE DATA PUBLISHED IN SCIENTIFIC JOURNALS

IMVAMUNE® will be licensed under the animal rule (i.e. animal data to support the efficacy in humans), which requires investigations into the mechanism of action of the product. To this end, two papers were published in 2010 that provide further data supporting the mechanisms of how IMVAMUNE® induces a post-exposure protection from a lethal infection with mouse pox and the underlying genetics of the attenuation properties of MVA-BN®. A third manuscript that was published in the Journal of Virology has demonstrated that by using a new promoter to drive the expression of a gene inserted into MVA-BN®, this recombinant MVA-BN®-based vaccine could induce stronger immune responses to the encoded antigen than to MVA itself, following repeated vaccinations with the vaccine. This has clearly demonstrated that even in the presence of strong immune responses to MVA a recombinant MVA-BN®-based vaccine can stimulate stronger immune responses to a encoded gene, which obviously demonstrates the many advantages and future utility of MVA-BN® based vaccines for infectious diseases and cancer.

Immediate-Early Expression of a Recombinant Antigen by Modified Vaccinia Virus Ankara Breaks the Immunodominance of Strong Vector-Specific B8R Antigen in Acute and Memory CD8 T-Cell Responses. *J Virol. 2010 84(17):8743-52.*

Immune requirements of post-exposure immunization with modified vaccinia Ankara of lethally infected mice. *PLoS One. 2010. 11;5(3):e9659.*

Introduction of the six major genomic deletions of modified vaccinia virus Ankara (MVA) into the parental vaccinia virus is not sufficient to reproduce an MVA-like phenotype in cell culture and in mice. *J Virol. 2010 Jul 28.*

A complete list of IMVAMUNE® publications with abstracts are found at www.bavarian-nordic.com/imvamune

single dose of IMVAMUNE® was sufficient to activate the immunologic memory stimulated by a previous smallpox vaccine vaccination in an elderly population up to 80 years of age. This study completes the Phase 2 development of IMVAMUNE® in this population and further development will await the exercise of the RFP-3 option to extend the license for IMVAMUNE® for an elderly population.

Filing for approval in Canada
In 2008, Bavarian Nordic was awarded a contract by the Canadian Government for the acquisition of 20,000 doses of IMVAMUNE® which were delivered in 2009 and accepted under a Canadian Special Access Programme. Under the contract, the Canadian Authorities has provided Bavarian Nordic with milestone-based funding for the filing of a New Drug Submission (NDS) for IMVAMUNE® in Canada.

Following the completion of the Phase 2 development for IMVAMUNE®, Bavarian Nordic held a meeting with Health Canada in October, 2009. Upon review of the current data package, which included the manufacturing, clinical and animal data, Health Canada recommended that Bavarian Nordic submit an NDS application for consideration to license IMVAMUNE® as a smallpox vaccine for the general population.

The NDS is expected to be filed in the first half of 2011, possibly leading to the first license of IMVAMUNE® during 2012.

Anthrax

Bavarian Nordic is developing an anthrax vaccine based on MVA-BN®. This would be a combined anthrax and smallpox prophylactic vaccine and would build upon the Company's existing ability to manufacture MVA-BN® at an industrial GMP (Good Manufacturing practice) scale.

An MVA-BN® anthrax vaccine could potentially have the following advantages:

- Combined smallpox and anthrax vaccine – one vaccine to offer protection against two of the largest biological threats
- Improved safety suitable for high risk groups
- Reduced number of vaccinations compared to the current licensed anthrax vaccine
- Validated manufacturing process for MVA-BN® based vaccine
- Improved storage and transport logistics of a freeze-dried formulation

Bavarian Nordic has generated several anthrax vaccine candidates based on MVA-BN® encoding components of the anthrax toxin. The leading construct has shown complete protection in an acceptable animal model and as such fulfils the current U.S. Government requirements for a new generation anthrax vaccine. Screening of the vaccine candidates will be completed in the first half of 2011, which will then lead to clinical batch production and filing of an Investigational New Drug application (IND) to the FDA with a view of initiating Phase 1 clinical study in the first half of 2012. Funding from the U.S. Government to further support the clinical development of MVA-BN® Anthrax will also be sought during 2011.

Filoviruses

In 2010, Bavarian Nordic received funding from the U.S. National Institutes of Health (NIH) to advance its early research in the prevention of filoviruses (Ebola and Marburg virus).

The Company is investigating the potential use of MVA BN® as a combined vaccine encoding genes for both the Ebola and Marburg strains. The funding from NIH will support an animal efficacy study performed in primates.

Upon evaluation of the initial data from this study, which are expected in 2011, Bavarian Nordic will determine the future of this project.

OTHER PROGRAMMES

Childhood vaccines

The ability of recombinant MVA-BN® to stimulate durable antibody production in newborns has not been seen with other highly attenuated vaccine vectors or licensed vaccines and is considered novel and an exciting opportunity to improve existing childhood vaccines and to develop vaccines for diseases such as RSV, for which there is a high unmet clinical need, as no licensed vaccine currently exists.

Measles

The attractive properties of MVA-BN® that allow the vaccination of newborn animals led Bavarian Nordic to develop a measles vaccine candidate as a proof-of-concept vaccine i.e. demonstrate that an MVA BN®-based vaccine could induce protective immune responses in infants. The measles vaccine candidate was chosen as the lead product, because there is a clear unmet medical need for a more effective measles vaccines for use in children below one year of age, particularly in sub-Saharan Africa and South east Asia, where the measles virus is still endemic and significant measles related morbidity and mortality exists.

Following a successful Phase I study in healthy adults, Bavarian Nordic performed its first study in a paediatric population to examine the safety and immunogenicity of MVA-BN® Measles vaccine. The study enrolled 90 children aged between 6 months to 6 years of age, which were randomized into equal groups receiving either two vaccinations with MVA-BN® Measles or a commercial measles vaccine. The MVA-BN®-based vaccine was well tolerated with no vaccine-related serious adverse events being reported for any of the age groups investigated. When examining the immune responses against measles, MVA-BN® Measles resulted in a significantly higher neutralizing responses compared to the commercial vaccine, demonstrating a proof of concept that a MVA-BN®-based vaccine is highly immunogenic in a paediatric population. The immune responses against the vector were at least as high or even higher than the responses observed in adults following vaccination with IMVAMUNE®, with highest titers achieved in the youngest age group i.e. children under two years old. These results add further support for the use of MVA-BN® in a paediatric population, which is part of the RFP-3 option (i.e. extension of the adult license for IMVAMUNE® to include a paediatric indication).

This proof-of-concept study will be used to support the development of other childhood vaccines with a high unmet medical need (e.g. RSV). As such no further studies will be performed using MVA-BN® Measles.

MVA-BN® RSV

RSV results in flu-like symptoms, although RSV can lead to lower respiratory infections, pneumonia, respiratory failure and death. Indeed, RSV is leading cause of death (from an infection) in infants and is also associated with comparable deaths in adults, particularly risk populations (elderly, immunocompromised, underlining respiratory conditions) than influenza. Currently, there is no vaccine against RSV to protect the estimated 200 million people at risk from annual RSV infections.

Bavarian Nordic has been evaluating several vaccine candidates based on MVA-BN® encoding several RSV proteins, which have shown to be highly immunogenic and protective in suitable animal models. As the body's natural defence against RSV is only transient leading to frequent or annual re-infections, Bavarian Nordic is currently identifying a suitable adult RSV vaccine that would also be suitable for the high number of high risk groups (e.g. immunocompromised, people diagnosed with cardiovascular disorders, asthma suffers etc). A clinical batch of the lead MVA-BN® RSV candidate will be manufactured during 2011, leading to the submission of an IND and initiation of a Phase 1 trial in the first half of 2012.

In parallel the preclinical development of a MVA-BN® RSV vaccine suitable for a paediatric indication will continue and clinical development of this candidate will commence after Phase 2 proof-of-concept studies in adults.

MVA-BN® HIV multiantigen

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

The vaccine encodes eight genes from HIV, including nef, and thus represents a more advanced vaccine candidate compared to Bavarian Nordic's previous MVA-based HIV vaccine candidates, MVA HIV nef and MVA-BN® HIV polytope. In previous clinical studies with MVA HIV nef, Bavarian Nordic has demonstrated proof of concept for the MVA technology's ability to control HIV replication. Furthermore, the vaccine was shown to be immunogenic and to induce a broad T-cell response to nef.

The improved technology using the MVA-BN® HIV multiantigen advances the technology further and thus represents an excellent opportunity to stimulate a broad immune response to the majority of the HIV proteins that will likely have important implications in a prophylactic and therapeutic setting for HIV.

The programme has completed Phase 1 trials. Bavarian Nordic will not initiate any cost-intensive Phase 2 studies and thus the continued development will depend on external funding opportunities.

CORPORATE SOCIAL RESPONSIBILITY

Our CSR report can be downloaded from the company's website.

Download the CSR report:

www.bavarian-nordic.com/csr

Just like last year's document, the CSR report was inspired by elements from the Global Reporting Initiative (GRI), a recognised framework for reports on sustainability. The GRI structure includes principles and indicators used to measure and explain financial, environmental and social performance. We have added more GRI indicators to this 2010 CSR report and will also in future strive to expand our reporting, but only in those fields which are directly or indirectly related to the future development of the Company's business and activities.

This is the second CSR report to be issued by the Company, so it includes a follow-up on the goals we set for ourselves in 2009.

As a result of a targeted effort, initiated in 2010, to systematise our work with corporate social responsibility (CSR), we now have an actual general CSR policy which includes policies in the areas we have deemed vital to our work.

General CSR policy
Bavarian Nordic develops and manufactures vaccines for the prevention and treatment of life-threatening diseases where there are as yet unmet needs. In doing so, we seek to create a continuing business that will ensure the Company's growth and investment in research and development and thus continue to contribute to a healthier and safer society. At the same time, we focus on working and acting responsibly with respect to the world we live in. We aim to do this by:

- manufacturing high-quality vaccines
- working actively to minimise our impact on the environment and climate
- maintaining an active dialogue with our stakeholders – on a local, national and global level
- providing a safe and healthy working environment for our staff that includes opportunities for professional and personal development
- communicating our CSR policy to external collaboration partners, including our suppliers

Our goals in the environment, health and safety field are specified in greater detail in our environmental and occupational health and safety policies.

CORPORATE GOVERNANCE

Bavarian Nordic remains focused on good corporate governance and have implemented the recommendations from the Committee of Corporate Governance (Komitéen for god selskabsledelse) as the code to follow for listed companies on the NASDAQ OMX Copenhagen exchange.

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

The Company overall complies with the "Recommendations on Corporate Governance". However, the Company has decided to embark on certain deviations as explained in detail on the Company's website:

www.bavarian-nordic.com/corporate-governance

Board and Management practices

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

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

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

The Board plans to hold five or six meetings each year. In 2010, the Board held six meetings. 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 result is presented to and discussed by the Board.

Remuneration of the Board
Members of the Board of Directors receive a fixed fee, and warrants may be granted to them, the aggregate number of which is set out in the Company's guidelines for incentive pay. The fees to the Board of Directors are fixed according to the standards in the market and reflect demands to their competencies and efforts in light of the scope of their work and the number of Board meetings. The Chairman receives twice the fee of an ordinary Board member. The Chairman's fee in 2010 was DKK 400 thousand, and fees paid to each of the ordinary members amounted to DKK 200 thousand, equivalent to a total of DKK 1.4 million. The members of the Board of Directors participate in the warrant programme as explained in note 25. The members of the Board of Directors did not receive any other remuneration from Bavarian Nordic in 2010.

Practices of the Corporate Management
Corporate Management is Anders Hedegaard, the Company's President and CEO. Members of the Corporate Management are appointed by the Board of Directors which lays down their terms and conditions of employment and the framework for their duties. The Corporate Management is responsible for the day-to-day management of Bavarian Nordic A/S in compliance with the guidelines and directions issued by the Board of Directors. The day-to-day operations do not include transactions of an unusual nature or of material importance to the affairs of Bavarian Nordic A/S.

Moreover, there are three Executive Vice Presidents who assist Corporate Management in the day-to-day operations of the Company. Corporate Management holds fortnightly meetings with the Executive Vice Presidents to coordinate the day-to-day management activities.

RISK MANAGEMENT

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

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

In 2010, the Company has focused on risks regarding the Company's production. Technical problems during the scale-up caused a delay in the planned deliveries to the US. All processes were reviewed and action plans were developed and implemented in order to resume routine production and restart the scale up.

Furthermore, the Company has focused on financing the working capital, required for the production of IMVAMUNE®, which is supplied for the US government. In this regard, a credit facility of DKK 100 million was established.

Risk factors

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

- Fulfilment of the RFP-3 contract for IMVAMUNE®
- Funding of Phase 3 trial with PROSTVAC®
- Collaborative agreements
- Developments in the USD exchange rate and how it affects the free liquidity and futures revenue
- Bavarian Nordic's production capacity and subcontractors
- Duration of review processes by various authorities
- Protection of patents and other intellectual property rights
- Clinical development
- Risks relating to Bavarian Nordic's technologies, projects and products
- The Company's cash preparedness
- Establishment of a credit facility for working capital
- Foreign currency risks
- Tax risks
- Interest rate risks

The primary risks in 2011 relate to the deliveries of IMVAMUNE® under the RFP-3 contract, scale up of the production of smallpox vaccines at the Company's manufacturing facility in Kvistgård, and the ability to secure funding for the further development of PROSTVAC®.

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.

Currency risk includes the risk arising because sales and production contracts are denominated in currencies other than Danish kroner, and the cost base is primarily in Danish kroner. Contracts are primarily in US dollars and thus other currencies do not represent significant currency risks. The Company assesses that exposure from fluctuations in the USD is reduced in the income statement and on the equity, because a significant part of the exposure is hedged either by loans in USD or by forward exchange instruments. The liquidity can be influenced by changes in the USD/DKK exchange rate in that profit or loss from the forward exchange contracts can be settled when the contracts are due for extension. Changes in the USD/DKK exchange rate can affect the liquidity by approximately DKK 5 million per 0.10 change in the USD/DKK exchange rate.

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

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

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

INTERNAL CONTROL

Financial Reporting Process
The Board of Directors and the Management of Bavarian Nordic are overall 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 for the reporting.

Bavarian Nordic has an audit committee consisting of the Company's board members and chaired by Erik G. Hansen. The audit committee reviews and discusses the accounting and audit practices with the Company's auditors elected at the 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.

Financial planning, follow up and reporting for the individual business divisions are standardised and followed by integrated systems for the Group.

Relevant segregation of duties has been implemented. Further, the controller team in the corporate finance department maintains collaboration between the business divisions in the subsidiaries and the parent company and performs qualitative business support as link to ensure efficiency and effectiveness in knowledge sharing between the business and the corporate finance department.

Monthly closing procedures in both the accounting and controlling team ensure in-depth analysis of deviations between actual performance, business plans and budgets and updated estimates for the financial year. Monthly management reports are compiled based upon top-down approach, including deviation explanation for key business area and are reviewed by Executive Management, before distribution to the Board of Directors.

The quarterly financial reporting is prepared by the corporate finance department. Upon assessment, key risk focus areas are reviewed by the auditors if relevant.

The annual audit and reporting process includes detailed planning of individual tasks, planning meeting between IR, Finance and the auditors, based on an audit strategy, approved by the audit committee.

The annual report is completed in close collaboration with key personnel of the Management and the business units.

Further, the auditors ensure that the financial statements give a reliable and true view of the Group's assets, liabilities, financial position and ensure that the annual report is prepared in accordance and compliance with accounting policies and practice.

Control environment
Once a year as a minimum, the Board of Directors assesses the organizational structure, the risk of fraud and the presence of internal rules and guidelines.

The Group's control and risk management systems give 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 of Directors determines and approves the overall policies, procedures and controls in significant areas in relation to the financial reporting process. The Board of Directors approves the overall policies, procedure and controls, which are maintained and monitored by the executive Management and key personnel representing each business area.

Bavarian Nordic has policies, procedures and manuals in the key areas related to the financial reporting process, including business procedures for investments, financial reporting and planning, as well as procedures for IT security.

Risk assessment
Once a year as a minimum, the Board of Directors assesses the risks connected with the financial reporting process.

The goal of Bavarian Nordic's internal control system is to maintain effective procedures for identification, monitoring and reporting of risks and maintain safety and security measures in the IT area. Information technology and computerised systems are widely used in almost any area in Bavarian Nordic. Several processes are automated and key decisions and actions are being taken through electronic interfaces.

As part of the risk assessment, the Board of Directors assesses the risk of fraud and the measures that should be taken in order to reduce and/or eliminate such risks. In that regard any incentive or motive from the Management to perform earnings manipulation or any other fraudulent action is being discussed.

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

THE BAVARIAN NORDIC SHARE

Share price development and trading volume in 2010

Bavarian Nordic's share price rose more than 100 % in 2010. The share price at year-end was DKK 245 compared to an adjusted share price of DKK 121 at year-end 2009. The significant increase in the share price was driven by an important news flow in the Company throughout the year. Thus the Company outperformed the Danish stock market. The Danish Midcap index which includes Bavarian Nordic rose only 12 % and the OMXC20 index, comprising the 20 leading stocks in Denmark rose 36 %. Share price volatility has in general been high with fluctuations between a low of DKK 122 and a high of DKK 285.

Bavarian Nordic's core data as of 31 December 2010

Stock exchange	NASDAQ OMX Copenhagen
Ticker symbol	BAVA.CO
ID code	DK0015998017
Share capital	DKK 129,620,520
Number of shares	12,962,052
Free-float	89%
Class of shares	One class
Nominal value	DKK 10
Bearer security	Yes
Ownership and voting right restrictions	No

The trading volume in 2010 increased heavily compared to 2009. This was partly driven by a larger foreign interest. Although the trading volume is adjusted for the increase in shares in the Company during the year, it grew by approximately 50 % compared to 2009.

Share capital

In February 2010, Bavarian Nordic successfully completed a rights issue with pre-emptive rights to existing shareholders, providing the Company with net proceeds of DKK 297 million. In the offering, 3,960,307 new shares were subscribed at DKK 80 per share, corresponding to a subscription rate of 99.6%.

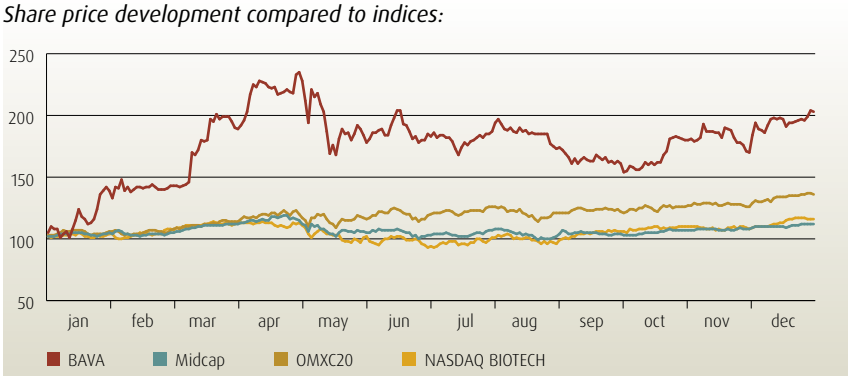
In December 2010, the Company completed a private placement of 1,050,000 new shares that were subscribed at DKK 195 per share through an accelerated book building process amongst strategic Danish and international investors, thus raising net proceeds of DKK 197 million.

Due to the rights issue and private placement, Bavarian Nordic's share capital was increased with 5,010,307 shares with a nominal value of DKK 10 each, totalling the outstanding number of shares to 12,962,052 with a nominal value of DKK 10 each.

Ownership

As of 31 December 2010, Bavarian Nordic had 17,203 registered shareholders owning 11,232,826 shares, which corresponds to 86.7 percent of the share capital. In 2010 the number of registered shareholders increased by 2.250. Bavarian Nordic continuously invites its shareholders to have their shares registered with the Company. Bavarian Nordic does not hold any of its own shares.

Share price development compared to indices:



The Company regularly updates its website with information about the number of registered shareholders and their holding of shares.

Through a focused effort, the Company has succeeded in obtaining a more balanced ownership structure by increasing the institutional share holdings and thus reducing the private share holdings. Likewise, the Company has succeeded in increasing the foreign ownership rate, which was doubled in 2010 compared to the previous year.

Major shareholders

By 10 March 2011, the following shareholders had publicly informed Bavarian Nordic that they owned five percent or more of the Company's shares:

A. J. Aamund A/S, Copenhagen (Denmark)	11.23%
Arbejdsmarkedets Tillægspension (ATP), Hillerød (Denmark)	12.37%

Dividend policy

Bavarian Nordic does not expect to declare dividends until the Company has achieved an adequate capital base. However, the Company continues to strive towards securing an adequate capital base for future

dividend payments. The Board of Directors will propose at the Annual General Meeting on 26 April 2011 that no dividends be paid.

Annual General Meeting
The 2011 Annual General Meeting will be held at 4 pm on Tuesday, 26 April 2011, at Comwell Borupgaard, Nørrevej 80, DK-3070 Snekkersten, Denmark.

Investor Relations
Through its investor relations policy, the Company wishes to comply with the general requirements and recommendations of the NASDAQ OMX Copenhagen. 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.

On its corporate website, Bavarian Nordic informs about its latest development, activities and plans. The direct investor contact is important in the communication of company progress, and the Company has added additional management resources to the Investor Relations Department in recent years. The Company wishes to continue to develop its dialogue with its shareholders, analysts, prospective investors and other stakeholders by providing open, honest and accessible information.

www.bavarian-nordic.com
On the website all registered shareholders can access the shareholder portal, which allows for signing up for the general meetings electronically as well as offers the ability to vote by proxy. Furthermore it is possible to sign up for electronic information services.

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

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

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

Financial Calendar 2011

10 March 2011
2010 Annual Accounts

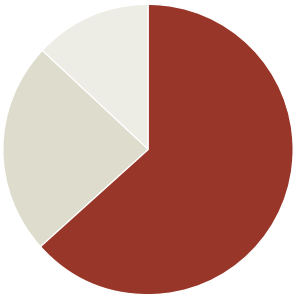
26 April 2011
Annual General Meeting

31 May 2011
First quarterly report (Q1)

31 August 2011
Half-year report (Q2)

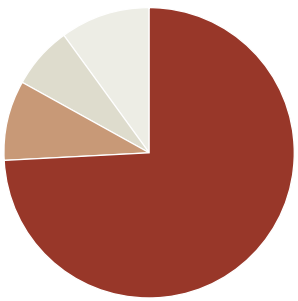
16 November 2011
Third quarterly report (Q3)

Figure 1: Ownership by category:



Institutionnal	64 %
Private	23 %
Non-Registered	13 %

Figure 2: Ownership by location (in per cent of share capital)



Denmark	75 %
Great Britain	9 %
North America	7 %
Other countries	10 %

MANAGEMENT OF BAVARIAN NORDIC

Board of Directors

Asger Aamund, Chairman
Chairman of the Board since inception of Bavarian Nordic in 1994. Re-elected in 2010 for a one-year term. Not independent. Mr. Aamund is President & CEO of A.J. Aamund A/S, a holding company focusing on the field of biotechnology. He was previously CEO of Ferrosan, a Danish pharmaindustrial group. Mr. Aamund is member of the board of directors of A.J. Aamund A/S. Mr. Aamund is a Danish national, born in 1940.

Erling Johansen
Member of the board since 2000. Re-elected in 2010 for a one-year term. Independent. Mr. Johansen is former President and CEO of BASF Health and Nutrition A/S. Prior to this he was President of DanoChemo A/S. Mr. Johansen worked previously in various management positions for Ferrosan, DITZ Schweitzer A/S and Oticon A/S. Mr. Johansen is a Danish national, born in 1944. The special competences possessed by Mr. Johansen that are important for the performance of his duties are his in-depth knowledge of Bavarian Nordic's business and his extensive background within the pharmaceutical industry.

Claus Braestrup
Member of the board since 2008. Re-elected in 2010 for a one-year term. Independent Mr. Braestrup is former President and CEO of H. Lundbeck A/S. Previously he has been Vice President of Pharmaceutical Research, President of the CNS Division, and President of the Diabetes Care Division, respectively, at Novo Nordisk A/S and Head of Preclinical Drug Research with Schering AG. Mr. Braestrup is Chairman of the Board of Probiodrug AG and member of the boards of Santaris Pharma A/S, Evolva Holding SA and University of Copenhagen. Mr. Braestrup has a degree of Doctorate of Medicine from the University of Copenhagen, where he also for a period was Professor in Neuroscience. He is writer and co-author of 125 scientific publications. Mr. Braestrup is a Danish national, born in 1945. The special competences possessed by Mr. Braestrup that are important for the performance of his duties are his scientific qualifications and his extensive executive background within the international pharmaceutical industry.

Gerard van Odijk
Member of the board since 2008. Re-elected in 2010 for a one-year term. Independent. Mr. van Odijk is President and CEO of Teva Pharmaceuticals Europe B.V. Mr. van Odijk's international executive career has led to a variety of senior positions in GlaxoSmithKline (GSK). He holds a medical degree from the State University of Utrecht. Mr. van Odijk is Chairman of the Board of Merus Biopharmaceuticals B.V. Mr. van Odijk is a Dutch national, born in 1957. The special competences possessed by Mr. van Odijk that are important for the performance of his duties are his medical qualifications and his extensive executive background within the international pharmaceutical industry.

Anders Gersel Pedersen
Elected for the board in 2010 for a one-year term. Independent. Mr. Pedersen is Executive Vice President of Drug Development at H. Lundbeck A/S. Before joining H. Lundbeck A/S in 2000, Mr. Pedersen worked for Eli Lilly for 11 years: 10 of these as a director overseeing worldwide clinical research in oncology. He is a member of the European Society of Medical Oncology, the International Association for the Study of Lung Cancer, the American Society of Clinical Oncology, the Danish Society of Medical Oncology and the Danish Society of Internal Medicine. Mr. 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. Mr. Pedersen is Chairman of the Board of Lundbeck International Neuroscience Foundation and member of the Board of Directors of Lundbeck Cognitive Therapeutics A/S, TopoTarget A/S, ALK-Abelló A/S and Genmab A/S (Deputy Chairman). Mr. Pedersen is a Danish national, born in 1951. The special competences possessed by Mr. Pedersen that are important for the performance of his duties are his scientific qualifications and his extensive executive background within the international pharmaceutical and biotech industries.

Erik G. Hansen
Elected for the board in 2010 for a one-year term. Independent. Erik G. Hansen is Director at Tresor Asset Advisers. He previously held the positions as Managing Director at Dansk Porteføljе A/S (now Nykredit Asset Management) and CFO in A.P. Møller - Maersk A/S. Mr. Hansen is chairman of the Board of Directors of COMX Holding A/S, COMX Networks A/S, DTU Symbion Innovation A/S, NPT A/S, Polaris Management A/S, Polaris Invest II ApS, TTIT A/S and TTIT Ejendomme A/S and member of the Board of Directors of Fertin Pharma A/S (Deputy Chairman), Gumlink A/S (Deputy Chairman), Bagger-Sørensen & Co. A/S (Deputy Chairman), PFA Holding A/S, PFA Pension Forsikringsaktieselskab, Lesanco ApS and Wide Invest ApS. Furthermore, Erik G. Hansen is a member of the Executive Boards of Rigas

Holding ApS, Rigas Invest ApS, Tresor Asset Advisers ApS, E.K.P. Invest ApS, Berco ApS, BFB ApS, Sirius Holding ApS, Tresor ApS, EGH Private Equity ApS and Hansen Advisers ApS. Mr. Hansen holds a MSc in Finance and Accounting. Mr. Hansen is a Danish national, born in 1952. The special competences possessed by Mr. Hansen that are important for the performance of his duties is his thorough understanding of managing finance operations. Mr. Hansen is chairman of the audit committee.

Executive Management

Anders Hedegaard,
President & CEO
Mr. Hedegaard joined Bavarian Nordic A/S in August 2007. Prior to this he worked with the pharmaceutical company, ALK-Abelló A/S, where he was Executive Vice President, Business Operations & International Marketing and member of the executive management. His previous management career includes executive and management positions with FOSS A/S and Novo Nordisk A/S. Mr. Hedegaard holds an MSc in chemical engineering specialising in molecular biology. Mr. Hedegaard is a Danish national, born in 1960.

Ole Larsen,
CFO, Executive Vice President
Mr. Larsen joined Bavarian Nordic in July 2008. He previously held the position as CFO at Berlingske Tidende and later at Nordisk Film. Mr. Larsen holds an MSc in Economics & Business Administration. Mr. Larsen is a Danish national, born in 1965.

Paul Chaplin,
Division President Infectious Diseases, Executive Vice President
Mr. Chaplin joined Bavarian Nordic in 1999 and was appointed Executive Vice President in 2004. Prior to joining Bavarian Nordic, Mr. Chaplin worked for several years both in the UK and Australia developing vaccines against infectious diseases. Mr. Chaplin holds an MSc in Biology and a PhD in Immunology from Bristol University. Mr. Chaplin is General Manager in Bavarian Nordic GmbH. Mr. Chaplin is a British national, born in 1967.

Reiner Laus,
Division President Cancer Vaccines, Executive Vice President
Mr. Laus joined Bavarian Nordic in 2005 as CEO of BN ImmunoTherapeutics, Inc. In 2008 he was appointed Executive Vice President. Prior to joining Bavarian Nordic, he was Vice President of Research and Development at Dendreon Corporation in Seattle, Washington where he was responsible for discovery, pre-clinical and development functions. Mr. Laus received his M.D. from the University of Kiel and holds a PhD from Stanford University.. Mr. Laus is member of the Board of Directors of CG therapeutics Inc. Mr. Laus is a German national, born in 1960.

	Share holdings			Warrants		
	31.12.2009	changes during the year	31.12.2010	31.12.2009	changes during the year	31.12.2010
Asger Aamund	1,334,099	122,049	1,456,148	19,279	2,415	21,694
Erling Johansen	3,146	450	3,596	19,279	2,415	21,694
Claus Braestrup	1,500	750	2,250	9,000	6,732	15,732
Gerard van Odijk	0	0	0	9,000	6,732	15,732
Anders Gersel Pedersen	0*	0	0	0*	5,000	5,000
Erik G. Hansen	0*	0	0	0*	5,000	5,000

*) First election as member of the Board in April 2010. The member did not hold shares or warrants prior to the election to the Board. Please refer to note 25 for an overview of all warrant programmes.

STATEMENT BY MANAGEMENT ON THE ANNUAL REPORT

We have today presented the annual report of Bavarian Nordic for the financial year 1 January to 31 December 2010.

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

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the parent's financial position at 31 December 2010 as well as of their financial performance and their cash flows for the financial year 1 January to 31 December 2010.

We also believe that the management commentary contains a fair review of the development and performance of the Group's and the parent's business and of their financial position as a whole, together with a description of the principal risks and uncertainties that they face.

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

Kvistgård,10 March 2011

Corporate Management

Anders Hedegaard
President & CEO

Board of Directors

Asger Aamund
Chairman

Erling Johansen

Gerard van Odijk

Claus Braestrup

Anders Gersel Pedersen

Erik G. Hansen

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Bavarian Nordic A/S

Report on the consolidated financial statements and parent financial statements
We have audited the consolidated financial statements and parent financial statements of Bavarian Nordic A/S for the financial year 1 January - 31 December 2010, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including the accounting policies, for the Group and the Parent, respectively. The consolidated financial statements and parent financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

Management's responsibility for the consolidated financial statements and parent financial statements
Management is responsible for the preparation and fair presentation of consolidated financial statements and parent financial statements in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility and basis of opinion
Our responsibility is to express an opinion on these consolidated financial statements and parent financial statements based on our audit. We conducted our audit in accordance with Danish Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 misstatement 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 and fair presentation of consolidated financial statements and parent financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements and parent financial statements.

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

Our audit has not resulted in any qualification.

Opinion
In our opinion, the consolidated financial statements and parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31 December 2010, and of their financial performance and their cash flows for the financial year 1 January – 31 December 2010 in accordance with International Financial Reporting Standards as adopted by the EU and Danish disclosure requirements for listed companies.

Statement on the management commentary
Management is responsible for preparing a management commentary that contains a fair review in accordance with Danish disclosure requirements for listed companies.

Our audit did not include the management commentary, but we have read it pursuant to the Danish Financial Statements Act. We did not perform any procedures other than those performed during the audit of the consolidated financial statements and parent financial statements.

Based on this, we believe that the disclosures in the management commentary are consistent with the consolidated financial statements and parent financial statements.

Copenhagen, 10 March 2011

Deloitte
Statsautoriseret Revisionsaktieselskab

Jens Rudkjær
State Authorised Public Accountant

Carsten Vaarby
State Authorised Public Accountant

FINANCIAL STATEMENTS

Income statements for the period 1 January – 31 December

		Group		Parent Company	
Note	DKK thousands	2010	2009	2010	2009
3	Revenue	314,072	74,783	314,072	74,783
4,5,6	Production costs	444,468	140,098	444,519	140,098
	Gross profit	**(130,396)**	**(65,315)**	**(130,447)**	**(65,315)**
5,6	Research and development costs	210,833	163,980	159,741	117,857
5	Distribution costs	28,276	20,408	25,134	17,647
5,6,7	Administrative costs	104,582	91,480	100,022	94,191
	Total operating costs	**343,691**	**275,868**	**284,897**	**229,695**
	Income before interest and tax (EBIT)	**(474,087)**	**(341,183)**	**(415,344)**	**(295,010)**
8	Financial income	4,189	17,809	27,912	24,093
9	Financial expenses	13,542	7,759	14,188	8,131
	Income before company tax	**(483,440)**	**(331,133)**	**(401,620)**	**(279,048)**
10	Tax on income for the year	(93,529)	(64,855)	(95,244)	(67,863)
	Net profit for the year	**(389,911)**	**(266,278)**	**(306,376)**	**(211,185)**
	Earnings per share (EPS) - DKK				
11	Basic earnings per share of DKK 10	(33.5)	(34.0)		
11	Diluted earnings per share of DKK 10	(33.5)	(34.0)		

Statement of comprehensive income for the period 1 January – 31 December

		Group		Parent Company	
Note	DKK thousands	2010	2009	2010	2009
	Net profit for the year	**(389,911)**	**(266,278)**	**(306,376)**	**(211,185)**
	Exchange rate adjustments, investments in subsidiaries	(3,627)	1,424	-	-
	Fair value of financial instruments entered into to hedge future cash flow:				
20	This years fair value adjustment	(22,269)	(27,185)	(22,269)	(27,185)
3,20	Fair value adjustment transferred to revenue	745	-	745	-
	Tax on other comprehensive income	5,381	6,797	5,381	6,797
	Other comprehensive income after tax	**(19,770)**	**(18,964)**	**(16,143)**	**(20,388)**
	Total comprehensive income	**(409,681)**	**(285,242)**	**(322,519)**	**(231,573)**

Statement of cash flow for the period 1 January - 31 December

		Group		Parent Company	
Note	DKK thousands	2010	2009	2010	2009
	Income before interest and tax (EBIT)	**(474,087)**	**(341,183)**	**(415,344)**	**(295,010)**
6	Depreciations and amortisations	49,735	50,144	44,874	44,158
5	Share-based payment	25,503	8,063	25,503	7,530
	Adjustment for other non-cash items	745	-	745	-
	Changes in inventories	125,017	(184,267)	127,623	(183,697)
	Changes in receivables	(34,180)	(30,271)	(101,013)	(99,002)
	Changes in provisions	655	-	655	-
	Changes in current liabilities	72,754	(4,023)	60,339	(7,358)
	Cash flow from operations (operating activities)	**(233,858)**	**(501,537)**	**(256,618)**	**(533,379)**
	Received financial income	1,648	28,341	1,647	34,951
	Paid financial expenses	(5,238)	(7,873)	(5,172)	(8,723)
	Paid corporation taxes	(2,414)	(2,953)	-	-
	Cash flow from operating activities	**(239,862)**	**(484,022)**	**(260,143)**	**(507,151)**
	Investments in intangible assets	(16,167)	(45,472)	(16,167)	(43,611)
	Investments in tangible assets	(45,674)	(50,559)	(27,949)	(43,638)
	Disposal of tangible assets	25	-	25	-
	Investments in financial assets	431	9	(121)	7
	Investments in securities	15,575	122,115	15,575	122,115
	Cash flow from investment activities	**(45,810)**	**26,093**	**(28,637)**	**34,873**
	Payment on mortgage debt	(8,626)	(70,048)	(8,626)	(70,048)
	Payment on financial leasing liabilities	(8,729)	(12,909)	(8,729)	(12,909)
	Proceeds through financial commitments	-	68,000	-	68,000
	Repurchase of stock options in subsidiary	(5,579)	(15,835)	-	-
	Proceeds through issue of new shares	521,574	-	521,574	-
	Costs related to issue of new shares	(27,639)	-	(27,639)	-
	Cash flow from financing activities	**471,001**	**(30,792)**	**476,580**	**(14,957)**
	Cash flow of the year	**185,329**	**(488,721)**	**187,800**	**(487,235)**
	Cash as of 1 January	80,954	569,778	71,925	559,160
	Currency adjustments 1 January	500	(103)	-	-
	Cash as of 31 December	**266,783**	**80,954**	**259,725**	**71,925**
	Securities - highly liquid bonds	88,871	104,045	88,871	104,045
	Credit lines	104,480	20,000	104,480	20,000
	Cash preparedness	**460,134**	**204,999**	**453,076**	**195,970**

Statement of financial position – Assets as of 31 December

		Group		Parent Company	
Note	DKK thousands	2010	2009	2010	2009
	Non-current assets				
12	Acquired patents and licenses	8,132	8,759	1,793	2,242
12	Software	15,969	15,925	15,853	15,925
12	Intangible assets under construction	109,484	102,117	109,484	102,117
	Intangible assets	**133,585**	**126,801**	**127,130**	**120,284**
13	Land and buildings	179,928	150,925	179,928	150,925
13	Leasehold improvements	18,305	2,317	1,524	1,531
13	Plant and machinery	121,727	144,745	121,727	144,745
13	Fixtures and fittings, other plant and equipment	18,360	14,448	9,136	5,258
13	Assets under construction	22,495	42,049	22,035	39,520
	Tangible assets	**360,815**	**354,484**	**334,350**	**341,979**
14	Investments in subsidiaries	-	-	183,657	183,657
	Other financial non-current assets	371	192	144	23
	Financial assets	**371**	**192**	**183,801**	**183,680**
10	**Deferred tax assets**	**334,417**	**233,645**	**334,417**	**233,792**
	Total non-current assets	**829,188**	**715,122**	**979,698**	**879,735**
	Current assets				
15	**Inventories**	**121,452**	**246,468**	**116,392**	**244,016**
16	Trade receivables	36,922	15,095	36,922	15,095
	Receivables from subsidiaries	-	-	165,304	69,645
	Tax receivables	635	-	-	-
17	Other receivables	13,734	31,385	11,731	30,229
18	Prepayments	109,543	78,035	106,461	75,641
	Receivables	**160,834**	**124,515**	**320,418**	**190,610**
20	Securities	88,871	104,045	88,871	104,045
20	Cash and cash equivalents	266,783	80,954	259,725	71,925
	Securities, cash and cash equivalents	**355,654**	**184,999**	**348,596**	**175,970**
	Total current assets	**637,940**	**555,982**	**785,406**	**610,596**
	Total assets	**1,467,128**	**1,271,104**	**1,765,104**	**1,490,331**

Statement of financial position – Equity and liabilities as of 31 December

		Group		Parent Company	
Note	DKK thousands	2010	2009	2010	2009
	Equity				
	Share capital	129,620	79,517	129,620	79,517
	Retained earnings	651,408	590,684	935,857	791,598
	Other reserves	29,407	34,013	27,642	28,621
	Equity	**810,435**	**704,214**	**1,093,119**	**899,736**
	Liabilities				
21	Provisions	8,708	11,099	8,708	11,099
22	Credit institutions	97,801	101,925	97,801	101,925
	Non-current liabilities	**106,509**	**113,024**	**106,509**	**113,024**
22	Credit institutions	8,996	16,881	8,996	16,881
23	Prepayment from customers	381,805	276,640	381,805	276,640
	Trade payables	50,085	48,020	43,061	41,747
	Payables to subsidiaries	-	-	36,120	43,496
	Company tax	29	53	-	-
21	Provisions	6,089	-	6,089	-
19	Other liabilities	103,180	112,272	89,405	98,807
	Current liabilities	**550,184**	**453,866**	**565,476**	**477,571**
	Total liabilities	**656,693**	**566,890**	**671,985**	**590,595**
	Total equity and liabilities	**1,467,128**	**1,271,104**	**1,765,104**	**1,490,331**

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

Statement of changes in equity – Group

DKK thousands	Share-capital	Retained earnings	Reserves for currency adjustment	Reserves for fair value of financial instruments	Share-based payment	Equity group
Equity as of 1 January 2010	**79,517**	**590,684**	**4,189**	**10,656**	**19,168**	**704,214**
Comprehensive income for the year						
Net profit for the year	-	(389,911)	-	-	-	(389,911)
Other comprehensive income						
Exchange rate adjustments, investments in subsidiaries	-	-	(3,627)	-	-	(3,627)
Fair value of financial instruments	-	-	-	(16,143)	-	(16,143)
Total comprehensive income for the year	**-**	**(389,911)**	**(3,627)**	**(16,143)**	**-**	**(409,681)**
Transactions with owners						
Share-based payment	-	-	-	-	21,967	21,967
Warrants programme expired	-	6,803	-	-	(6,803)	-
Capital increase through rights issue	39,603	277,221	-	-	-	316,824
Capital increase through private placement	10,500	194,250	-	-	-	204,750
Costs related to issue of new shares	-	(27,639)	-	-	-	(27,639)
Total transactions with owners	**50,103**	**450,635**	**-**	**-**	**15,164**	**515,902**
Equity as of 31 December 2010	**129,620**	**651,408**	**562**	**(5,487)**	**34,332**	**810,435**

Statement of changes in equity – Group

DKK thousands	Share-capital	Retained earnings	Reserves for currency adjustment	Reserves for fair value of financial instruments	Share-based payment	Equity parent company	Equity minority	Equity group
Equity as of 1 January 2009	**78,156**	**888,115**	**2,765**	**31,044**	**11,339**	**1,011,419**	**3,708**	**1,015,127**
Comprehensive income for the year								
Net profit for the year	-	(266,278)	-	-	-	(266,278)	-	(266,278)
Other comprehensive income								
Exchange rate adjustments, investments in subsidiaries	-	-	1,424	-	-	1,424	-	1,424
Fair value of financial instruments	-	-	-	(20,388)	-	(20,388)	-	(20,388)
Total comprehensive income for the year	**-**	**(266,278)**	**1,424**	**(20,388)**	**-**	**(285,242)**	**-**	**(285,242)**
Transactions with owners								
Share-based payment	-	-	-	-	7,829	7,829	-	7,829
Transfer of minority interest	-	3,708	-	-	-	3,708	(3,708)	-
Purchase of minority interest in subsidiary	-	(35,899)	-	-	-	(35,899)	-	(35,899)
Repurchase of stock option in subsidiary measured at fair value at the time of cancellation	-	(23,332)	-	-	-	(23,332)	-	(23,332)
Issue of new shares	1,361	24,651	-	-	-	26,012	-	26,012
Costs related to issue of new shares	-	(375)	-	-	-	(375)	-	(375)
Tax on transactions in equity	-	94	-	-	-	94	-	94
Total transactions with owners	**1,361**	**(31,153)**	**-**	**-**	**7,829**	**(21,963)**	**(3,708)**	**(25,671)**
Equity as of 31 December 2009	**79,517**	**590,684**	**4,189**	**10,656**	**19,168**	**704,214**	**-**	**704,214**

Statement of changes in equity – Parent Company

DKK thousands	Share-capital	Retained earnings	Reserves for fair value of financial instruments	Share-based payment	Equity parent company
Equity as of 1 January 2010	**79,517**	**791,598**	**10,656**	**17,965**	**899,736**
Comprehensive income for the year					
Net profit for the year	-	(306,376)	-	-	(306,376)
Other comprehensive income					
Fair value of financial instruments	-	-	(16,143)	-	(16,143)
Total comprehensive income for the year	**-**	**(306,376)**	**(16,143)**	**-**	**(322,519)**
Transactions with owners					
Share-based payment	-	-	-	21,967	21,967
Warrants program expired	-	6,803	-	(6,803)	-
Capital increase through rights issue	39,603	277,221	-	-	316,824
Capital increase through private placement	10,500	194,250	-	-	204,750
Costs related to issue of new shares	-	(27,639)	-	-	(27,639)
Total transactions with owners	**50,103**	**450,635**	**-**	**15,164**	**515,902**
Equity as of 31 December 2010	**129,620**	**935,857**	**(5,487)**	**33,129**	**1,093,119**

The share capital comprises a total of 12,962,052 shares of DKK 10 as of 31 December 2010 (7,951,745 shares).
The shares are not divided into share classes, and each share carries one vote.

Statement of changes in equity – Parent Company

DKK thousands	Share-capital	Retained earnings	Reserves for fair value of financial instruments	Share-based payment	Equity parent company
Equity as of 1 January 2009	**78,156**	**978,414**	**31,044**	**10,643**	**1,098,257**
Comprehensive income for the year					
Net profit for the year	-	(211,185)	-	-	(211,185)
Other comprehensive income					
Fair value of financial instruments	-	-	(20,388)	-	(20,388)
Total comprehensive income for the year	**-**	**(211,185)**	**(20,388)**	**-**	**(231,573)**
Transactions with owners					
Share-based payment	-	-	-	7,322	7,322
Issue of new shares	1,361	24,650	-	-	26,011
Costs related to issue of new shares	-	(375)	-	-	(375)
Tax on transactions in equity	-	94	-	-	94
Total transactions with owners	**1,361**	**24,369**	**-**	**7,322**	**33,052**
Equity as of 31 December 2009	**79,517**	**791,598**	**10,656**	**17,965**	**899,736**

The share capital comprises a total of 7,951,745 shares of DKK 10 as of 31 December 2009 (7,815,568 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 thousands	2010	2009	2008	2007	2006
Share capital as of 1 January	79,517	78,156	78,156	63,762	57,971
Issue of new shares	50,103	1,361	-	14,394	5,791
Share capital as of 31 December	**129,620**	**79,517**	**78,156**	**78,156**	**63,762**

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.

List of notes

Accounting policies

General information

Basis of preparation
The annual report of Bavarian Nordic A/S for the year ended 31 December 2010, comprising the financial statements of the parent company and the consolidated financial statements, has been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and Danish disclosure requirements for the annual reports of listed companies. Danish disclosure requirements for the presentation of annual reports are imposed by the Statutory Order on Adoption of IFRS issued under the Danish Financial Statements Act and by the NASDAQ OMX Copenhagen exhange.

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

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

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

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

Implementation of new and revised standards and interpretations
The International Accounting Standards Board (IASB) has issued new standards and revisions to existing standards and new interpretations which are mandatory for accounting periods commencing on or after 1 January 2010.

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

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

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

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

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

Capitalisation of development costs
Management has assessed that development costs relating to the registration of IMVAMUNE® under the RFP-3 contract with the US health authorities continues to meet the conditions for capitalisation. See "Research and development costs". The carrying amount of capitalised development projects was DKK 108 million as of 31 December 2010 (DKK 96 million as of 31 December 2009).

Useful lives of tangible assets
As stated below, management reviews the estimated useful lives of material property, plant and equipment at the end of each financial year. Management's review of useful lives in 2010 did not give rise to any changes as compared with 2009. The carrying amount of property, plant and equipment was DKK 361 million as of 31 December 2010 (DKK 354 million as of 31 December 2009).

Value of investments in subsidiaries
The carrying amount as of 31 December 2010 of the investment in the subsidiary BN ImmunoTherapeutics Inc., USA, exceeded the net assets in the Company. In such a situation, management estimates whether there are any events or other circumstances that indicate that the carrying amount may not be recoverable. Management estimates that the value of non-recognised intangible assets related to the subsidiary corresponds at least to the amount by which the cost of the subsidiary exceeds the carrying amount of the net assets, and management therefore assessed that no impairment exists. The recognised value of investments was DKK 184 million as of 31 December 2010 (DKK 184 million as of 31 December 2009).

Production overheads
Production overheads are measured on the basis of actual costs. The basis of the actual costs is reassessed regularly to ensure that they are adjusted for changes in the utilisation of production capacity, production changes and other relevant factors. Biological living material is used, and the measurements and assumptions for the estimates made may be incomplete or inaccurate, and unexpected events or circumstances may occur, which may

cause the actual outcomes to later deviate from these estimates. It may be necessary to change previous estimates as a result of changes in the assumptions on which the estimates were based or due to new information or subsequent events, for which certainty could not be achieved in the earlier estimates.

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

The value recognised as inventories was DKK 121 million as of 31 December 2010 (DKK 246 million as of 31 December 2009).

Deferred tax asset
Management is required to make an estimate in the recognition of deferred tax assets and liabilities. On the basis of the coming years' activities and budgets, management believes the tax assets can be used against future profits. The value of the recognised deferred tax assets was DKK 334 million as of 31 December 2010 (DKK 234 million as of 31 December 2009).

Derivative financial instruments
Bavarian Nordic uses derivative financial instruments to hedge future cash flows. The fair value of derivative financial instruments is based on the official exchange rates, market interest rates and other market data such as volatility adjusted for the special characteristics of each instrument. The carrying amount of recognised financial instruments was DKK -32 million as of 31 December 2010 (DKK -10 million as of 31 December 2009).

Other financial liabilities
A management discretion is required when recognition of contingent payments. Management considers in the light of expectations for the coming year's research and development achievements the likelihood that expected results will trigger contingent payments. On initial recognition, contingent payments are measured at fair value.

Determining the fair value is based on a management estimate of the likelihood that the triggering event is achieved and a fixed discount factor. Contingent payments were DKK 15 million as of 31 December 2010 (DKK 11 million as of 31 December 2009).

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

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

Accounting Policy

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

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

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

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

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

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

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

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

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

Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Exchange differences between the exchange rate at the date of the transaction and the exchange rate at the date of payment or the balance sheet date, respectively, are recognised in the income statement under financial items. Tangible assets 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 recognised at the hedged exchange rate. See "Derivative financial instruments" below.

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

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

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

Derivative financial instruments
On initial recognition, derivative financial instruments are measured at the fair value on the settlement date.

Directly attributable costs related to the purchase or issuance of the individual financial instruments (transaction costs) are added to the fair value on initial recognition unless the financial asset or the financial liability is measured at fair value with recognition of fair value adjustments in the income statement. Subsequently, they are measured at fair value at the balance sheet date.

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

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

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

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

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

Income statement

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

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

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

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

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

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

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

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

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

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

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

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

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

Unrealised temporary deductible differences are disclosed in a note.

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

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

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

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

Balance sheet

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

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

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

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

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

Rights	max. 15 years
Software	3 years

Development projects not defined (under construction).

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

Tangible assets
Tangible assets includes land and buildings, production equipment, leasehold improvements, office and IT equipment and laboratory equipment and are measured at cost less accumulated depreciation and impairment losses.

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

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

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

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

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

Leasing
Assets held under finance leases are measured in the balance sheet at the lower of the fair value and the present value of future lease payments on the date of acquisition. The capitalised value of the residual lease obligation is carried as a liability in the balance sheet. The interest rate implicit in the lease is used

in the calculations. The liability is reduced by the repayment element of the lease payment. The interest element of the lease payment is recognised in the income statement under financial items. The assets are depreciated over the expected useful lives of the assets in the same way as other similar assets.

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

Investment in subsidiaries of the parent company financial statements
Investments in subsidiaries are recognised and measured at cost in the financial statements of the parent company. Where the recoverable amount of the investments is lower than cost, the investments are written down to this lower value.

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

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

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

Inventories
Inventories expect 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 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.

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

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

Prepayments
Prepayments recognised under assets include costs paid in respect of subsequent financial years, including specially prepayments for filling campaigns at IDT Biologika GmbH. Prepayments are measured at cost.

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

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

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

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

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

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

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

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

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

Leasing obligations
Lease obligations regarding financial leased assets is recognized in the balance sheet as liabilities and measured at the time the contract is awarded, at the lowest of the fair value of the leased asset and the present value of future lease payments. After initial recognition, leased liabilities are measured at amortized cost. The difference between the present value and the nominal value of lease payments are recognized in the income statement as financial cost for the period of the contract duration.

Lease payments for operating leases are recognized in the income statement, linearly for the period of the lease term.

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

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

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

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

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

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

In the cash flows from operating activities, operating profit/loss is adjusted for non-cash operating items and changes in working capital.

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

Cash flows from financing activities include cash flows from the raising and payment of loans and capital increases as well as financial items. Additional, cash flows of financial leased assets are recognized the in the form of lease payments payable.

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

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

Financials are not allocated to operating segments. Therefore, the "Income before interest and tax" is presented as target in segment reporting. Similar the balance sheet is not divided into

operating segments, therefore total assets per operating segment does not appear. Investments are broken down by operating segments and is shown in the segment reporting.

In Bavarian Nordic the internal management reporting follows the Group's accounting policies.

Financial definitions
Earnings per share and diluted earnings per share

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

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

Net asset value per share:

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

Share price/Net asset value per share:

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

Equity share, %:

$$\frac{\text{Equity excluding minority interests x 100}}{\text{Total assets}}$$

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

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

Notes

2 Segment reporting

In the autumn 2010 it was decided to reorganize the company's primary business areas into two divisions; Cancer Vaccines and Infectious Diseases each led by its own Division President reporting to the President & CEO of the Company. It was at the same time decided to divide the financial reporting into three elements - Cancer Vaccines, Infectious Diseases and a Holding (not reportable segment). Holding covers costs for group management, IR, Finance, IT, HR, Legal and Facility. From 2011 a large part of these services should be covered by the two operating segments through internal allocations. However, these allocations are not made in 2010, with resolution on the new structure not taken until autumn 2010.

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

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

The accounting policies used for segment information are the same as the Group's accounting policies, see note 1.

2010

DKK thousands	Cancer Vaccines	Infectious Diseases	Holding	Total
RFP-3 IMVAMUNE® sales	-	214,945	-	214,945
Contract work	-	98,819	-	98,819
Product sale	-	308	-	308
Revenue	**-**	**314,072**	**-**	**314,072**
Depreciations	3,280	33,291	13,164	49,735
Income before interest and tax	(123,910)	(230,014)	(120,163)	(474,087)
Investments	17,444	23,332	21,065	61,841

Revenue for the following customers represent more than 10% of total revenue in Infectious Diseases:
Biomedical Advanced Research and Development Authority (BARDA), USA, DKK 249.7 million
National Institutes of Health (NIH), USA, DKK 40.6 million

2009

DKK thousands	Cancer Vaccines	Infectious Diseases	Holding	Total
RFP-3 IMVAMUNE® sales	-	-	-	-
Contract work	-	67,966	-	67,966
Product sale	-	6,817	-	6,817
Revenue	**-**	**74,783**	**-**	**74,783**
Depreciations	3,643	38,350	8,151	50,144
Income before interest and tax	(82,100)	(130,053)	(129,030)	(341,183)
Investments	5,962	44,165	45,904	96,031

Revenue for the following customers represent more than 10% of total revenue in Infectious Diseases:
National Institutes of Health (NIH), USA, DKK 68.0 million

Notes

2 Segment reporting – continued

DKK thousands	Group 2010	Group 2009
Geographic split of revenue:		
Denmark	-	-
USA	313,764	67,966
Other geographic markets	308	6,817
Revenue	**314,072**	**74,783**

DKK thousands	Group 2010	Group 2009	Parent Company 2010	Parent Company 2009
3 Revenue				
RFP-3 IMVAMUNE® sale	214,945	-	214,945	-
Contract work	98,819	67,966	98,819	67,966
Product sale	308	6,817	308	6,817
Revenue	**314,072**	**74,783**	**314,072**	**74,783**
Total revenue includes:				
Fair value adjustment transferred from equity concerning financial instruments entered into to hedge revenues	(745)	-	(745)	-
4 Production costs				
Cost of goods sold, RFP-3 IMVAMUNE® sale	136,949	-	136,949	-
Contract costs	68,559	49,306	68,559	49,306
Cost of goods sold, product sales	27	2,602	27	2,602
Other production costs	238,933	88,190	238,984	88,190
Production costs	**444,468**	**140,098**	**444,519**	**140,098**

Notes

		Group		Parent Company	
DKK thousands		2010	2009	2010	2009
5	**Staff costs**				
	Wages and salaries	206,513	181,248	122,813	105,268
	Contribution based pension	14,245	12,182	10,411	8,782
	Social security expenses	7,605	7,479	1,132	1,180
	Other staff expenses	18,342	13,708	11,902	10,482
	Share-based payment	25,503	8,063	25,503	7,530
	Staff costs	**272,208**	**222,680**	**171,761**	**133,242**
	Staff expenses are distributed as follows:				
	Production costs	120,370	95,377	103,237	72,983
	Research and development costs	73,636	52,782	11,888	4,010
	Distribution costs	15,658	10,172	13,597	8,832
	Administrative costs	54,907	47,107	41,949	43,924
	Capitalised salaries	7,637	17,242	1,090	3,493
	Staff costs	**272,208**	**222,680**	**171,761**	**133,242**
	Of which:				
	Board of Directors:				
	Remuneration to the Board of Directors	1,400	1,200	1,400	1,200
	Share-based payment	1,491	1,026	1,491	1,026
	President of the company:				
	Salary	5,282	5,346	5,282	5,346
	Contribution based pension	-	-	-	-
	Share-based payment	1,797	955	1,797	955
	Group Management:				
	Salaries	14,741	15,471	8,267	8,424
	Contribution based pension	719	1,085	615	730
	Share-based payment	4,462	2,813	3,029	2,813
	Severance costs	8,951	-	8,951	-
	Total management remuneration	**38,843**	**27,896**	**30,832**	**20,494**

By the end of third quarter 2010, group management was reduced by three members. Two members of group management resigned. Severance costs of DKK 8,951 thousands include expenses for share-based payment of DKK 4,092 thousands.

A long term incentive agreement was entered into with Paul Chaplin in December 2009. The incentive scheme offers one-off payments ranging from EUR 150.000 up to EUR 1.5 million. The one-off payments are subject to achievement of various possible future milestones and are furthermore conditioned 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 will cease to be effective as of 31 December 2015. Bavarian Nordic A/S has no obligation to continue with other similar programmes after this date.

Incentive programmes are disclosed in note 25.

Members of the group management have contracts of employment containing standard conditions for members of the group management of Danish listed companies, including with regard to the periods of notice that both parties are required to give and competition clauses. If contract of employment is terminated by Bavarian Nordic, without there having been misconduct on the part of the group management, the group management has the right to compensation, which, depending of the circumstances, may amount to maximum of two years salary and pension contributions.

Average number of employees converted to full-time	377	340	206	177
Number of employees as of December 31 converted to full-time	402	354	226	185

Notes

		Group		Parent Company	
DKK thousands		2010	2009	2010	2009
6	**Depreciation and amortisation**				
	Depreciation and amortisation included in:				
	Production costs	35,112	37,839	35,084	37,748
	Research and development costs	3,610	6,842	292	138
	Administrative costs	11,013	5,463	9,498	6,272
	Depreciation and amortisation	**49,735**	**50,144**	**44,874**	**44,158**
	Hereof profit ()/loss from disposed fixed assets	(25)	14	(25)	-
7	**Fees to auditor appointed at the annual general meeting**				
	Statutory audit of annual accounts	706	706	591	591
	Other assurance services	2,076	416	2,076	375
	Tax advisory	2,084	803	1,946	665
	Other services	139	680	139	656
	Fees	**5,005**	**2,605**	**4,752**	**2,287**
8	**Financial income**				
	Financial income from securities and realised/unrealised capital gains on securities measured at the fair value through the income statement	3,178	7,225	3,178	7,225
	Financial income from bank and deposit contracts	1,011	10,584	1,010	10,579
	Financial income from subsidiaries	-	-	23,724	6,289
	Financial income	**4,189**	**17,809**	**27,912**	**24,093**
9	**Financial expenses**				
	Interest expenses on debt	7,993	6,214	7,911	6,207
	Financial leasing expenses	108	653	108	653
	Adjustment of net present value of provisions	1,767	-	1,767	-
	Financial expenses to subsidiaries	-	-	627	725
	Net expenses from exchange rate adjustments	3,674	892	3,775	546
	Financial expenses	**13,542**	**7,759**	**14,188**	**8,131**

Notes

	Group		Parent Company	
DKK thousands	2010	2009	2010	2009
10 Tax for the year				
Current tax on profit for the year	1,944	2,809	-	-
Change in deferred tax	(95,093)	(67,863)	(94,946)	(67,863)
Adjustments to deferred tax for previous years	(298)	-	(298)	-
Adjustments current tax for previous years	(82)	199	-	-
Tax for the year recognised in the income statement	**(93,529)**	**(64,855)**	**(95,244)**	**(67,863)**
Tax on income for the year is explained as follows:				
Income before company tax	(483,440)	(331,133)	(401,620)	(279,048)
Calculated tax (25%) tax on income before company tax	(120,860)	(82,783)	(100,405)	(69,762)
Tax effect on:				
Different percentage in foreign subsidiaries	(411)	1,100	-	-
Tax values in foreign subsidairies, not included	22,688	15,122	-	-
Permanent differences	5,459	1,899	5,459	1,899
Adjustments to deferred tax for previous years	(298)	-	(298)	-
Other corrections	(107)	(193)	-	-
Tax on income for the year	**(93,529)**	**(64,855)**	**(95,244)**	**(67,863)**
Tax recognised directly in equity:				
Tax on costs related to issue of new shares	-	(94)	-	(94)
Tax for the year recognised directly in equity	**-**	**(94)**	**-**	**(94)**
Tax recognised in the comprehensive income:				
Tax on fair value adjustment of financial instruments entered into to hedge future cash flow	(5,381)	(6,797)	(5,381)	(6,797)
Tax for the year recognised in the comprehensive income	**(5,381)**	**(6,797)**	**(5,381)**	**(6,797)**
Deferred tax				
Recognised deferred tax assets relates to temporary differences between valuations for accounting and taxation purposes and tax losses carried forward:				
Tangible assets	(16,132)	(25,755)	(16,132)	(25,608)
Intangible assets	(26,095)	(29,553)	(26,095)	(29,553)
Financial instruments	7,985	-	7,985	-
Obligations	4,501	1,743	4,501	1,743
Inventories	12,405	572	12,405	572
Accrued project costs	(1,491)	-	(1,491)	-
Prepayment from customers	95,451	69,160	95,451	69,160
Tax losses carried forward	257,793	217,478	257,793	217,478
Recognised deferred tax assets	**334,417**	**233,645**	**334,417**	**233,792**

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

Recognized tax loss carried forward relates only to Bavarian Nordic A/S. Based on budgets and forecasts, including a partnership agreement on PROSTVAC®, it is the management's assessment that the tax loss carried forward will be used within a few years.

The tax asset of non-recognised tax losses and tax credits carried forward, with certain limitations, in subsidiaries amounts to DKK 114.9 million (DKK 73.4 million).

Notes

DKK thousands	Group 2010	Group 2009
11 Earnings per share (EPS)		
Profit for the Parent company´s shareholders	(389,911)	(266,278)
Weighted average of shares (thousand units)	11,640	7,821
Earnings per share of DKK 10	(33.5)	(34.0)
Diluted earnings per share of DKK 10	(33.5)	(34.0)
In accordance with IAS 33, the weighted average number of shares, when calculating diluted earnings, equals earnings per share, as the inclusion of potential shares would improve earnings per share.		
As of 31 December 2010 the following warrants are excluded by calculating the average number of shares in calculating diluted earnings per share:		
2010-programmes	346,200	-
2009-programmes	344,601	295,000
2008-programme	183,635	158,500
2007-programme	177,670	150,000
2006-programme	-	138,840
Outstanding warrants, re. note 25	**1,052,106**	**742,340**

Notes

DKK thousands	Acquired patents and licenses	Software	Intangible assets under construction	2010 Total
12 Intangible assets - Group 2010				
Costs as of 1 January 2010	13,992	37,222	102,117	153,331
Additions	-	3,312	12,855	16,167
Transfer	(297)	5,785	(5,488)	-
Disposals	-	(78)	-	(78)
Exchange rate adjustments	581	2	-	583
Cost as of 31 December 2010	**14,276**	**46,243**	**109,484**	**170,003**
Amortisation as of 1 January 2010	5,233	21,297	-	26,530
Amortisation	944	8,972	-	9,916
Transfer	(82)	82	-	-
Disposals	-	(78)	-	(78)
Exchange rate adjustments	49	1	-	50
Amortisation as of 31 December 2010	**6,144**	**30,274**	**-**	**36,418**
Book value as of 31 December 2010	**8,132**	**15,969**	**109,484**	**133,585**

12 Intangible assets - Parent company 2010				
Costs as of 1 January 2010	6,864	36,195	102,117	145,176
Additions	-	3,312	12,855	16,167
Transfer	-	5,488	(5,488)	-
Disposals	-	(78)	-	(78)
Cost as of 31 December 2010	**6,864**	**44,917**	**109,484**	**161,265**
Amortisation as of 1 January 2010	4,622	20,270	-	24,892
Amortisation	449	8,872	-	9,321
Disposals	-	(78)	-	(78)
Amortisation as of 31 December 2010	**5,071**	**29,064**	**-**	**34,135**
Book value as of 31 December 2010	**1,793**	**15,853**	**109,484**	**127,130**

Intangible assets under construction include development costs related to the registration of IMVAMUNE® under the RFP-3 contract (DKK 108.1 million) and investment in software.

Geographical split of intangible assets - Group 2010	
Denmark	127,130
USA	6,455
	133,585

Notes

DKK thousands	Acquired patents and licenses	Software	Intangible assets under construction	2009 Total
12 Intangible assets - Group 2009				
Costs as of 1 January 2009	12,149	16,707	79,024	107,880
Additions	1,861	5,578	38,033	45,472
Transfer	-	14,940	(14,940)	-
Exchange rate adjustments	(18)	(3)	-	(21)
Cost as of 31 December 2009	**13,992**	**37,222**	**102,117**	**153,331**
Amortisation as of 1 January 2009	4,262	16,389	-	20,651
Amortisation	989	4,911	-	5,900
Exchange rate adjustments	(18)	(3)	-	(21)
Amortisation as of 31 December 2009	**5,233**	**21,297**	**-**	**26,530**
Book value as of 31 December 2009	**8,759**	**15,925**	**102,117**	**126,801**
12 Intangible assets - Parent company 2009				
Costs as of 1 January 2009	6,864	15,677	79,024	101,565
Additions	-	5,578	38,033	43,611
Transfer	-	14,940	(14,940)	-
Cost as of 31 December 2009	**6,864**	**36,195**	**102,117**	**145,176**
Amortisation as of 1 January 2009	4,174	15,360	-	19,534
Amortisation	448	4,910	-	5,358
Amortisation as of 31 December 2009	**4,622**	**20,270**	**-**	**24,892**
Book value as of 31 December 2009	**2,242**	**15,925**	**102,117**	**120,284**

Intangible assets under construction include development costs related to the registration of IMVAMUNE® under the RFP-3 contract (DKK 96.0 million) and investment in software (DKK 6.1 million).

Geographical split of intangible assets - Group 2009	
Denmark	120,284
USA	6,517
	126,801

Notes

DKK thousands	Land and buildings	Leasehold improvement	Plant and machinery	Fixtures and fittings, other plant and equipment	Assets under construction	2010 Total
13 Tangible assets - Group 2010						
Costs as of 1 January 2010	172,999	10,993	224,249	66,650	42,049	516,940
Additions	14,122	15,551	1,171	7,473	7,357	45,674
Transfer	24,087	1,231	-	1,606	(26,924)	-
Exchange rate adjustments	-	187	-	638	13	838
Cost as of 31 December 2010	**211,208**	**27,962**	**225,420**	**76,367**	**22,495**	**563,452**
Depreciation of 1 January 2010	22,074	8,676	79,504	52,202	-	162,456
Depreciation	9,206	858	24,189	5,591	-	39,844
Exchange rate adjustments	-	123	-	214	-	337
Depreciation as of 31 December 2010	**31,280**	**9,657**	**103,693**	**58,007**	**-**	**202,637**
Book value as of 31 December 2010	**179,928**	**18,305**	**121,727**	**18,360**	**22,495**	**360,815**
Book value of leased assets as of 31 December 2010	**-**	**-**	**5,804**	**-**	**-**	**5,804**
13 Tangible assets - Parent company 2010						
Costs as of 1 January 2010	172,999	1,657	224,249	19,233	39,520	457,658
Additions	14,122	348	1,171	5,411	6,897	27,949
Transfer	24,087	-	-	295	(24,382)	-
Cost as of 31 December 2010	**211,208**	**2,005**	**225,420**	**24,939**	**22,035**	**485,607**
Depreciation of 1 January 2010	22,074	126	79,504	13,975	-	115,679
Depreciation	9,206	355	24,189	1,828	-	35,578
Depreciation as of 31 December 2010	**31,280**	**481**	**103,693**	**15,803**	**-**	**151,257**
Book value as of 31 December 2010	**179,928**	**1,524**	**121,727**	**9,136**	**22,035**	**334,350**
Book value of leased assets as of 31 December 2010	**-**	**-**	**5,804**	**-**	**-**	**5,804**

Tangible assets under construction mainly include investment in new boiler plant and TFF equipment for production in Kvistgård (DKK 5.7 million) and expansion and upgrade of canteen facility in Kvistgård (DKK 1.6 million).

As guarantee for mortgage loans of DKK 42 million is a total pledge of DKK 50 million in the property Bøgeskovvej 9/Hejreskovvej 10, Kvistgård, Denmark. In addition, as of 31 December 2010 mortgage deeds of total of DKK 75 million have been issued for guarantee on loan of DKK 65 million. The book value of assets pledged as collateral for mortgage and construction loan amounts to DKK 302 million.

Geographical split of tangible assets - Group 2010	
Denmark	334,350
Europe, other	22,450
USA	4,015
	360,815

Notes

DKK thousands	Land and buildings	Leasehold improvement	Plant and machinery	Fixtures and fittings, other plant and equipment	Assets under construction	2009 Total
13 Tangible assets - Group 2009						
Costs as of 1 January 2009	168,278	8,865	222,615	59,598	7,778	467,134
Additions	4,721	2,199	1,634	7,734	41,768	58,056
Transfer	-	-	-	-	(7,497)	(7,497)
Disposals	-	(33)	-	(551)	-	(584)
Exchange rate adjustments	-	(38)	-	(131)	-	(169)
Cost as of 31 December 2009	**172,999**	**10,993**	**224,249**	**66,650**	**42,049**	**516,940**
Depreciation of 1 January 2009	14,199	7,681	50,241	46,844	-	118,965
Depreciation	7,875	1,067	29,263	6,025	-	44,230
Disposals	-	(33)	-	(537)	-	(570)
Exchange rate adjustments	-	(39)	-	(130)	-	(169)
Depreciation as of 31 December 2009	**22,074**	**8,676**	**79,504**	**52,202**	**-**	**162,456**
Book value as of 31 December 2009	**150,925**	**2,317**	**144,745**	**14,448**	**42,049**	**354,484**
Book value of leased assets as of 31 December 2009	**-**	**-**	**48,505**	**-**	**-**	**48,505**
13 Tangible assets - Parent company 2009						
Costs as of 1 January 2009	168,278	-	222,615	16,302	7,050	414,245
Additions	4,721	1,657	1,634	3,156	39,239	50,407
Transfer	-	-	-	-	(6,769)	(6,769)
Disposals	-	-	-	(225)	-	(225)
Cost as of 31 December 2009	**172,999**	**1,657**	**224,249**	**19,233**	**39,520**	**457,658**
Depreciation of 1 January	14,199	-	50,241	12,664	-	77,104
Depreciation	7,875	126	29,263	1,536	-	38,800
Disposals	-	-	-	(225)	-	(225)
Depreciation as of 31 December 2009	**22,074**	**126**	**79,504**	**13,975**	**-**	**115,679**
Book value as of 31 December 2009	**150,925**	**1,531**	**144,745**	**5,258**	**39,520**	**341,979**
Book value of leased assets as of 31 December 2009	**-**	**-**	**48,505**	**-**	**-**	**48,505**

Tangible assets under construction mainly includes investment in new QC laboratory (DKK 23.6 million) and production equipment (DKK 16.0 million).

As guarantee for mortgage loans of DKK 43 million is a total pledge of DKK 50 million in the property Bøgeskovvej 9/Hejreskovvej 10, Kvistgård, Denmark. In addition, as of 31 December 2009 mortgage deeds of total of DKK 75 million have been issued for guarantee on loan of DKK 66 million. The book value of assets pledged as collateral for mortgage and construction loan amounts to DKK 296 million.

Geographical split of tangible assets - Group 2009	
Denmark	341,979
Europe, other	8,498
USA	4,007
	354,484

Notes

	Parent Company	
DKK thousands	2010	2009
14 Investment in subsidiaries		
Cost of subsidiaries as of 1 January	183,657	147,757
Additions	-	35,900
Cost of subsidiaries as of 31 December	**183,657**	**183,657**
Write-down as of 1 January	-	-
Disposals	-	-
Write down as of 31 December	**-**	**-**
Book value as of 31 December	**183,657**	**183,657**

Company summary	Domicile	Ownership	Voting rights
Subsidiaries			
Bavarian Nordic GmbH	Tyskland	100%	100%
BN ImmunoTherapeutics Inc.	USA	100%	100%
Bavarian Nordic Inc.	USA	100%	100%
Representative office			
Bavarian Nordic A/S	Singapore		

In December 2009, Bavarian Nordic A/S obtained full ownership of the subsidiary BN ImmunoTherapeutics Inc. by purchasing shares in BN ImmunoTherapeutics Inc. from the CEO and President in BNIT and Division President in Bavarian Nordic A/S, Reiner Laus, and two former employees in the subsidiary.

The companies in USA are not under audit obligations.

Notes

		Group		Parent Company	
DKK thousands		2010	2009	2010	2009
15	**Inventories**				
	Raw materials and supply materials	24,031	22,907	18,970	20,455
	Work in progress	191,693	236,663	191,694	236,663
	Manufactured goods and commodities	13,390	20,753	13,390	20,753
	Write-down on inventory	(107,662)	(33,855)	(107,662)	(33,855)
	Inventories	**121,452**	**246,468**	**116,392**	**244,016**
	Write-down on inventory 1 January	(33,855)	(42,738)	(33,855)	(42,738)
	Write-down during the year	(101,370)	(9,584)	(101,370)	(9,584)
	Use of write-down	19,886	-	19,886	-
	Reversal of write-down	7,677	18,467	7,677	18,467
	Write-down on inventory 31 December	**(107,662)**	**(33,855)**	**(107,662)**	**(33,855)**
	Cost of goods sold amounts to	136,976	2,602	136,976	2,602
16	**Trade receivables**				
	Trade receivables from RFP-3 IMVAMUNE® sale	23,868	-	23,868	-
	Trade receivables from product sale and contract work	13,054	15,095	13,054	15,095
	Trade receivables	**36,922**	**15,095**	**36,922**	**15,095**
	There are no overdue receivables and no provision for bad debts.				
17	**Other receivables**				
	Accrued project costs	5,964	9,806	5,964	9,806
	Other receivables	7,770	21,579	5,767	20,423
	Other receivables	**13,734**	**31,385**	**11,731**	**30,229**
	Other receivables are measured at amortised cost. Accrued project costs will generate revenue in the following fiscal year.				
18	**Prepayments**				
	Prepayments filling costs	95,280	68,976	95,280	68,976
	Other prepayments	14,263	9,059	11,181	6,665
	Prepayments	**109,543**	**78,035**	**106,461**	**75,641**
	IDT Biologika GmbH has issued bank guarantees covering the received prepayments of future fillings of IMVAMUNE®.				
19	**Other liablities**				
	Financial instruments at fair value	31,942	9,673	31,942	9,673
	Liability relating to phantom shares	3,810	275	3,810	275
	Other liablities	67,428	102,324	53,653	88,859
	Other liabilities	**103,180**	**112,272**	**89,405**	**98,807**
	Except from financial instruments and liability relating to phantom shares, other debts are measured at amortised cost.				

Notes

	Group		Parent Company	
DKK thousands	2010	2009	2010	2009
20 Financial risks and financial instruments				
Categories of financial instruments				
Derivative financial instruments to hedge future cash flows (currency)	(29,895)	(9,008)	(29,895)	(9,008)
Derivative financial instruments to hedge future cash flows (interest)	(2,047)	(665)	(2,047)	(665)
Financial assets/liabilities used as hedging instruments	**(31,942)**	**(9,673)**	**(31,942)**	**(9,673)**
Trade receivables	36,922	15,095	36,922	15,095
Receivables from subsidiaries	-	-	165,304	69,645
Other receivables	7,770	21,579	5,767	20,423
Cash and cash equivalents	266,783	80,954	259,725	71,925
Loan and receivables	**311,475**	**117,628**	**467,718**	**177,088**
Securities	88,871	104,045	88,871	104,045
Financial assets measured at fair value in the income statement	**88,871**	**104,045**	**88,871**	**104,045**
Mortgage debt	41,942	43,454	41,942	43,454
Bank debt	64,621	66,388	64,621	66,388
Financial lease commitments	234	8,964	234	8,964
Trade payables	50,085	48,020	43,061	41,747
Other liabilities	67,428	102,324	53,653	88,859
Payables to subsidiaries	-	-	36,120	43,496
Financial obligations measured at amortised cost	**224,310**	**269,150**	**239,631**	**292,908**
Liability relating to phantom shares	3,810	275	3,810	275
Financial liabilities measured at fair value in the income statement	**3,810**	**275**	**3,810**	**275**

Policy for managing financial risks

Through its operations, investments and financing the Bavarian Nordic Group is exposed to fluctuations in exchange rates and interest rates. These risks are managed centrally in the parent company, which manages the Group´s liquidity. The Group pursues a financial policy approved by the Board of Directors. The policy operates with a low risk profile, so that exchange rate risks, interest rate risks and credit risks arise only in commercial relation. Thus, the Group 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.

Notes

20 Financial risks and financial instruments – continued

Currency risks

The Group´s exchange rate exposure is primarily to USD and EUR. The exchange rate exposure to USD is hedged to the greatest possible extent by matching incoming and outgoing payments denominated in USD. Furthermore in connection with the RFP-3 contract, the Group entered into forward currency contracts for USD 300 million to hedge future cash flows from the contract. As of 31 December 2010, the balance on the unsettled forward currency contract was USD 46 million. Furthermore the construction loan of originally DKK 68 million has been swapped into USD upon renewal mid 2009 and works as a hedge of USD revenue.

The forward currency contracts are subject to a sensitivity which affects equity equivalent to DKK 4.6 million per 0.10 points of change in the USD/DKK exchange rate.

The forward currency contracts further affect equity with respect to the forward premiums/discounts that apply to extension of the forward currency contracts. These forward premiums/discounts reflect the difference in interest rates between the two currencies. At the current interest rate levels, neither a forward premium nor a forward discount applies, and the sensitivity of the forward currency contracts is very limited. A rise in the USD/DKK exchange rate will affect the equity adversely.

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

Exchange rate risks in respect of recognised financial assets and liabilities

The Group's exposure to currency is shown below.

DKK thousands	Cash and cash equivalents, Securities	Receivables	Non-current liabilities	Net position	Covered	Non-secure net position
2010 Group						
DKK	341,666	10,164	(181,828)	170,002	-	170,002
EUR	460	1,779	(11,123)	(8,884)	-	(8,884)
USD	13,528	39,348	(81,937)	(29,061)	-	(29,061)
As of 31 December 2010	**355,654**	**51,291**	**(274,888)**	**132,057**	**-**	**132,057**
2010 Parent Company						
DKK	341,666	10,164	(181,828)	170,002	-	170,002
EUR	962	-	(35,532)	(34,570)	-	(34,570)
USD	5,968	203,793	(72,820)	136,941	-	136,941
As of 31 December 2010	**348,596**	**213,957**	**(290,180)**	**272,373**	**-**	**272,373**
2009 Group						
DKK	161,056	-	(123,084)	37,972	-	37,972
EUR	7,575	10,016	(30,422)	(12,831)	-	(12,831)
USD	16,368	36,464	(136,744)	(83,912)	-	(83,912)
As of 31 December 2009	**184,999**	**46,480**	**(290,250)**	**(58,771)**	**-**	**(58,771)**
2009 Parent Company						
DKK	161,056	-	(123,084)	37,972	-	37,972
EUR	6,059	8,862	(63,865)	(48,944)	-	(48,944)
USD	8,855	106,107	(127,006)	(12,044)	-	(12,044)
As of 31 December 2009	**175,970**	**114,969**	**(313,955)**	**(23,016)**	**-**	**(23,016)**

Notes

20 Financial risks and financial instruments – continued

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

The Group´s bank deposits are placed in term deposits for terms of less than one year. The Group's cash and cash equivalents totalled DKK 266.8 million (DKK 81.0 million).

The Group's fixed rate bond portfolio expire as shown below. Amount indicated are excluding interests.

	Group and Parent Company 2010		Group and Parent Company 2009	
DKK thousands	Fair value as of 31 December	Effective interest	Fair value as of 31 December	Effective interest
Bond portfolio				
Within 0-2 years	33,468	1.4%	72,813	4.1%
Within 2-5 years	18,406	2.0%	10,268	3.3%
After 5 years	36,997	3.8%	20,964	4.3%
Total	**88,871**	**2.5%**	**104,045**	**4.1%**

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 on DKK 0-2 million on the Group´s result and equity (DKK 0-2 million). A corresponding fall in the interest rate level would have had an equivalent positive effect on the result and equity.

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

Credit risks
The primary credit risk relates to trade receivables. The Group´s customers are predominantly public authorities, and the credit risk on the Company´s receivables is therefore considered to be very low.
As of 31 December 2010, none of the receivables are overdue.

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

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

As of 31 December 2010, the accumulated fair value adjustment of derivative financial instruments to hedge future cash flows amounts to DKK -5.5 million after tax (DKK 10.7 million). This amount has been recognised in equity.

The Group has entered into one interest rate swap to hedge the interest payments on USD loan. The accumulated fair value adjustment of DKK -2.0 million is recognized in equity (DKK -0.7 million). The interest rate swap runs until repayment of the hedged loan.

Notes

20 Financial risks and financial instruments – continued

As of 31 December 2010, the forward currency contracts entered into to hedge future cash flows amounted to USD 143 million, of which USD 46 million remains unsettled as of 31 December 2010 and USD 97 million has been settled. In 2009 forward currency contracts of DKK 129 million was settled. The accumulated fair value adjustment of the forward currency contracts settled at the settlement date was negative by USD 3.0 million and is recognised in equity. In 2010 USD 32 million of settled forward currency contracts have been used as doses have been delivered to U.S. authorities, so by year end USD 97 million remain. A proportionate share of the accumulated fair value adjustment on the settled forward currency contracts is recognized as revenue in 2010 (USD 0.7 million), while the remaining adjustment is still recognized in equity. In 2009 some of the fair value adjustment on open forward currency contracts had been settled in cash, DKK 26.9 million, and the fair value has been reduced accordingly. The settled amount remains recognised in equity until the originally hedged transactions take place. The accumulated fair value adjustment of forward currency contracts (incl. settled in cash) amounts to USD -5.3 million before tax (DKK 14.9 million).

The term to maturity of the forward currency contracts is approximately one month, but they are extended regulary, and they will hedge expected cash flow under the RFP-3 contract equalling approx. three million doses within the comming year.

	2010			2009		
DKK thousands	Contract amount based on agreed rates	Fair value as of 31 December	Fair value adjustment recognised in other comprehensive income	Contract amount based on agreed rates	Fair value as of 31 December	Fair value adjustment recognised in other comprehensive income
Interest rate swap						
USD - fixed rate 2.3046% p.a.	64,621	(2,047)	(1,382)	66,388	(665)	(1,625)
Forward currency contracts						
USD 46 million	226,693	(29,895)	(20,887)	228,643	(9,008)	(25,560)
		(31,942)	(22,269)		(9,673)	(27,185)

DKK thousands	2010	2009
Accumulated effect on equity		
Interest rate swap		
Fair value as of 31 December	(2,047)	(665)
Accumulated fair value adjustment interest rate swap	(2,047)	(665)
Forward currency contracts		
Fair value on open forward currency contracts (USD 46 million)	(29,895)	(9,008)
Settled in cash on open forward currency contracts (USD 46 million)	26,859	26,859
Fair value adjustment on settled forward currency contracts (USD 129 million)	(2,980)	(2,980)
- of which used/recognised as revenue (USD -32 million)	745	-
Accumulated fair value adjustment on forward currency contracts (USD 143 million)	(5,271)	14,871
Accumulated fair value adjustment on derivative financial instruments as of 31 December	(7,318)	14,206
Tax effect	1,831	(3,550)
Accumulated effect on equity as of 31 December	**(5,487)**	**10,656**

Notes

20 Financial risks and financial instruments – continued

Optimisation of capital structure
The company´s management regularly assesses whether the Group´s capital structure best serves the company´s and its shareholders´ interest. The overall goal is to ensure that the Group has a capital structure which supports its long-term growth target.

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

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

Securities (level 1)
The stock of public traded government bonds and public traded mortgage bonds are valued at listed prices and price quotas.

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

	Group and Parent Company	
DKK thousands	2010	2009
21 Provisions		
Provisions as of 1 January	11,099	-
Additions during the year	3,698	11,099
Disposals during the year	-	-
Provisions as of 31 December	**14,797**	**11,099**

Provisions	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
2010	6,089	6,076	2,632	14,797
2009	-	5,122	5,977	11,099

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

When calculating the provision as of 31. December 2010 changed assessment of certain risk factors have increased the provision of DKK 0.6 million. The amount is expensed under administrative costs. Currency adjustment of the obligation (USD) and adjustment of the net present value is recognised as financial expenses (note 9).

The total remaining consideration amounts to a maximum of DKK 59 million (risk adjusted net present value of DKK 13 million).

Further, other provisions cover agreement with Paul Chaplin, mentioned in note 5.

Notes

	Parent Company and Group			
DKK thousands	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total
22 Credit Institutions				
2010				
Mortgage, fixed interest 4.1684%	531	2,357	19,420	22,308
Mortgage, fixed interest 4.5352%	1,051	4,710	13,873	19,634
Financial leasing, variable interest interval 1-2% p.a. *)	234	-	-	234
Construction loan, USD, variable interest a) *)	7,180	57,441	-	64,621
Total	**8,996**	**64,508**	**33,293**	**106,797**
2009				
Mortgage, fixed interest 4.1684%	509	2,261	20,046	22,816
Mortgage, fixed interest 4.5352%	1,004	4,502	15,132	20,638
Financial leasing, variable interest interval 2.2-7.6% p.a. *)	8,729	235	-	8,964
Construction loan, USD, variable interest a) *)	6,639	59,749	-	66,388
Total	**16,881**	**66,747**	**35,178**	**118,806**

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

*) Annual rate adjustment

The average lease period is five years. All lease contracts have a fixed repayment profile and no agreements contain provisions on conditioned lease payments except for provisions on indexing based on official index. The lease agreements are non-terminable in the agreed lease period, but can be extended on renewed terms. The Company has guaranteed the residual value of the assets by the end of the lease period.

Minimum financial lease payments	Due within 1 year	Due between 1 and 5 years	Due after 5 years	Total	Future interest rate on lease	Present value of payments
2010	236	-	-	236	2	234
2009	8,835	236	-	9,071	107	8,964

Notes

	Group		Parent Company	
DKK thousands	2010	2009	2010	2009
23 Prepayment from customers				
Prepayment from customers as of 1 January	276,640	276,640	276,640	276,640
Prepayments received during the year	147,965	-	147,965	-
Recognised as income during the year	(42,800)	-	(42,800)	-
Prepayment from customers as of 31 December	**381,805**	**276,640**	**381,805**	**276,640**

Prepayment of USD 50 million was received in 2007 as a part of the RFP-3 contract for delivery of 20 million vaccines of IMVAMUNE®. If Bavarian Nordic fails to fulfil the RFP-3 contract the company has a repayment obligation. It is the Company's assessment that the repayment obligation is reduced in line with delivery of vaccines, thus a proportionate share of the advance payment is recognised as revenue - equivalent to USD 2.50 per vaccine - along with the delivery. In 2010 2 million vaccines were delivered.

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

DKK thousands	2010	2009
24 Related party transactions		
The management and Board of Directors of Bavarian Nordic A/S are considered related parties as they have significant influence		
Intercompany purchases from the subsidiaries comprise:		
Research and development costs		
Bavarian Nordic A/S purchase of research and development services from Bavarian Nordic GmbH	118,107	114,463
Bavarian Nordic A/S purchase of services from Bavarian Nordic Inc.	8,844	7,815
Management fee (income)		
BN ImmunoTherapeutics Inc. purchase of management services from Bavarian Nordic A/S	278	257

Overview of subsidiaries can be found in note 14.

Information on further intercompany transactions and balances can be found in notes 8 and 9.

Apart from Group intercompany transactions, mentioned above, renumeration of the Board of Directors, President of the Company and managerial staff, re. note 5, and the warrants programme, re. note 25, and redemption of shares in the BN ImmunoTherapeutics Inc., as indicated below, there are no significant transactions with related parties.

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

In December 2009, Bavarian Nordic A/S obtained full ownership of the subsidiary BN ImmunoTherapeutics Inc. by purchasing shares in BN ImmunoTherapeutics Inc. from the CEO and President in BN ImmunoTherapeutics Inc. and Division President in Bavarian Nordic A/S, Reiner Laus, and two former employees in the subsidiary. Further, stock options issued to employees in the subsidiary were repurchased. The transaction was part of Bavarian Nordic's strategy to strengthen the cancer business area and gave Bavarian Nordic A/S full control over the Group's activities in this field. The consideration to Reiner Laus and the two former employees was paid partly in shares in Bavarian Nordic A/S and partly with a number of future milestone payments that are triggered upon the successful completion of a number of pre-defined development milestones. In addition to this, a separate agreement regarding cancellation of certain contractual rights, including anti-dilution rights, regarding BN ImmunoTherapeutics Inc., was entered into with Reiner Laus. As compensation, Reiner Laus has the right to a number of future milestone payments which are triggered upon successful completion of pre-defined development milestones, included as provisions, re. note 21.

Notes

25 Incentive plans

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

Warrants
In August 2006, August 2007, October 2008, March 2009, December 2009, May 2010, August 2010 and December 2010 the board of Directors granted warrants to the company´s management, selected employees of the Company and its subsidiaries and to the company´s Board of Directors. See the tables below.

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

The terms of the warrant plans are included in the Articles of Association (§§ 5 b - 5 l).

Adjustment of outstanding warrants in 2010
The warrant programme has a regulation, that if the decision is taken to increase the capital in Bavarian Nordic and the new shares are offered at a price, which is lower than the market price, the exercise price and number of shares, that can be subscribed for, will be adjusted to compensate the warrantholder for dilution. The warrant programmes for 2006, 2007, 2008 and 2009 are adjusted regarding these rules as a result of the rights issue in January 2010 as shown in the below table.

The private placement in November 2010 was at market price, thus the warrant programmes have not been adjusted.

	As of 1 January 2010		As of 2 February 2010 (after adjustment)	
Programme	Exercise price (DKK)	Number of warrants	Exercise price (DKK)	Number of warrants
August 2006	542	138,840	455	165,556
August 2007	549	150,000	460	178,862
October 2008	156	158,500	131	189,000
March 2009	124	25,000	104	29,808
December 2009	184	270,000	154	321,947
Outstanding warrants		**742,340**		**885,173**

In accordance with IFRS 2 an incremental fair value has been calculated based on the adjustment. The incremental fair value is calculated as the difference between the assessed value of the programme immediately before the rights issue based on original exercise price and number of warrants and the assessed value after the rights issue based on the new exercise price and number of warrants. The total incremental fair value amounted to DKK 10.0 million and is expensed over the period from the date of issue until the date when the warrant programmes vest. In 2010 DKK 4.9 million of the incremental fair value has been expensed.

Notes

25 Incentive plans – continued

Outstanding warrant plans as of 31 December

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

2010	Outstanding as of 1 January	Adj. reg. rights issue	Addition during the year	Options exercised	Annulled	Termi-nations	Outstanding as of 31 December	Can be exercised 31 December	Average exercise price
2006 programme	138,840	26,716	-	-	-	(165,556)	-	-	-
2007 programme	150,000	28,862	-	-	(1,192)	-	177,670	177,670	460
2008 programme	158,500	30,500	-	-	(5,365)	-	183,635	-	131
March 2009 programme	25,000	4,808	-	-	-	-	29,808	-	104
December 2009 programme	270,000	51,947	-	-	(7,154)	-	314,793	-	154
May 2010 programme	-	-	270,000	-	(3,800)	-	266,200	-	291
August 2010 programme	-	-	35,000	-	-	-	35,000	-	259
December 2010 programme	-	-	45,000	-	-	-	45,000	-	261
Total	**742,340**	**142,833**	**350,000**	**-**	**(17,511)**	**(165,556)**	**1,052,106**	**177,670**	

2010	Outstanding as of 1 January	Adj. reg. rights issue	Addition during the year	Options exercised	Annulled	Termi-nations	Trans-ferred	Outstanding as of 31 December
Board of Directors	75,837	14,594	30,000	-	-	(18,885)	(16,694)	84,852
CEO & President	70,000	13,475	20,000	-	-	-	-	103,475
Group management	217,515	41,864	90,000	-	-	(56,660)	(158,284)	134,435
Other employees	332,593	63,970	210,000	-	(17,511)	(58,535)	31,082	561,599
Resigned employees	46,395	8,930	-	-	-	(31,476)	143,896	167,745
Total	**742,340**	**142,833**	**350,000**	**-**	**(17,511)**	**(165,556)**	**-**	**1,052,106**
Weighted average exercise price	**317**	**180**	**284**	**-**	**198**	**455**	**-**	**243**

Numbers of warrants which can be exercised as of 31 December 2010	177,670
at an weighted average exercise price of DKK	460

2009	Outstanding as of 1 January	Adj. reg. rights issue	Addition during the year	Options exercised	Annulled	Termi-nations	Trans-ferred	Outstanding as of 31 December
Board of Directors	61,116	-	25,000	-	-	-	(10,279)	75,837
CEO & President	50,000	-	20,000	-	-	-	-	70,000
Group management	162,515	-	80,000	-	(25,000)	-	-	217,515
Other employees	173,843	-	170,000	-	(11,250)	-	-	332,593
Resigned employees	36,116	-	-	-	-	-	10,279	46,395
Total	**483,590**	**-**	**295,000**	**-**	**(36,250)**	**-**	**-**	**742,340**
Weighted average exercise price	**417**	**-**	**179**	**-**	**527**	**-**	**-**	**317**

Numbers of warrants which can be exercised as of 31 December 2009	138,840
at an weighted average exercise price of DKK	455 (542)

Notes

25 Incentive plans – continued

Specification of parametres for Black-Scholes model	2007 programme	2008 programme	March 2009 programme	December 2009 programme	May 2010 programme	August 2010 programme	December 2010 programme
Avearge share price (DKK)	436.50	156.00	103.00	149.00	212.50	223.00	238.00
Average share exercise price (DKK)	549.00	156.00	124.00	184.00	291.00	259.00	261.00
Average share exercise price at date of issue 2 February 2010 (DKK)	460.00	131.00	104.00	154.00			
Expected volatility rate	31.00%	39.00%	62.30%	50.90%	62.70%	57.20%	49.50%
Expected life - number of years	3.3	3.0	3.0	3.0	3.0	3.0	3.0
Expected dividend per share	-	-	-	-	-	-	-
Risk-fee interest rate	4.00%	4.50%	2.50%	2.10%	2.00%	0.80%	1.60%
The fair value of the warrants on grant has been determined applying the Black-Scholes model (DKK)	65	49	39	48	72	76	78
The fair value of the warrants at date of issue 2 February 2010 has been determined applying the Black-Scholes model (DKK)	-	62	80	66			

The expected volatility is based on the historical volatility (over 12 months).
Recognised costs in 2010 DKK 22.0 million (incl. incremental fair value) compared to DKK 7.3 million in 2009.

Exercise periods

2009 December programme
The warrants can be exercised wholly or partly in a period of 14 days commencing from the day of publication of the Company's Annual Report for 2013, from the day of publication of the Company's Interim Report for the first six months 2014 (Q2), from the day of publication of the Company's Annual Report for 2014 and/or in a period of 14 days commencing from the day of publication of the Company's Interim Report for the first six months 2015 (Q2).

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

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

Notes

25 Incentive plans – continued

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

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

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

2007 programmes
The warrants can be exercised wholly or partly in a period of 14 days commencing from the day of publication of the Company's Interim Report for the first nine months 2010 (Q3) and/or in a period of 14 days commencing from the day of publication of the Company's Annual Report for 2010.

Phantom shares
In 2008 the Company established a three-year phantom share programme under which all employees of the parent company, Bavarian Nordic GmbH and Bavarian Nordic Inc. receive up to three phantom shares per month free of charge during the period from 1 November 2008 to 31 October 2011. Each employee who is a full-time employee during the entire term of the plan will be eligible to receive a maximum of 108 phantom shares (116 phantom shares after adjustment, cf. below).

In 2010 the Company establised another three-year phantom share programme covering all employees of the parent company, Bavarian Nordic GmbH, Bavarian Nordic Inc. and BN ImmunoTherapeutics Inc. The employees receive up to three phantom shares per month free of charge during the period from 1 April 2010 to 31 March 2013. Each employee who is a full-time employee during the entire term of the plan will be eligible to receive a maximum of 108 phantom shares.

On expiry of the programme in 2011 and 2013 the employees may exercise the phantom shares granted to them and thus be entitled to a cash bonus calculated on the basis of the increase in the price of the Company´s shares. The exercise of phantom shares is conditional on the price of the Company´s shares being at least 10% higher at the time of exercise than the exercise price.

Notes

25 Incentive plans – continued

2010-2013 programme	2010
Outstanding as of 1 January	-
Granted during the year	9,938
Expired during the year	-
Outstanding phantom shares as of 31 December	**9,938**
Specification of parametres for Black-Scholes model	
Share price 31 December (DKK)	245
Average share exercise price (DKK)	248
Expected volatility rate (% p.a.)	51%
Expected life - number of years	2.3
Expected dividend per share	-
Risk-fee interest rate (% p.a.)	1.02%
The expected volatility is based on the historic volatility (over 12 months)	
The recognised cost in 2010 was DKK 731 thousand	
Liability in DKK thousand as of 31 December relating to phantom shares	**731**

2008-2011 programme	2010	2009	2008
Outstanding as of 1 January	12,048	1,539	-
Granted during the year	13,966	10,509	1,539
Expired during the year	-	-	-
Outstanding phantom shares as of 31 December	**26,014**	**12,048**	**1,539**
Specification of parametres for Black-Scholes model			
Share price 31 December (DKK)	245	144	132
Average share exercise price (DKK)	131	156	156
Expected volatility rate (% p.a.)	51%	39%	21%
Expected life - number of years	0.9	1.9	2.9
Expected dividend per share	-	-	-
Risk-fee interest rate (% p.a.)	0.74%	3.30%	3.90%
The expected volatility is based on the historic volatility (over 12 months)			
The recognised cost in 2010 was DKK 2,804 thousand (DKK 267 thousand)			
Liability in DKK thousand as of 31 December relating to phantom shares	**3,079**	**275**	**8**

Adjustment of outstanding phantom shares in 2010

The phantom share program has an adjustment mechanism in case of changes in the Bavarian Nordic's capital structure, including raise in capital to price under market level. In compliance of these rules the average price of the 2008 programme hs been adjusted from DKK 156 to DKK 131 due to dilution following the rights issue in January 2010.

After adjustment, each employee can receive a maximum of 116 phantom shares under the 2008 programme.

Notes

DKK thousands	Group and Parent Company 2010	2009
26 Contingent liabilities, contractual obligations		
The parent company stands surety for a credit facility to the subsidiary of a maximum of	5,367	5,362
Bank guarantees issued as deposits for laboratory and office buildings in Martinsried, Germany	1,736	2,054
Income recognition of part of prepayment, re. note 23, with repayment obligation in the event of breach of the RFP-3 contract. In such event, repayment must occur in USD	42,800	-
Guarantee issued in connection with sale of IMVAMUNE® to Asia	91	76
Operational leasing		
Leasing obligations for cars.		
The rental agreements are irrevocable up to 35 months.		
- Due during the next year	1,701	1,234
- Due between 1 and 5 years	2,762	677
- Due after 5 years	-	-
Rental commitments		
Rental agreements for laboratory and offices facilities.		
The rental agreements are irrevocable from 1 to 84 months.	93,481	46,638
The above-mentioned rental agreements have bound payment obligations as follows:		
- Due during the next year	19,469	12,027
- Due between 1 and 5 years	54,897	27,080
- Due after 5 years	19,115	7,531
Collaborative agreements		
The company has contractual obligations with research partners for long-term research projects.		
- Due during the next year	2,154	13,147
- Due between 1 and 5 years	1,056	899
- Due after 5 years	-	-
Other contractual obligations		
Other obligations include among other things purchase commitments related to filling of vaccines.		
- Due during the next year	131,688	126,983
- Due between 1 and 5 years	116,570	179,805
- Due after 5 years	-	70

Company mortgage

Bavarian Nordic A/S has by letter of indemnity (DKK 150 million) granted Nordea Bank Denmark company mortgage in unsecured claims arising from the sale of goods and services and stocks of raw materials, intermediate products and finished products. Company mortgage are granted in connection with Nordea Bank Denmark granting an additional operating credit line of DKK 100 million. At the same time the company mortgage secures the line for trading in financial instruments (DKK 155 million) and the line for leasing arrangements (DKK 3 million).

Lawsuits

Bavarian Nordic is involved in an arbitration requested by Helmholtz Zentrum München, Deutsches Forschungszentrum für Gesundheit und Umwelt Gmbh (formerly also known as GSF). The arbitration, which was filed in August 2009, is based on two old agreements with Bavarian Nordic from 1994 and 1997 regarding a collaboration on certain recombinant vaccines, which was formally terminated in 2001. The agreements do not emcompass the MVA-BN® patents. Bavarian Nordic has rejected the claim.

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

27 Significant events after the balance sheet date

No significant events have occured since 31 December 2010.

COMPANY ANNOUNCEMENTS

Date	No.	Title
06-01-2010	1	Report on the Results of the Extraordinary General Meeting, held 6 January 2010
08-01-2010	2	Bavarian Nordic today publishes a prospectus in connection with a rights issue of up to 3,975,872 new shares with a nominal value of DKK 10 each at DKK 80 per share (the "Offering")
14-01-2010	3	Insiders trading
14-01-2010	4	Insiders trading
19-01-2010	5	Insiders trading
21-01-2010	6	Insiders trading
26-01-2010	7	PROSTVAC® paper published in Journal of Clinical Oncology
27-01-2010	8	Bavarian Nordic and Oxford BioMedica settle all legal disputes on MVA-BN®
27-01-2010	9	Prospectus supplement no. 1 to prospectus of 8 January 2010 issued by Bavarian Nordic A/S
02-02-2010	10	Bavarian Nordic completes offering
02-02-2010	11	Major Shareholder Announcement
02-02-2010	12	Insiders trading
02-02-2010	13	Bavarian Nordic A/S – Major Shareholder Announcement
26-02-2010	14	Total number of voting rights and share capital in Bavarian Nordic A/S
09-03-2010	15	Bavarian Nordic publishes its annual report 2009
09-03-2010	16	Bavarian Nordic Successfully Completes End of Phase 2 Meeting for PROSTVAC®
15-03-2010	17	Bavarian Nordic Publishes Scientific Data Supporting the Post-Exposure Protection of IMVAMUNE®
17-03-2010	18	FDA Concludes that Bavarian Nordic has Fulfilled all Requirements to Support the Delivery of IMVAMUNE® to the U.S. Government
18-03-2010	19	Bavarian Nordic introduces incentive programme for all employees
30-03-2010	20	Notice convening ordinary general meeting
27-04-2010	21	Interim Report for the period 1 January to 31 March 2010
27-04-2010	22	Report on the Results of the Annual General Meeting, held 27 April 2010
29-04-2010	23	Bavarian Nordic Receives FDA Fast Track Designation for PROSTVAC®
29-04-2010	24	Notice convening extraordinary general meeting
17-05-2010	25	Bavarian Nordic Begins Delivery of IMVAMUNE® to the U.S. Strategic National Stockpile
21-05-2010	26	Insiders trading
25-05-2010	27	Report on the Results of the Extraordinary General Meeting, held 25 May 2010
25-05-2010	28	Bavarian Nordic awards warrants to management and certain employees
31-08-2010	29	Interim Report for the period 1 January to 30 June 2010
15-09-2010	30	Bavarian Nordic issues Financial Calendar for 2011
30-09-2010	31	Bavarian Nordic Realigns for Expansion
05-10-2010	32	Bavarian Nordic's MVA-BN® patent stands in European validity challenge
12-10-2010	33	U.S. Government Exercises Next Part of Bavarian Nordic's Freeze-Dried IMVAMUNE® Contract
13-10-2010	34	Bavarian Nordic Receives NIH Grant to Investigate the Potential of an MVA-BN® based Vaccine against Ebola and Marburg Viruses
09-11-2010	35	Interim Report for the period 1 January to 30 September 2010
30-11-2010	36	Bavarian Nordic A/S launches a private placement at market price
30-11-2010	37	Bavarian Nordic A/S completes a private placement at market price
06-12-2010	38	Bavarian Nordic A/S completes registration of share capital increase and upgrades its expectations to year-end cash preparedness
06-12-2010	39	Major Shareholder Announcement
08-12-2010	40	Bavarian Nordic Receives Special Protocol Assessment Agreement from the FDA for Phase 3 Trial of PROSTVAC®
16-12-2010	41	Bavarian Nordic awards warrants to certain employees
30-12-2010	42	Total number of voting rights and share capital in Bavarian Nordic A/S

Company Announcements in 2011

28-02-2011	1	Bavarian Nordic Announces Start of Randomized Phase 2 Study Comparing PROSTVAC® and Chemotherapy versus Chemotherapy
03-03-2011	2	Bavarian Nordic Enters Into New Research Project to Develop New Cancer Vaccines Supported by the Danish National Advanced Technology Foundation

Company headquarters
Bavarian Nordic A/S
Hejreskovvej 10A
DK-3490 Kvistgård
Denmark
Phone: +45 3326 8383
Fax: +45 3326 8380

CVR-no: 16 27 11 87

Germany
Bavarian Nordic GmbH
Fraunhoferstrasse 13
D-82152 Martinsried
Germany
Phone: +49 89 8565 0030
Fax: +49 89 8565 1333
General Manager: Paul Chaplin

Bavarian Nordic GmbH
Robert-Rössle-Strasse 10
D-13125 Berlin
Germany
Phone: +49 30 9406 3900
Fax: +49 30 9406 3999
General Manager: Paul Chaplin

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

Bavarian Nordic Inc.
1055 Thomas Jefferson St. NW
Suite 400
Washington, DC 20007
USA
Phone: +1 202 403 2136
Fax: +1 202 536 1579

Singapore
(representative office)
Bavarian Nordic A/S
#521, Bukit Batok Street 23,
#04-19,
Singapore 659544
Singapore
Phone: +65 65 13 89 36
Fax: +65 65 61 00 63

Legal advisor
Kromann Reumert
Sundkrogsgade 5
DK-2100 Copenhagen
Denmark

Independent auditors
Deloitte
Statsautoriseret Revisions-
aktieselskab
Weidekampsgade 6
DK-2300 Copenhagen
Denmark

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

Website
www.bavarian-nordic.com

Trademarks
PROSTVAC® and IMVAMUNE® are registered trade marks owned by Bavarian Nordic.

Design and Graphic Production: meyer & bukdahl as