

BAVARIAN NORDIC A/S

Statutory annual corporate governance statement,
cf. Section 107b of the Danish Financial Statements Act

2011

This statement is part of the management statement in the annual report for 2011, covering the financial period 1 January to 31 December 2011. As with the rest of the management statement, this statement is not included in the audit of the annual report.

Management of Bavarian Nordic

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

Board practices

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 2011, the Board held seven 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.

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.

Internal Control and Risk Management

The Company's internal control and risk management systems are stated on **page 34-35** in the annual report.

Corporate Governance in Bavarian Nordic

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

The Company relates to the most recent recommendations from the committee, which were updated in 2011. The current recommendations are found at: <http://www.corporategovernance.dk>

Executive Management believes that the Company is operated in compliance with the guidelines and recommendations that support the Company's business model and that 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. To the greatest extent possible, the recommendations have been incorporated in the Company's annual report and website.

1. The role of the shareholders and their interaction with the management of the company

1.1. Dialogue between the company and its shareholders

1.1.1. The Committee recommends that the central governing body, for example through investor relations activities, ensure an ongoing dialogue between the company and its shareholders in order that the central governing body knows the shareholders' attitude, interests and views in relation to the company and that investor relations material be made available to all investors on the company's website

Yes

1.2. Capital and share structure

1.2.1. The Committee recommends that the central governing body every year evaluate whether the company's capital and share structures continue to be in the interests of the shareholders and the company and account for this evaluation in the management commentary in the annual report and/or on the company's website.

Yes

1.3. General Meeting

1.3.1. The Committee recommends that the supreme governing body and the executive board promote active ownership, including shareholders' attendance at general meetings.

Yes

1.3.2. The Committee recommends that the central governing body resolve or submit to the general meeting the question whether the general meeting shall be conducted by physical attendance or as a partly or entirely electronic general meeting.

Yes

1.3.3 The Committee recommends that proxies given to the supreme governing body allow shareholders to consider each individual item on the agenda.

Yes

1.3.4 The Committee recommends that all members of the supreme governing body and the executive board be present at the general meeting.

Yes

1.4. Takeover bids

1.4.1 The Committee recommends that the central governing body, from the moment it obtains knowledge that a takeover bid will be submitted, do not, without the acceptance of the general meeting, attempt to counter the takeover bid by making decisions which in reality prevent the shareholders from deciding on the takeover bid.

Yes

1.4.2. The Committee recommends that the central governing body give the shareholders the opportunity to decide whether or not they wish to dispose of their shares in the company under the terms offered.

Yes

2. The role of stakeholders and their importance to the company and the company's corporate social responsibility

2.1. The company's policy in relation to its stakeholders

2.1.1. The Committee recommends that the central governing body identify the company's key stakeholders and their main interests in relation to the company.

Yes

2.1.2. The Committee recommends that the central governing body adopt a policy on the company's relationship with its stakeholders, including the investors, and ensure that the interests of the stakeholders are respected in accordance with the company's policy on such issues.

Yes

2.2. Corporate social responsibility

2.2.1. The Committee recommends that the central governing body adopt a policy on corporate social responsibility.

Yes

3. Openness and transparency

3.1. Disclosure of information to the market

3.1.1. The Committee recommends that the central governing body adopt a communication strategy.

Yes

3.1.2. The Committee recommends that information from the company to the market be published in both Danish and English.

Yes

3.1.3. The Committee recommends that the company publish quarterly reports.

Yes

4. The tasks and responsibilities of the supreme and the central governing bodies

4.1. Overall tasks and responsibilities

4.1.1. The Committee recommends that the central governing body determine the company's overall strategy at least once every year with a view to sustaining value creation in the company.

Yes

4.1.2. The Committee recommends that the supreme governing body at least once every year discuss and ensure that the necessary qualifications and financial resources are in place in order for the company to achieve its strategic goals.

Yes

4.1.3. The Committee recommends that the supreme governing body at least once every year define its most important tasks related to the financial and managerial control of the company, including how to supervise the work of the executive board.

Yes

4.1.4. The Committee recommends that the supreme governing body annually discuss the company's activities to ensure diversity at management levels, including equal opportunities for both sexes, and that the supreme governing body set measurable objectives and in the management commentary in the annual report and/or on the company's website give an account of both the objectives and the progress made in achieving the objective.

Yes

4.2. Procedures

4.2.1. The Committee recommends that the supreme governing body review its rules of procedure annually to ensure that they are adequate and always match the activities and needs of the company.

Yes

4.2.2. The Committee recommends that the supreme governing body annually review and approve procedures for the executive board, including establish requirements for the executive board's timely, accurate and adequate reporting to the supreme governing body and for any other communication between the two governing bodies.

Yes

4.3. The chairman and deputy chairman of the supreme governing body

4.3.1. The Committee recommends that a deputy chairman of the supreme governing body be appointed, who must be able to act in the chairman's absence and also act as an effective sounding board for the chairman.

No

The Board of Directors has not appointed a deputy chairman, since the Board of Directors

Recommendations

Complies

believes that the Company's size and complexity does not necessitate such a function.

(The recommendation 4.3.2 is of consequentially reasons not relevant to explain)

4.3.2. The Committee recommends the preparation of a scope of work and task list specifying the tasks, duties and responsibilities of the chairman and deputy chairman.

4.3.3. The Committee recommends that the chairman of the supreme governing body organise, convene and chair meetings to ensure efficiency in the body's work and to create the best possible working conditions for the members, individually and collectively.

4.3.4. The Committee recommends that, if the board of directors in exceptional cases asks its chairman to perform special tasks for the company, including briefly participate in the day-to-day management, a board resolution to that effect should be passed and precautions taken to ensure that the board of directors will maintain responsibility for the overall management and control function. A reasonable distribution of duties must be ensured between the chairman, the deputy chairman, the other members of the board of directors and the executive board. Information about agreements on the chairman's participation in the day-to-day management and the expected duration hereof must be disclosed in a company announcement.

5. Composition and organisation of the supreme governing body

5.1. Composition

5.1.1. The Committee recommends that the supreme governing body annually specify the skills it must have to best perform its tasks and that the specification be posted on the website. Proposals for the nomination/replacement of members of the supreme governing body to be submitted to the general meeting should be prepared in the light hereof.

5.1.2. The Committee recommends that the supreme governing body ensure a formal, thorough and transparent process for selection and nomination of candidates to the supreme governing body. When assessing its composition and nominating new candidates, the supreme governing body must take into consideration the need for integration of new talent and the need for diversity in relation to international experience, gender and age, etc.

5.1.3. The Committee recommends that a description of the nominated candidates' qualifications, including information about other executive functions, e.g. memberships of executive boards, boards of directors and supervisory boards, including board committees, held by the candidates in both Danish and foreign companies as well as information on demanding organisational tasks should accompany the notice convening the general meeting when election of members to the supreme governing body is on the agenda.

5.1.4. The Committee recommends that every year, the annual report contain an account of the composition of the supreme governing body, including its diversity, and of any special skills possessed by the individual members.

5.2. Training of members of the supreme governing body

5.2.1. The Committee recommends that new members joining the supreme governing body be given an introduction to the company

5.2.2. The Committee recommends that the supreme governing body annually assess whether the skills and expertise of its members need to be updated.

5.3. Number of members of the supreme governing body

5.3.1. The Committee recommends that the supreme governing body have only so many members as to allow a constructive debate and an effective decision-making process enabling all members to play an active role.

Yes

Yes

Yes

Yes

Yes

Yes

Yes

Yes

Yes

Yes

Recommendations

Complies

5.3.2. The Committee recommends that in connection with the preparation for each year's general meeting, the supreme governing body consider whether the number of members is appropriate in relation to the requirements of the company.

Yes

5.4. The independence of the supreme governing body

5.4.1. In order for the members of the supreme governing body to act independently of special interests, the Committee recommends that at least half of the members elected by the general meeting be independent persons.

Yes

5.4.2. The Committee recommends that at least once every year, the supreme governing body list the names of the members who are regarded as independent persons and also disclose whether new candidates for the supreme governing body are considered independent persons.

Yes

5.5. Members of the supreme governing body elected by the employees

5.5.1. The Committee recommends that the individual company explain, in the company's annual report or on its website, the system of employee-elected board members and the company's use hereof in companies where the employees have chosen to apply the provisions of the Companies Act on employee representation.

Yes

5.6. Meeting frequency

5.6.1. The Committee recommends that the supreme governing body meet at regular intervals according to a predetermined meeting and work schedule or when meetings are deemed necessary or appropriate as required by the company and that the number of meetings held be disclosed in the annual report.

Yes

5.7. Expected time commitment and the number of other executive functions

5.7.1. The Committee recommends that each member of the supreme governing body assess the expected time commitment for each function in order that the member does not take on more functions than he/she can manage in a satisfactory way for the company.

Yes

5.7.2. The Committee recommends that the annual report contain the following information about the members of the supreme governing body: the member's occupation, the member's other executive functions, e.g. memberships of executive boards, boards of directors and supervisory boards, including board committees, in Danish and foreign companies as well as demanding organisational tasks, and the number of shares, options, warrants, etc. that the member holds in the company and its consolidated companies and any changes in such holdings during the financial year.

Yes

5.8. Retirement age

5.8.1. The Committee recommends that the company's articles of association fix a retirement age for members of the supreme governing body and that the annual report contain information on such retirement age as well as the age of each member of the board of directors.

The Company has not fixed an age limit for members of its Board of Directors. The members of the Board of Directors are elected by the Company's shareholders, and re-election by the shareholders confirms the confidence in the individual Board members, irrespective of their age. This issue is evaluated regularly as part of the overall assessment of the work of the Board of Directors and the Executive Management. Information on the age of the members of the Board of Directors is stated in the Company's annual report and on the Company's website.

No

5.9. Election period

5.9.1. The Committee recommends that members of the supreme governing body elected by the general meeting be up for re-election every year at the annual general meeting.

Yes

5.9.2. The Committee recommends that the annual report state when the individual member of the supreme governing body joined the body, whether the member was re-elected and when the current election period expires.

Yes

5.10. Board committees

5.10.1. The Committee recommends that the company publish the following information in the management commentary in its annual report or on the company’s website: the terms of reference for the board committees, important activities of the committees during the year and the number of meetings held by each committee, and the names of the members of each committee, including the chairmen of the committees, as well as information on which members are independent members and which members have special qualifications.

Yes

5.10.2. The Committee recommends that a majority of the members of a board committee be independent members.

Yes

5.10.3. The Committee recommends that the supreme governing body establish an actual audit committee.

Yes

5.10.4. The Committee recommends that the following be taken into account in composing the audit committee: the chairman of the supreme governing body should not be chairman of the audit committee, and between them, the members should possess such an amount of expertise and experience as to provide an updated insight into and experience in the financial, accounting and audit conditions of companies whose shares are admitted to trading on a regulated market.

Yes

5.10.5. The Committee recommends that, prior to the approval of the annual report and other financial reports, the audit committee monitor and report to the supreme governing body about: significant accounting policies, significant accounting estimates, related party transactions, and uncertainties and risks, including in relation to the outlook.

Yes

5.10.6. The Committee recommends that the audit committee: annually consider whether there is a need for an internal audit function, and if so, formulate recommendations on selecting, appointing and removing the head of the internal audit function and on the budget of the internal audit function, and monitor the executive board’s follow-up on the conclusions and recommendations of the internal audit function.

Yes

5.10.7. The Committee recommends that the supreme governing body establish a nomination committee with at least the following preparatory tasks: describe the qualifications required in the two governing bodies and for a given position, state the expected time commitment for a position and evaluate the balance of skills, knowledge and experience available in the two governing bodies; annually evaluate the structure, size, composition and performance of the governing bodies and make recommendations to the supreme governing body with regard to any changes; annually evaluate the skills, knowledge and experience of the individual members of the governing bodies and report such details to the supreme governing body; consider proposals submitted by relevant persons, including shareholders and members of the governing bodies, for candidates for executive positions, and identify and recommend to the supreme governing body candidates for the governing bodies.

No

The Board of Directors has not set up a nomination committee. Nomination matters are undertaken by the chairman of the Company’s Board of Directors who nominates new candidates on the basis of the qualifications required and presents these to the Board of Directors, which conducts the final nomination

5.10.8. The Committee recommends that the supreme governing body establish a

No

remuneration committee with at least the following preparatory tasks: make proposals, for the approval of the supreme governing body prior to approval at the general meeting, on the remuneration policy, including the overall principles of incentive pay schemes, for members of the supreme governing body and the executive board; make proposals to the supreme governing body on remuneration for members of the supreme governing body and the executive board and ensure that the remuneration is consistent with the company's remuneration policy and the evaluation of the performance of the persons concerned. The committee should have information about the total amount of remuneration that members of the supreme governing body and the executive board receive from other companies in the group, and oversee that the information in the annual report on the remuneration of the supreme governing body and the executive board is correct, true and sufficient.

The Board of Directors has not set up a remuneration committee. The overall principles for the performance based salary of the Board of Directors and the Corporate Management have been defined in the Company's overall guidelines for incentive pay to be recommended and adopted by the entire Board of Directors prior the approval of the general meeting.

(The recommendation 5.10.9 is of consequentially reasons not relevant to explain)

5.10.9. The Committee recommends that the remuneration committee do not consult with the same external advisers as the executive board of the company.

See item 5.10.8

5.11. Evaluation of the performance of the supreme governing body and the executive board

5.11.1. The Committee recommends that the supreme governing body undertake an annual evaluation of the performance and achievements of the supreme governing body and of the individual members of the body.

5.11.2. The Committee recommends that the chairman be in charge of the evaluation of the supreme governing body, that the outcome be discussed in the supreme governing body and that the details of the procedure of self-evaluation and the outcome be disclosed in the annual report.

5.11.3. The Committee recommends that the supreme governing body at least once every year evaluate the work and performance of the executive board in accordance with pre-defined criteria.

5.11.4. The Committee recommends that the executive board and the supreme governing body establish a procedure according to which their cooperation is evaluated annually through a formalised dialogue between the chairman of the supreme governing body and the chief executive officer and that the outcome of the evaluation be presented to the supreme governing body.

6. Remuneration of members of the governing bodies

6.1. Content and form of the remuneration policy

6.1.1. The Committee recommends that the supreme governing body adopt a remuneration policy applicable to the supreme governing body and the executive board.

The Company does not have an overall formalised remuneration policy since it is not deemed expedient. The general meeting approves the remuneration of the Board of Directors and determines the remuneration of the Corporate Management. In determining the remuneration, the Company considers the interests of the Company and the shareholders and ensures that the remuneration is reasonable relative to the duties and responsibilities undertaken. The Company has adopted overall guidelines for incentive remuneration of the Board of Directors and the



No

Yes

Yes

Yes

Yes

No

Recommendations

Complies

Corporate Management that specify the Company's use of this type of remuneration.

(The recommendations 6.1.2, 6.1.3, 6.1.4, 6.1.5, 6.2.1 and 6.2.2 are of consequentially reasons not relevant to explain)

6.1.2. The Committee recommends that the remuneration policy and any changes to the policy be approved by the general meeting of the company.

See item 6.1.1.

6.1.3. Committee recommends that the remuneration policy include a thorough description of the components of the remuneration for members of the supreme governing body and the executive board.

See item 6.1.1.

6.1.4. The Committee recommends that the remuneration policy include: the reasons for choosing the individual components of the remuneration, and a description of the criteria on which the balance between the individual components of the remuneration is based.

See item 6.1.1.

6.1.5. The Committee recommends that, if the remuneration policy includes variable components, limits be set on the variable components of the total remuneration package, a reasonable and balanced linkage be ensured between remuneration for governing body members, expected risks and the value creation for shareholders in the short and long term, there be clarity about performance criteria and measurability for award of variable components, and there be criteria ensuring that vesting periods for variable components of remuneration agreements are longer than one calendar year.

See item 6.1.1.

6.1.6. The Committee recommends that remuneration of members of the supreme governing body do not include share or warrant programmes.

The Company includes warrants in its remuneration of the Board of Directors since the Company believes that warrants ensure a close correlation between the structure of the Board of Director's remuneration and the interests of the shareholders. This is common practice in the international biotech industry.

6.1.7. The Committee recommends that if members of the executive board receive share-based remuneration, such programmes be established as roll-over programmes, i.e. the options are granted periodically and should not be exercisable earlier than three years from the date of grant. An explanation of the relation between the redemption price and the market price at the time of grant should be provided.

6.1.8. The Committee recommends that, in exceptional cases, companies should be able to reclaim in full or in part variable components of remuneration that were paid on the basis of data, which proved to be manifestly misstated.

6.1.9. The Committee recommends that termination payments should not amount to more than two years' annual remuneration.

6.2. Disclosure of the remuneration policy

6.2.1. The Committee recommends that the remuneration policy be clear and easily understandable and that it be disclosed in the annual report and posted on the company's website.

See item 6.1.1.

No

No

No

No

No

Yes

Yes

Yes

No

Recommendations

Complies

6.2.2. The Committee recommends that the company's remuneration policy and compliance with this policy be explained and justified in the chairman's statement at the company's general meeting.

No

See item 6.1.1.

6.2.3. The Committee recommends that the total remuneration granted to each member of the supreme governing body and the executive board by the company and other consolidated companies be disclosed in the (consolidated) financial statements and that the linkage with the remuneration policy be explained.

Yes

6.2.4. The Committee recommends that the details of any defined-benefit schemes offered to members of the supreme governing body or the executive board and the actuarial value of such schemes as well as changes during the year be included as part of the information on the total remuneration.

Yes

6.2.5. The Committee recommends that the most important aspects of retention and severance programmes be disclosed in the company's annual report.

Yes

6.2.6. The Committee recommends that the proposal for remuneration of the supreme governing body for the current financial year be approved by the shareholders at the general meeting.

Yes

7. Financial reporting

7.1. Other relevant information

7.1.1. The Committee recommends that the annual report and other financial reports be supplemented by additional financial and non-financial information, if deemed necessary or relevant in relation to the information needs of the recipients.

Yes

7.2. Going concern assumption

7.2.1. The Committee recommends that, upon consideration and approval of the annual report, the supreme governing body decide whether the business is a going concern, including supporting assumptions or qualifications where necessary.

Yes

8. Risk management and internal control

8.1. Identification of risks

8.1.1. The Committee recommends that the central governing body at least once every year identify the most important business risks associated with the realisation of the company's strategy and overall goals as well as the risks associated with financial reporting.

Yes

8.1.2. The Committee recommends that the executive board currently report to the supreme governing body on the development within the most important areas of risk and compliance with adopted policies, frameworks etc. in order to enable the supreme governing body to track the development and make the necessary decisions

Yes

8.2. Whistleblowing

8.2.1. The Committee recommends that the supreme governing body decide whether to establish a whistleblowing scheme for expedient and confidential notification of possible or suspected wrongdoing

Yes

8.3. Openness about risk management

8.3.1. The Committee recommends that the management commentary in the annual report include information about the company's management of business risks

Yes

9. Audit

9.1. Contact to auditor

9.1.1. The Committee recommends that the supreme governing body maintain a regular dialogue and exchange of information with the auditor.

Yes

9.1.2. The Committee recommends that the auditor agreement and auditors' fee be agreed between the supreme governing body and the auditor on the basis of a recommendation from the audit committee.

Yes

9.1.3. The Committee recommends that the supreme governing body and the audit committee meet with the auditor at least once every year without the executive board present. This also applies to the internal auditor, if any.

Yes

9.2. Internal audit

9.2.1. The Committee recommends that the supreme governing body, on the basis of a recommendation from the audit committee, once every year decide whether to establish an internal audit for support and control of the company's internal control and risk management systems and state the reasons for its decision in the annual report.

Yes