Medivir

2012 Annual Report

2012 has been an eventful year during which we have made considerable progress in a number of areas. The highlight was the positive phase III data for simeprevir reported at the end of the year. The results of three separate global studies all showed robust efficacy for simeprevir, with a high cure rate, good safety profile and reduced treatment times. We are very proud that our research and cutting edge expertise in the field of protease inhibitors have contributed to an important step forward towards the next generation of treatment for hepatitis C.

Medivir is a research-based pharmaceutical company with a focus on infectious diseases. Our leading candidate drug is simeprevir, for the treatment of hepatitis C, and Medivir intends to submit registration applications for simeprevir during the first half of 2013. Medivir also has a broad product portfolio of prescription pharmaceuticals that are marketed in the Nordic region.

555 MSEK The Group's net turnover

297 MSEK The Group's cash in hand

9 Research projects

The operations' **registered office is in Stockholm.** The company has **162** employees. The workforce is highly educated and **34** per cent

Research & Development

Medivir works with the entire development chain, from the early research to the finished pharmaceutical product on the market. Medivir's research focuses on infectious diseases and has cutting edge expertise in the chemistry and biology of the enzyme classes, polymerase and protease.

The research portfolio comprises nine pharmaceutical projects, five of which are being conducted in collaboration with partners. Seven of the projects focus on the development of antiviral pharmaceuticals, of which four are conducted in the hepatitis C sphere. The protease inhibitor, simeprevir, has been developed by Medivir and Janssen. Positive simeprevir phase III data was reported in December 2012 that will, together with previous phase II data, form the basis for registration applications in the USA, Europe and Japan.

Pharmaceuticals

Medivir markets pharmaceuticals in the Nordic market. The product range comprises approximately 15 prescription pharmaceuticals in a variety of different therapeutic spheres. The best-known and best-established products include Citodon, Laxabon, Lithionit, Mollipect and Paraflex. The Group's pharmaceutical sales totalled SEK 165 million in 2012.

Parallel imports of pharmaceuticals to the Swedish market are conducted via the wholly owned subsidiary company, Cross Pharma. Net turnover from parallel imports totalled SEK 384 million.

A strong position in the hepatitis C sphere, coupled with one of the most promising compounds that is currently in the registration phase. A pharmaceutical portfolio that generates stable sales and profitability.

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In the event of any discrepancies between the Swedish and the English Annual Report, the former should have precedence.

15 Pharmaceuticals on the Nordic market

OUR **3** best-selling brands: Citodon Lithionit Mollipect

16 Nationalities workning in the company

hold doctorates. The company **was listed in 1996** and is traded on the Nasdaq OMX Stockholm Stock Exchange's Mid Cap list.

The year in brief

Positive phase III data has been reported for our candidate drug, simeprevir, showing that simeprevir in combination with interferon and ribavirin cures a significantly higher percentage of patients than are cured by today's standard treatments, and with no additional side effects.

Three interferon-free combination trials of simeprevir with or without supplementary ribavirin, have begun. Two further interferon-free trials are scheduled to begin in the first half of 2013.

The results of the PILLAR and ASPIRE phase II trials show good efficacy and safety for simeprevir, even in the most difficult-to-treat patient groups.

Phase I trials of Medivir's in-house developed cathepsin K inhibitor (MIV-711) for the treatment of bone disorders have begun.

The marketing department has begun preparations for the planned market introduction of simeprevir in the Nordic region, where Medivir owns the rights. Our partner, Janssen, has formed a new division, Janssen Therapeutics EMEA, for the launch of simeprevir within Europe, the Middle East and Africa. In the USA, simeprevir will be launched by Janssen Pharmaceuticals Inc.

Sales of our prescription pharmaceuticals have continued to be both stable and highly profitable. Our best-selling pharmaceuticals were Citodon, Lithionit and Mollipect.

A partnership has been launched with the Swedish University of Agricultural Sciences (SLU) in Uppsala with the aim of identifying and developing new antibiotics for the treatment of drug-resistant bacteria.

Early, preclinical antiviral research programmes have been acquired from Novadex Pharmaceuticals AB. The acquisition includes intellectual property rights for the projects and prodrug technologies.

One of the most important years in Medivir's history

I'm looking back on a year that will be engraved in Medivir's history. Intensive, interesting, innovative – there are many words that could be used to describe the past year, but the bottom line is that it's been a year of impressive results and successes in a number of different areas.

Medivir is now a fully integrated pharmaceutical company whose operations range from early phase research to clinical development plus the sale and marketing of well-established pharmaceuticals in the Nordic region. The past year has seen us continue to develop our research organisation and the commercial organisation. We have also, at the same time, laid the foundations for collaboration and knowledge transfer in every part of the company. Motivated and committed employees are vital if we are to be successful, which is why we have instituted an internal management training programme during the year. In tandem with this, we have also engaged our employees in discussions about the company's shared core values. We have carried out group exercises during which we have identified the values that shall characterise our operations and our conduct. The process of drawing up a shared set of core values has created added value on many levels, both internally and externally, and I am now looking forward to having the chance to implement this work fully during the year ahead.

Fantastic development

The company's development over the course of its almost 25-year history is impressive. We have progressed from being a company that focused exclusively on research with no income-generating products to being a pharmaceutical company with a product portfolio that has generated sales in excess of SEK 555 million over the past year. Ever since the company was founded, the focus of our research has

Intensive Interesting

Innovative Impressive

been on virology. We have single-mindedly pursued development and progress based on our cutting edge expertise in the polymerase and protease enzyme classes. Infectious diseases are a huge global problem and large numbers of people fall ill with some form of viral infection every day. The need for novel, innovative, pharmaceutical products is considerable, and there is substantial demand for effective treatments with few side effects.

Leading position in hepatitis C

We currently enjoy a leading position in the hepatitis C sphere, and the goal for our research is the ability to offer severely ill patients a better form of treatment. We are working with our partner, Janssen, on the development of simeprevir, which is a new generation protease inhibitor. Positive, solid phase III data for simeprevir in triple combination treatment with pegylated interferon and ribavirin, was presented in December 2012. The three trials confirm the positive results we have seen from previous trials – high cure rates, a good safety profile and very good efficacy in all patient groups, even those who are most severely ill with very advanced liver disease. This is one of the biggest events in Medivir's history, partly because it will offer substantially better treatment options for patients with severe liver disease, and partly, because simeprevir may well generate extremely good revenues for the company. In February 2013 the first application for market registration of simeprevir submitted to the Japanese Ministry of Health & Welfare. More applications will be submitted during the year and if everything goes as we hope, this will result in approval being granted towards the end of the year.

Strong research and pharmaceutical portfolio

Medivir is a relatively small company, but, nevertheless, we have a strong research portfolio. Simeprevir will be evaluated in five different completely oral, interferon-free, direct-acting, antiviral combination therapies, all of which is important for future treatment. The results are expected to emerge on a rolling basis starting in 2013. We also have two internally run hepatitis C projects that have made good progress during the year. In addition to these projects, we are also carrying out research into the treatment of neuropathic pain and in late 2012, preclinical models produced promising results. Our aim now is to select a suitable candidate drug for further development. We also have a research project in the field of bone disorders and have initiated phase I trials in this area, with the results expected during the first half of 2013. Our ambition is then to continue development of that project through a partnership. We have excellent experience of working with partners and this approach is a natural part of our business model. Partnerships enable us to reduce risks, cut costs, and generate revenues earlier than if we had developed the project in-house. The fact that large, world-leading companies choose to collaborate with us is also clear proof of the calibre of our innovativeness and the high quality of our work.

We currently market fifteen prescription pharmaceuticals in the Nordic market and sales have remained both stable and well profitable over the past year. Our best-known – and our best-selling – brands include Citodon, Laxabon, Lithionit, Mollipect and Paraflex. In 2013, we will be laying the groundwork for a number of activities in relation to a planned market introduction of simeprevir in the Nordic region, where we own the marketing rights. We will also strengthen our presence in the Nordic market by establishing our own workforces in the various Nordic countries.

We have also worked successfully in 2012 to develop our subsidiary Cross Pharma and parallel imports, and as a result, the product portfolio has been broadened and net turnover has increased.

Faith in the future

I am very optimistic about what the future holds for Medivir and I am convinced that an eventful year lies ahead. Our goal is to become a rapid-growth Swedish pharmaceutical company that operates in the Nordic market and develops pharmaceuticals that satisfy massive global demand. Sources for optimism in 2013 include the market approval for simeprevir we expect to gain in late 2013, the data we anticipate obtaining from the various interferon-free combination trials involving simeprevir, and the development of our other research projects in ways that result in increased value. We are, of course, also looking forward to seeing our pharmaceutical portfolio grow and continue to generate stable sales. There is, in other words, a great deal to look forward to and sound reasons for confidence and considerable faith in what the future holds for Medivir.

March 2013

Maris Hartmanis
CEO

Moving ahead as an integrated and dynamic pharmaceutical company

We focus primarily on the development of novel pharmaceuticals for the treatment of infectious diseases – an area in which there are massive and global medical needs.

Medivir is an integrated and dynamic pharmaceutical company with a research organisation and a commercial organisation. Coordinating know-how and experience between the different parts of the company is a key component of our efforts to become a profitable Swedish pharmaceutical company.

Medivir's operations currently comprise the entire pharmaceutical chain, from early research phases to the development of new pharmaceuticals, and the sale and marketing of both in-house developed and acquired pharmaceutical products.

Medivir's operations are based on knowledge transfer and interaction between different skill sets within the pharmaceutical sphere. The aim is to build an holistic view of the opportunities and risks inherent in different projects, both within different spheres of research and for established pharmaceuticals. This interaction and "big picture" approach is an important basis for Medivir's future strategic development.

Meeting massive medical needs

Research into the polymerase and protease enzyme classes, and the ways in which we can inhibit their undesirable actions in the pathology of different diseases, makes up the expertise that lies at the heart of our research and development work. We focus primarily on the development of novel pharmaceuticals for the treatment of infectious diseases – an area in which there are massive and global medical needs.

The road ahead

We have in-depth expertise and extensive experience of developing and running projects from the early research phase to the clinical development phase. We have also, over the years, built up an internationally competitive business that makes us an attractive partner for the major pharmaceutical companies with a global presence. Today's Medivir has a stable platform from which we can develop and become a profitable, rapid-growth pharmaceutical company with our own marketing organisation in the Nordic region. A continued focus on establishing additional global partnerships for the production of novel, innovative, pharmaceuticals is an important component of this development process.

Core values

We are passionate and dedicated in our efforts to develop and supply innovative pharmaceuticals that improve people's health and quality of life.

We are an agile and collaborative pharmaceutical company with an R&D focus on infectious diseases and a leading position in the field of hepatitis C.

Business concept

To develop pharmaceuticals for global sale, primarily in the infectious diseases sphere, and to commercialise pharmaceuticals in the Nordic market.

Strategic focus

Ongoing development of our research and development:

- Continued focus on hepatitis C
- Continued focus on infectious diseases
- Broaden the research operations and evaluate new therapeutic fields, based on proteases and polymerases

Establish new partnerships and collaborations:

- Maintain existing and establish new collaborations in both the research and development and commercial operations spheres

Continued expansion of the commercial operations:

- Strengthen the organisation and plan for a Nordic market introduction of simeprevir
- Add new pharmaceuticals to the existing portfolio in the Nordic market
- Continue to develop the commercial platform while retaining healthy profitability

Business model

Medivir's business model is based on interaction between its R&D operations and its commercial operations, and on external interaction with a number of collaborative partners.

Collaborations

Partnerships spread the risks while simultaneously ensuring that our research projects are conducted efficiently and with access to the right skillsets and financial capacity. Partnerships also broaden the pharmaceutical portfolio.

R&D

Our research projects are conducted both in-house and in partnership with other parties. At the year-end, the research portfolio comprised nine projects, four of which are conducted in-house.

Financing

Pharmaceuticals

Sales

The sales organisation markets, sells and manages both in-house developed and inlicensed pharmaceuticals. Parallel imports for the sale of pharmaceuticals on the Swedish market are conducted via the wholly owned subsidiary, Cross Pharma AB. Sales of pharmaceuticals generate a stable cash flow that finances, in part, the research and development work.

Outlicensing

Candidate drugs are outlicensed to other research or pharmaceutical companies as part of our efforts to minimise risks, enhance the efficiency of the development process, cut costs, and generate income.

Acquisitions

Projects that are a good fit for our research profile can be acquired or inlicensed from other research or pharmaceutical companies.

Acquisitions

Pharmaceuticals that are a good fit for our profile can be acquired/inlicensed from other pharmaceutical companies.

Important events in Medivir's history

2012
Positive phase III data reported for simeprevir, confirming that treatment with simeprevir in combination with interferon and ribavirin results in high cure rates with a good safety profile, and reduced treatment times.

2011
Global phase III trials of simeprevir begin.
The North American marketing rights to Xerclear are sold to Meda.
BioPhausia acquired in order to strengthen the commercial platform.

2010
Meda licenses the sales and marketing rights for Xerclear for North America, Mexico and Canada. Corresponding rights licensed by GlaxoSmithKline for OTC sales in Europe.

2009
Xerclear approved for sale in certain European markets and the US market.

2006
Phase III trials of Xerclear begin.

2004
Hepatitis C agreement signed with Tibotec/Janssen for simeprevir.

2000
Mimetrix UK acquired in order to strengthen and expand within the protease sphere

1996
Medivir listed on the Stockholm Stock Exchange. Collaboration with Abbott begins

1995
CCS, Clean Chemical Sweden AB, a Sweden-based manufacturer of skincare products, acquired.

1992
Collaboration agreements entered into with Eli Lilly for HIV, and with Welcome.

1989
Collaboration agreement entered into with American Cyanamid for HIV

1988
Medivir founded.

Our strategy remains the same

In 2011, we laid the foundations for the new Medivir with the acquisition of BioPhausia, adding a pharmaceutical portfolio and a commercial organisation to an already established and successful research company.

For a number of years now, Medivir has demonstrated its ability, as a medium-sized research company, to successfully generate projects, particularly in the field of infectious diseases. The projects were either outlicensed to partners or, as in the case of Xerclear, conducted from start to finish. The flagship of the research work at present is simeprevir, for the treatment of hepatitis C, which has given Medivir a unique position amongst medium-sized European pharmaceutical companies in that we expect to obtain market approval for simeprevir in the initial launch markets in late 2013. Medivir holds the Nordic marketing rights for simeprevir while sales in other countries will be made via Janssen. Medivir will receive royalties from these sales.

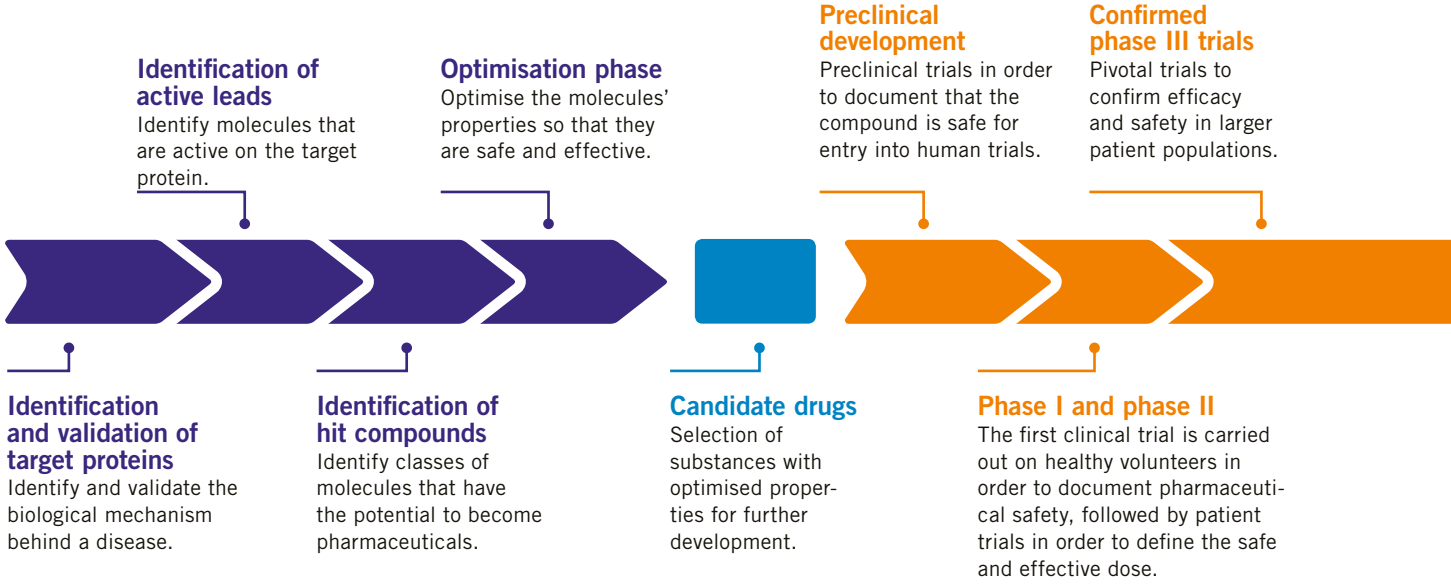
Our strength, as far as the research operations are concerned, will continue to lie in the early research phase. We aim to further enhance the efficiency of our research process and to this end, we place great emphasis on implementing new methods and technologies and on bringing specific expertise on board for the company.

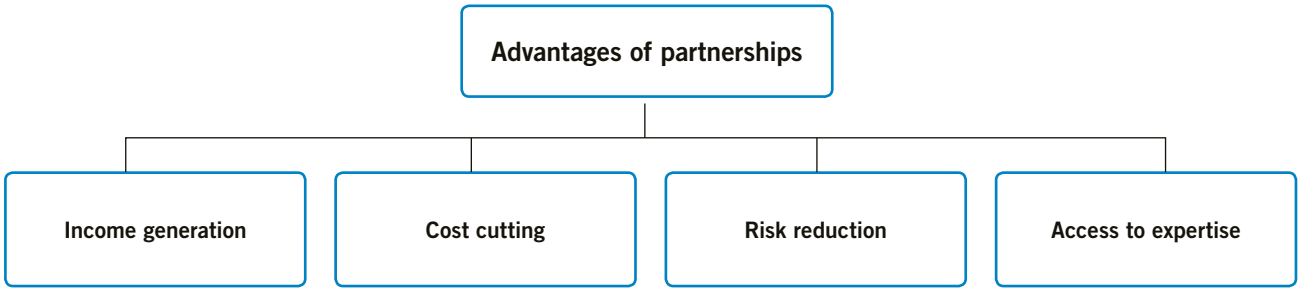
The acquisition of Novadex's assets during the year has strengthened our position in the fields of antiviral treatments and hepatitis C. The new collaboration agreement with the Swedish University of Agricultural Sciences (SLU) for research in the antibacterial sphere is a natural next step in the infectious diseases field, given the widespread unanimity that there is a massive medical need for new antibiotics for the treatment of severe infections.

Commercial organisation and portfolio

Within the commercial operations, we focus on adding new pharmaceuticals to the existing portfolio for the Nordic market, through continuous evaluation of pharmaceuticals and

The entire pharmaceutical development process takes 10-15 years





The above model summarises Medivir's view of the principal advantages and benefits gained from entering into partnerships and collaborations.

opportunities. This work is paralleled by ongoing work on the existing portfolio with the aim of increasing profitability.

The process of gaining approval for simeprevir is ongoing and, all being well, will be followed by the planned market introduction on to the Nordic market, where we own the rights. This will probably take place during the first half of 2014.

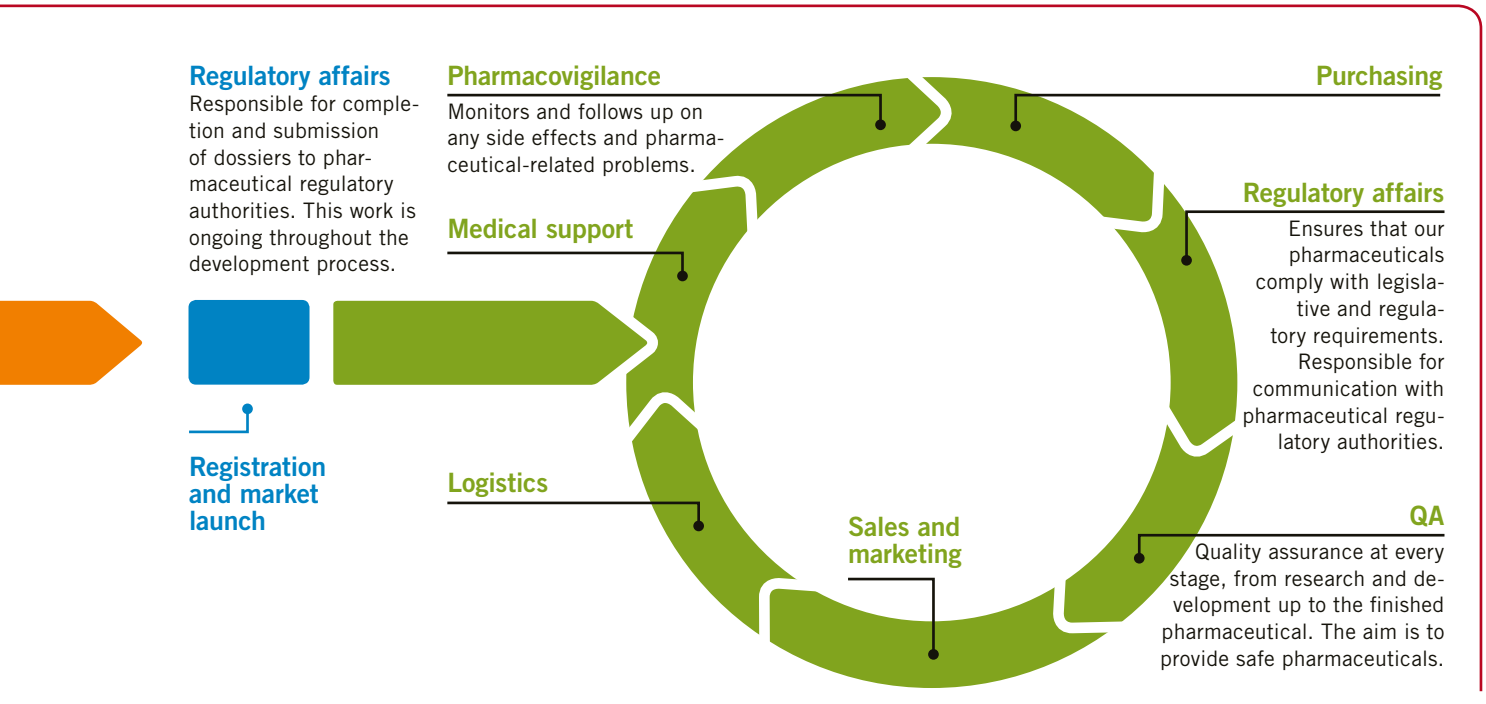
The next few years will also see us working to build an efficient sales organisation for specialist pharmaceuticals with the aim of generating optimum conditions for the acquisition of new pharmaceuticals. A stronger presence in the Nordic market will continue to be a high priority concern for Medivir.

Expertise throughout the value chain

The core of Medivir's strategic development and expansion is based on ensuring we possess the expertise required to carry out the various stages in the value chain that are critical to the successful development of our pharmaceutical projects. Medivir buys in services and expertise, e.g. from contract research organisations (CROs), as necessary. In-depth, in-house expertise is a decisive factor if we are to be successful in setting high standards in our outsourcing specifications, guarantee quality and be a good partner.

The basis of Medivir's business model in the research arm of its operations will continue to stretch from early research to clinical phase IIa ("proof of concept"). We will then seek out partnerships with other pharmaceutical companies in order to continue the clinical development process.

The early clinical research within Medivir is conducted in partnership with contract research companies. Medivir plans the clinical trials in consultation with these companies and experts in the field in order to obtain the data required to ensure value optimisation for its project and the ability to outlicense them.



Our research and development

Medivir is currently conducting several projects that aim to identify and develop inhibitors of important target proteins in an attempt to meet the extensive global medical need within the hepatitis C sphere.

Medivir is an international leader in the field of polymerase and protease inhibitor research and development, particularly with regard to infectious diseases.

Medivir's focus, ever since the company was founded back in 1988, has been on the development of new pharmaceuticals to treat viral diseases. This was initially based on in-depth knowledge of the chemistry and biology of polymerase inhibitors – a field that essentially entails identifying and developing molecules that block polymerase – one of the most important enzymes in virus replication. Over the years, our knowledge of different infection and replication mechanisms increased and new virus-specific target proteins were identified, resulting in new opportunities to combat viruses. Medivir then expanded its scientific platform to include research and development in the field of protease inhibitors. Simeprevir is one example of the protease inhibitors we have developed through this work.

Focus on hepatitis C

There is an intensive widespread focus on identifying and developing new pharmaceuticals for the treatment of hepatitis C, and a combination of several direct acting antiviral agents with different mechanisms of action will be required in order to achieve optimum treatment efficacy, without severe side effects, and with a short treatment time. Medivir is currently conducting four projects that aim to identify and develop inhibitors of the three important target proteins, NS3 protease, NS5B polymerase and NS5A (part of the replication complex), in an attempt to meet the extensive medical need within the hepatitis C sphere. Two of our projects are being conducted in partnership with Janssen and two are completely in-house and do not, as yet, involve any partners. We have a long tradition within the company of working extensively with both industrial and academic external partners worldwide, and with specific CROs.

Medivir is also conducting research and development work on protease inhibitors outside the virus sphere. A cathepsin K inhibitor for the treatment of bone disorders, such as arthritis and osteoporosis, is one example of this. The project is currently in clinical development phase I. Another project, currently in the preclinical optimisation phase, aims to develop a cathepsin S inhibitor, primarily for the treatment of neuropathic pain.

Hepatitis C – the silent epidemic

Between 3 and 4 million people are infected every year with the hepatitis C virus, which damages the liver. The World Health Organisation (WHO) calculates that approximately 170 million people – between 2 and 3 per cent of the world's population – are chronically infected by the hepatitis C virus.

Large numbers of people carry the virus without even being aware that they are infected because it takes a long time before they begin to develop symptoms. Many of those who carry the virus were infected in the 1960s and 70s. Researchers consequently fear a sharp increase in the number of people with pathologies caused by the hepatitis C virus in the period up to 2025 as the symptoms of the disease start presenting in the next few years. Hepatitis C can justifiably be called the silent epidemic.

Hepatitis C is a disease that causes severe damage to the liver – damage that can, in the long term, prove fatal. The disease is classified as a public health hazard disease, which means that all cases discovered must be reported and monitored by specialist infectious disease physicians and infectious disease control institutes. Hepatitis C is also classified as a disease subject to mandatory contact tracing, which means that anyone infected by the disease must comply with guidelines drawn up under the provisions of the Swedish Communicable Diseases Act in order to avoid the further spread of the disease.

Disease transmission and symptoms

There are six different genotypes of the hepatitis C virus: genotypes 1-6. The virus is found worldwide, but is most common in northern Africa and southern Asia. Genotype 1, which is the hardest to treat, is most common in the west.

Hepatitis C is spread through infected blood. Many people are infected as a result of intravenous drug abuse (the most common transmission vector in the west nowadays), but the infection can also be spread via contact with wounds to the skin or mucous membranes or via non-sterile medical equipment. The virus was also transmitted via blood transfusions in Sweden, prior to 1992, but all blood is now tested and the risk of becoming infected by the Swedish medical system nowadays is very small.

Once the virus has entered the circulatory system, it is carried in the blood to the liver, which becomes infected with hepatitis C.

The development of a hepatitis C infection, and its prognosis, varies. When a person is infected, it is rare for them to feel any immediate symptoms of a viral infection. Some people will experience transitory symptoms, such as tiredness, muscular and joint pain, loss of appetite and, sometimes, a mild fever. Approximately one in every five people infected self-heals the disease within a year of becoming infected, but for approximately 70 per cent of people, the infection results in chronic liver disease. Once infected by the hepatitis C virus, the person will be a carrier of the disease for many years and sometimes for the rest of their lives. Around 20 per cent of those infected by the hepatitis C virus will develop cirrhosis of the liver, generally after about 20 years of chronic infection and each year, between 1 and 4 per cent of those who have developed cirrhosis of the liver go on to develop cancer of the liver as well.

> "There is a considerable need for new forms of treatment, particularly the difficult-to-treat genotype 1."

Treatment

There is no vaccine against hepatitis C. Protection against hepatitis C takes the form of establishing routines to prevent blood-borne transmission, such as testing transfusion blood and instituting rules for blood donors, needle exchange programmes, avoiding multiple-use ampoules, and using gloves in contact with infected blood.

Hepatitis C treatment varies depending on the genotype of the virus with which an individual is infected. The objective of treatment for chronic hepatitis C viral infection is to prevent the patient developing cirrhosis of the liver, which leads to an increased risk of liver failure and/or liver cancer. Every patient is assessed on the basis of the benefit the treatment may produce for the individual patient, and not all patients currently receive antiviral treatment. Important factors to be taken into account when deciding on treatment include quality of life, the patient's psychosocial situation, and their anticipated remaining lifespan.

Patients with genotype 1 viral infections are usually treated nowadays with pegylated interferon in combination with ribavirin and, since 2011, with a supplemental first generation protease inhibitor, while patients with genotype 2-6 infections are treated exclusively with pegylated interferon and ribavirin.

There is a considerable need for new forms of treatment, particularly for patients with the difficult-to-treat genotype 1 infection. The primary objective is a treatment that increases the percentage of patients cured. Reduced treatment times with a lessened pill burden and fewer side effects are also important. The goal of the research currently taking place is, furthermore, the complete replacement of pegylated interferon and ribavirin, as they have severe side effects.

Sources: WHO, the Swedish Institute for Communicable Disease Control, the Swedish Medical Products Agency

Simeprevir closer to market as a cornerstone of tomorrow's hepatitis C treatments

Positive phase III data for simeprevir was reported in 2012. Medivir expects to submit a registration application in the first half of 2013 for simeprevir in combination with pegylated interferon and ribavirin.

Chronic hepatitis C virus genotype 1 infection is the most common type of infection with the virus and the hardest to treat. Simeprevir is being developed for this group of patients, who are difficult to treat, and works by inhibiting the hepatitis C virus' protease and hence blocking viral replication. Simeprevir is administered in capsule form (150 mg) once daily. The clinical development, which is being conducted in partnership between Medivir and Janssen R&D, initially aimed to document triple therapy with simeprevir in combination with pegylated interferon and ribavirin (PegIFN/RBV). Positive data from three global phase III trials were reported in late 2012 and this data will now form the basis for registration applications which the partners intend to submit in the USA, EU and Japan during the first half of 2013. (n February 2013 the first application for market registration of simeprevir submitted to the Japanese Ministry of Health & Welfare.) Additional phase III trials on various patient groups, including HIV patients with hepatitis C infections, patients infected with hepatitis C genotype 4, and patients in other regions, including China, are now in progress.

Final analysis of phase IIb – high efficacy even in difficult-to-treat patient groups

Hepatitis C patients are usually divided into two groups: previously untreated patients (treatment-naïve patients) and patients who have previously been treated with PegIFN/RBV but who have not responded to the treatment (treatment-experienced patients). Patients in the latter group have a considerably more difficult to treat form of the disease.

Simeprevir-based treatment proved to be very effective in clinical phase II trials, with a significantly higher percentage of patients cured than when using standard treatment, and with a significantly higher percentage of patients able to cut the treatment time from 48 weeks to 24 weeks compared to those receiving current triple combination treatments. Simeprevir also demonstrated very good safety and tolerability profiles with a single dose administered once daily.

One of the trials, ASPIRE, included only those patients who had not responded to previous treatment, a large percentage of whom had very advanced liver disease (METAVIR scores of F3 or F4, which means fibrosis or cirrhosis of the liver). Patients with cirrhosis of the liver are considerably more difficult to treat, but are also in the greatest need of treatment if the disease progression is to be halted and hence also the risk of needing a liver transplant and/or developing cancer of the liver. Within the group of treatment-experienced patients with cirrhosis of the liver, i.e. those who are the most difficult to treat, 62 per cent of the patients in the simeprevir group were cured in comparison with 0 per cent in the control group.

Robust positive results for simeprevir in phase III

A comprehensive, global phase III programme was initiated, based on the positive results of the phase II trials, in order to document simeprevir in comparison with standard treatment, in combination with pegylated interferon and ribavirin (PegIFN/RBV). Treatment-naïve patients were enrolled in two of these trials (QUEST-1 and QUEST-2), while another trial (PROMISE) only enrolled patients who had

The phase III trials of simeprevir showed:

Good efficacy

- 80-81 per cent of the treatment-naïve patients who received simeprevir were cured and were virus-free 12 weeks after treatment was concluded, in comparison with 50 per cent of the control groups (QUEST 1 and 2).
- 79 per cent of the patients who had relapsed after previous treatment were cured, in comparison with 37 per cent of the control group (PROMISE).

Safe and tolerable

- Treatment with simeprevir was safe and well tolerated throughout, with a side effect profile similar to that in the control group.

Reduced treatment times

- A majority of the patients, 85-93 per cent, were able to finish all treatment after 24 weeks.

suffered a relapse after previously completed treatment with PegIFN/RBV ("relapsers"). The patients were randomised to receive either 150 mg simeprevir administered once daily for twelve weeks and PegIFN/RBV for 24 or 48 weeks, based on response-guided treatment criteria (the simeprevir group), or PegIFN/RBV for 48 weeks (the control group). Up to 31 per cent of the patients had very advanced liver disease (METAVIR scores of F3 to F4).

The picture of simeprevir as the best protease inhibitor for the treatment of hepatitis C (in comparison with existing triple therapies) was reinforced by the robust efficacy, reduced treatment times and simplified treatment in the form of one capsule once daily. This positive data provides a stable foundation on which to base registration applications and further clinical development of various interferon-free combination treatments.

The goal is interferon- and ribavirin-free treatment

A broad phase II programme designed to document the efficacy of simeprevir in combination with other direct-acting antivirals is also being conducted in addition to the phase III programme. The goal is to eliminate, first and foremost, interferon from future hepatitis C treatments, but the hope is that ribavirin can also be eliminated as these pharmaceuticals give rise to extremely unpleasant side effects. Simeprevir is well suited for combination treatments, in that it is highly potent and can hence be administered in a small dose once daily, and has shown itself to have an extremely beneficial safety and tolerability profile.

A number of clinical collaborations were initiated in 2012 in order to study different interferon-free combination therapies with simeprevir. These treatments combine direct-acting antivirals with different mechanisms of action, which are tested with or without supplementary ribavirin.

Ongoing trials, or trials scheduled to start in early 2013, involve simeprevir in combination with:

- Sofosbuvir (GS-7977, nucleotide polymerase inhibitor; Gilead)
- Daclatasvir (NS5A inhibitor; BMS)
- TMC647055/r (non-nucleoside polymerase inhibitor and a low dose of ritonavir; Janssen)
- VX-135 (nucleotide polymerase inhibitor; Vertex)
- IDX719 (NS5A replication complex inhibitor; Idenix)

The majority of the ongoing combination trials involving simeprevir have enrolled both treatment-experienced patients and patients with cirrhosis of the liver, i.e. those patients who have the greatest need for effective new treatments. Provided that the results of ongoing interferon-free trials continue to be positive, there is a possibility that simeprevir in interferon-free drug combinations will reach the market within a few years. The relatively rapid development is possible partly because the treatment time is calculated to potentially be as short as twelve weeks, thereby reducing the clinical development time in phase III.

The need for effective and safe treatment will continue to be considerable in future. The number of patients diagnosed with hepatitis C will rise at the same time as the number of treatment-resistant patients who are awaiting a new and more effective form of treatment is rising. Simeprevir has every chance of becoming an extremely important cornerstone of future hepatitis C treatment in large but also difficult-to-treat patient groups.

Other research projects

The primary focus of Medivir's research is on infectious diseases, but we also have projects in other areas where we also have made good progress over the past year. Our in-house developed cathepsin K inhibitor (MIV-711) for the treatment of bone disorders entered phase I trials during the year. The cathepsin S project, for the treatment of neuropathic pain, has yielded promising results in a number of different preclinical models and the next stage involves choosing a candidate drug. We have also entered into a partnership with the Swedish University of Agricultural Sciences in Uppsala regarding the development of novel antibiotics for drug-resistant bacteria.

Project

Cathepsin K inhibitor for bone disorders

Medivir's cathepsin K inhibitor, MIV-711, entered the clinical development phase during the year. The goal is to develop new treatments for bone disorders such as osteoarthritis, osteoporosis and bone metastasis – all fields in which there is still a lack of effective pharmaceuticals.

New bone tissue is constantly being formed in the skeletal system, and old bone tissue resorbed. Cathepsin K is a protease that is involved in the body's normal bone turnover and which is important in the resorption of collagen in both bones and cartilage. An important feature for any new pharmaceutical in this area is that it inhibits the resorption of bone and cartilage without impacting the new formation of bone in the body. The results of preclinical trials suggest that MIV-711 has every possibility of displaying this kind of favourable profile in a clinical setting. In the first trial involving human subjects, which began in 2012, MIV-711 was administered in the form of single ascending oral doses to healthy volunteers, followed by once daily doses repeated for seven days. The final treatment group includes postmenopausal women who are treated for 28 days. The primary purpose of phase I trials is to investigate safety, tolerability and pharmacokinetics. In this particular case, the design of the trial will also enable us to study the way in which MIV-711 affects biomarkers of relevance when measuring bone and cartilage turnover. The results of the phase I trials are expected during the second quarter of 2013.

OSTEOARTHRITIS

Osteoarthritis is the collective name given to inflammation in various joints. It is a common disease amongst the elderly and involves breakdown of the cartilage in the joint, causing pain and reduced mobility. There are currently no effective pharmaceuticals and treatment is symptomatic in combination with physiotherapy, weight loss and, in severe cases, surgery. There is thus a substantial need for treatments that can arrest the progress of cartilage breakdown, bone weakening and bone deformation.

OSTEOPOROSIS

Osteoporosis characterised by low bone density and a weak skeleton, resulting in an increased risk of fractures to hip and wrist joints. Older women can, in particular, suffer from vertebral compression, resulting in considerable pain. Patients suffering from osteoporosis are currently primarily treated with bisphosphonates.

BONE METASTASIS

Bone metastasis is a complication associated with cancer disorders in which the tumour cells in an organ spread to the skeleton. The patient often suffers severe pain and is treated with, amongst other things, cytostatic drugs or radiation. Some cancer cells, e.g. those from the prostate or the breast, produce excess cathepsin K and a cathepsin K inhibitor could supress bone resorption and hence the immigration of tumour cells.

> “The goal for our cathepsin K inhibitor is to develop new treatments for bone disorders.”

Project

Cathepsin S inhibitor for neuropathic pain

There is currently a considerable amount of data suggesting that the cathepsin S enzyme has a major part to play in chronic pain or neuropathic pain. Herniated discs and diabetic neuropathy are examples of conditions causing severe pain. Treatment currently normally comprises pharmaceuticals developed for other types of disease or illness, such as depression and epilepsy. These drugs have been shown to have some analgesic effect, but not in all patients. There is, therefore, a very real need to develop pharmaceuticals with different mechanisms of action.

Cathepsin S is upregulated and released in conjunction with nerve damage, resulting in inflammatory reactions in the nervous system, both peripherally and in the spinal cord, which, in turn, results in an increased pain perception. If this neuroinflammation can be reduced, one might also expect a reduction in the pain.

Specific cathepsin S inhibitors have been shown to be effective in preclinical model systems for this type of pain, amongst other things. There are also indications that cathepsin S inhibitors could be used to treat various types of autoimmune diseases, such as rheumatoid arthritis (RA) and multiple sclerosis (MS).

Medivir’s cathepsin S programme currently includes a number of compounds that are now under evaluation and the goal is to choose a candidate drug for further development and preparation for clinical studies.

Project

Antibiotics collaborative project

Resistance to antibiotics is a serious and global health problem that is expected to worsen and thereby give rise to substantial costs to society. Medivir and the Swedish University of Agricultural Sciences (SLU) forged a partnership in August 2012 with the primary aim of developing new antibiotics to treat those bacteria that have developed a resistance to existing pharmaceuticals. The research group at SLU is studying the interaction and competition between microorganisms in nature. This work involves isolating new microorganisms and developing new culture conditions that result in the production of substances with a potential antibacterial effect. The structures of isolated substances are determined and if they are previously unknown, they are tested against a panel of bacteria that are resistant to today’s antibiotics. Active new chemical compounds, potentially with new mechanisms of action, may provide the starting point for the development of new antibiotics to treat severe bacterial infections.

Project portfolio

Hepatitis C

Simeprevir

Mechanism
HCV NS3A/4 protease inhibitor.

Phase
Phase III/Registration.

Progress during the year
Simeprevir is administered as a single capsule (150 mg) once daily for 12 weeks as a supplement to pegylated interferon and ribavirin. In phase II trials, simeprevir has been shown to have a powerful antiviral effect on patients with HCV genotype 1. Simeprevir was shown to be safe, well tolerated and with a side effect profile that resembled that of the control group. The combined efficacy data shows:

- 81-86 per cent of the treatment-naïve group (the PILLAR trial) were cured (65 per cent in the control group). 83 per cent were able to end all treatment after 24 weeks, halving the normal treatment time.
- 61-80 per cent of treatment-experienced patients (the ASPIRE trial) were cured, in comparison with 23 per cent in the control group.

In the most difficult-to-treat patients (treatment-experienced with liver cirrhosis, METAVIR score of F4), 62 per cent of the simeprevir group were cured, in comparison with 0 per cent in the control group. The results show very good efficacy for simeprevir-based treatment, even in difficult-to-treat patients with very advanced liver disease, and that the compound is safe and well tolerated in this patient group.

Phase III data
Robust efficacy and safety data from three pivotal phase III trials of simeprevir supplemented with pegylated interferon and ribavirin were presented at the end of the year and will form the basis for registration applications in the USA, Europe and Japan during the first half of 2013. The QUEST-1 and QUEST-2 trials enrolled 394 and 391 treatment-naïve patients with HCV genotype 1, respectively, while the PROMISE trial enrolled 393 patients who had suffered a relapse after previous treatment with pegylated interferon and ribavirin. 22-31 per cent of the patients in the trials had very advanced liver disease (fibrosis/cirrhosis of the liver, METAVIR scores of F3/F4):

- Treatment with simeprevir resulted in 79-81 per cent of the patients being cured and remaining virus-free twelve weeks after completing treatment.
- Treatment with simeprevir was safe and well tolerated and the aggregate incidence of side effects, including rashes and anaemia, was similar to that in the control group.
- A majority of the patients, 85-93 per cent, were able to end all treatment after 24 weeks in accordance with so-called response-guided treatment.

Future treatment of hepatitis C aims to avoid the use of both pegylated interferon and ribavirin due to their side effects. Several trials in which simeprevir is being studied in combination with other direct-acting antiviral agents were launched during the year in order to identify the optimum interferon-free combination for future hepatitis C treatment.

Competitive advantages
Simeprevir is a next generation protease inhibitor and has a competitive profile. Simeprevir has been shown to have an equally good or better antiviral effect than the currently approved protease inhibitors, telaprevir and boceprevir, but a considerably better safety profile and shorter treatment times for a larger patient population.

Partner
Partnership with Janssen Pharmaceuticals since 2004.

HCV (Polymerase inhibitor)

Mechanism
Nucleotide-based HCV NS5B polymerase inhibitor.

Phase
Preclinical development.

Progress during the year
Ongoing evaluation of a number of compounds has been carried out ahead of continued preclinical development.

Competitive advantages
Nucleotide-based NS5B polymerase inhibitors have been shown to have a high genetic barrier to resistance development and a good pan-genotypic activity against HCV. This profile makes the development of a pharmaceutical for use in combination with other direct-acting antiviral pharmaceuticals attractive in future interferon-free hepatitis C therapies.

Partner
Partnership with Ortho Biotech Products LP, an affiliate of Tibotec, now Janssen Pharmaceuticals, since 2008.

NS5A replication complex inhibitor

Mechanism
HCV NS5A-replication complex inhibitor.

Phase
Preclinical optimisation phase.

Progress during the year
Several chemical series with powerful anti-HCV activity have been identified during the year, including unique molecules with a high potency against HCV genotype 1a viral mutants that have developed a resistance to first generation NS5A replication complex inhibitors.

Competitive advantages
NS5A replication complex inhibitors have been shown to be highly potent and are hence very suitable for use in combination with other direct-acting antiviral HCV pharmaceuticals. Medivir intends to develop the next generation of NS5A inhibitors with an improved genotype coverage profile.

Partner
The project is being run in-house.

HCV (Polymerase inhibitor)

Mechanism
Nucleotide-based HCV NS5B polymerase inhibitor.

Phase
Preclinical optimisation phase.

Progress during the year
The project has proceeded well during the year and the acquisition of Novadex has helped broaden the project to include new nucleotide structures that will now form part of the ongoing evaluation work.

Competitive advantages
Nucleotide-based NS5B polymerase inhibitors have been shown to have a high genetic barrier to resistance development and a good pan-genotypic activity against HCV. This profile makes the development of a pharmaceutical for use in combination with other direct-acting antiviral pharmaceuticals attractive in future interferon-free hepatitis C therapies.

Partner
The project is being run in-house.

Hepatitis B

Lagociclovir (MIV-210)

Mechanism
Nucleoside-based HBV DNA polymerase inhibitor.

Phase
Clinical phase I.

Progress during the year
The active pharmaceutical ingredient has been upscaled and an evaluation of toxicology trials ahead of further clinical development has been carried out.

Competitive advantages
Effective against both HIV and HBV that have become resistant to other pharmaceuticals on the market. Good pharmacokinetic properties in phase I and effective against multi-resistant HIV in pilot study.

Partner
Daewoong has licensed MIV-210 for China, South Korea, Japan and Taiwan and is responsible for the clinical development of MIV-210 as a potential hepatitis B pharmaceutical.

Skeletal disorders

Cathepsin K inhibitor

Goal
To develop novel pharmaceuticals for the treatment of bone disorders such as osteoarthritis, osteoporosis and bone metastasis.

Mechanism
Inhibitor of the cathepsin K protease, reducing bone and cartilage resorption.

Phase
Clinical phase I.

Progress during the year
The preclinical safety and pharmacology trials of the MIV-711 candidate drug were completed and the clinical phase I trial began in May 2012. In this first trial, MIV-711 has been administered in the form of single ascending oral doses to healthy volunteers, followed by once daily dosing repeated for seven days. The aim of the trial is to investigate safety, tolerability, pharmacokinetics and efficacy on biomarkers relevant in the resorption of bone and cartilage.

Competitive advantages
Inhibition of cathepsin K has been shown to reduce bone resorption without affecting the new formation of bone, unlike the pharmaceuticals currently used to treat osteoporosis, for example. MIV-711 is a potent and selective cathepsin K inhibitor

Partner
The project is being run in-house.

HIV/AIDS

HIV PI

Mechanism
Protease inhibitor.

Phase
Preclinical optimisation phase.

Progress during the year
The project is currently in an evaluation phase with regard to market potential and medical need in relation to the product profile.

Competitive advantages
HIV protease inhibitor with extremely potent antiviral effect against both wild-type and multi-resistant viruses.

Partner
Partnership with Tibotec Pharmaceuticals Ltd, now Janssen Pharmaceuticals, since 2006.

Neuropathic pain

Cathepsin S inhibitor

Goal
To develop new pharmaceuticals for the treatment of neuropathic pain and autoimmune diseases.

Mechanism
Inhibitor of the cathepsin S protease, influencing various inflammatory mechanisms in the body's central nervous systems, and peripheral body functions.

Phase
Preclinical optimisation phase.

Progress during the year
The evaluation of potent, selective molecules with good pharmacokinetic properties has proceeded. A number of potential candidate drugs have been identified and these molecules are now under evaluation with regard to safety and have, to date, yielded promising results. The compounds have also undergone further evaluation in preclinical models for neuropathic pain.

Competitive advantages
First-in-class potential for the treatment of neuropathic pain. New mechanism with potential both as monotherapy and as an adjunct to standard treatment.

Partner
The project is being run in-house.

Dengue fever

Protease inhibitor

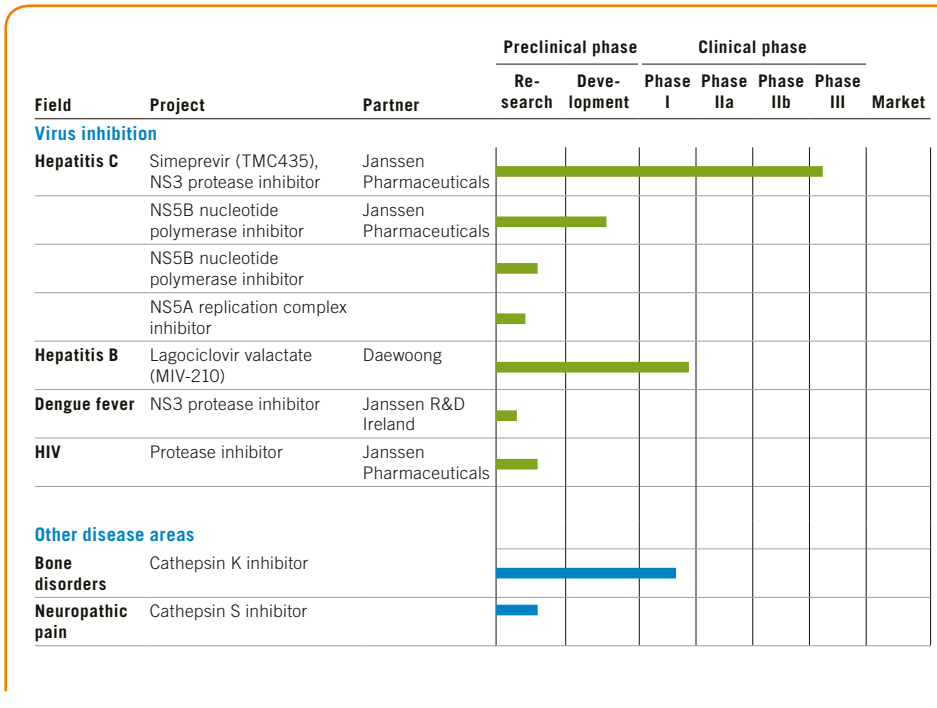
Mechanism
Dengue-specific NS3 protease inhibitor.

Phase
Early research phase.

Progress during the year
The research work has progressed.

Competitive advantages
There are no dengue fever pharmaceuticals on the market at present, nor any prophylactic treatment for dengue fever, either for people living in the areas where outbreaks occur or for those travelling to areas where dengue fever is endemic. Any future treatment would also aim to reduce the risk of developing the more serious complications (haemorrhagic dengue) which can result in internal haemorrhaging and haemorrhagic shock.

Partner
Partnership with Janssen Pharmaceuticals since February 2011.



Our patents

Securing patent protection is the foundation for all new pharmaceutical projects. Patents are crucial to companies' future commercial prospects, but at the same time, it is important to monitor the competition in order to avoid patent infringements.

Patent-related activities are an important and integral part of our work at Medivir, both during development and later, when a product has been launched on the market. At the end of 2012, Medivir had 49 patent families, including those filed by collaboration partners.

A patent family is the collection of regional and national patents and patent applications that covers a single invention or group of closely related inventions. In 30 of these 49 families, the official review process has progressed sufficiently far that at least one USA or EU patent has been granted. Medivir or its partners had a total of 627 granted patents in force at the year-end.

Project	Patent no.	Normal expiry	AU	BR	CA	CN	EU	IL	IN	KR	JP	MX	MY	RU	TW	US	ZA	Expiry of additional patent families
Xerclear	WO96/24355	Feb 2016					19											
	WO00/29027	Dec 2019					20											
Simeprevir	WO07/014926	July 2026					36											2028
	WO05/073195	Jan 2025					35											
HCV POL	WO2010/ 130726	May 2030					All											
HCV NS5A	Not published	Oct 2033					All											
HCV Nucleotides	Not published	Aug 2033					All											2034
Cathepsin K	WO09/000877	June 2028					All											
Cathepsin K	WO2010/034790	Sep 2029					All											2034
HIV-PI	WO2011/070131	Dec 2030					All											
Cathepsin S	WO2011/070541	June 2030					All											2033
Lagociclovir valactate MIV-210	WO99/09031	Aug 2018					25											2032

Patent granted Patent pending, awaiting review by different countries' patent offices

Country codes

- AU: Australia, BR: Brazil, CA: Canada, CN: China/Hong Kong, IL: Israel, IN: India, KR: South Korea, JP: Japan, MX: Mexico, MY: Malaysia, RU: Russia, TW: Taiwan, US: USA, ZA: South Africa. WO is an international (PCT) patent application.
- EU: A European patent can cover all of the EU member states and a number of other European countries, such as Switzerland, Iceland, Croatia, Turkey and Norway. Medivir always validates European patents granted, at least in the important pharmaceutical countries of Germany, the UK, France, Italy, Spain, Switzerland and Sweden. The figure in this column shows the total number of European countries in which the patent has been validated.

> “Patent-related activities are an important and integral part of our work at Medivir, both during development and later, when a product has been launched on the market.”

Column: Normal expiry

- Since 1995, most countries have agreed that the lifespan of a patent shall be 20 years from the international application date.
- In Europe, it is possible to obtain an extension on pharmaceutical patents of up to five years, known as Supplementary Protection Certificate, or SPC. This supplementary protection is granted in cases where the European marketing authorisation was granted more than five years after the patent filing date. Supplementary protection to February 2029 will apply to simeprevir, given that the EU launch will occur in early 2014. The supplementary protection can be extended by a further six months if an approved clinical programme in children is undertaken in parallel with the usual clinical trials. Medivir has currently been granted five year supplementary protection certificates for Xerclear in Sweden, Denmark, the UK, France, Austria and Portugal and equivalent SPC applications are undergoing review in Germany, France, Spain and Finland, etc. SPCs may be granted in certain other EU member states provided that our partner, GSK, is granted a marketing licence in the next few years. The expiry of the patent protection for Xerclear, including the supplementary protection, is thus February 2021.
- The patent extension options in the USA are complicated and can be based both on delays by the Patent Office (known as a PTA), delays by the FDA (known as a PTE) and for the completion of an approved clinical trial on children. The US Patent Office has confirmed that the primary patent for simeprevir has been granted a PTA extension by 1,020 days. The expiry date for the primary patent in the USA will be around August 2029.
- A number of countries have an additional form of market exclusivity for pharmaceuticals known as data exclusivity. This prevents generic pharmaceutical applications, ANDA, based on an original product being approved for a set number of years, namely ten years in Europe, 2.5-5 years in the USA, and six years in China. This exclusivity is independent of patents and is based on the launch date, which allows the exclusivity to be extended beyond the life of the patent.

Column: Additional patent families

- Wherever possible, Medivir ensures that its patent applications include product inventions and therapeutic method inventions. Product inventions are preferable in a pharmaceutical context because they provide control over the product price, even if additional spheres of use are discovered for the product in the future.
- Medivir practices so-called patent portfolio management and files subsequent applications for further developments whether made internally or by CROs, such as formulations, synthesis methods and synergistic combinations. It is seldom possible for such patent families to completely prevent generic competition once the basic product patent has expired, they do serve a purpose when it comes to securing future royalty income from Medivir’s partners, even after the introduction of generic competition. This extended royalty period is shown in this column.

Our pharmaceuticals

Identifying business opportunities and further developing mature or niche pharmaceuticals enables us to offer cost-effective treatment alternatives.

We offer cost-effective pharmaceuticals within a number of important disease areas. Our goal is to provide both tried and trusted and innovative new pharmaceuticals.

We are keen to help ensure that large patient groups receive the help and treatment needed to improve their health and, hence, their quality of life. As part of our efforts to realise this goal, we have built up a broad product portfolio with well-established proprietary pharmaceuticals that are sold under their own brand names. The portfolio currently comprises 15 prescription pharmaceuticals that generated net sales of SEK 165 million in 2012.

We operate in a number of different therapeutic areas in which we have wide-ranging experience and in-depth expertise. Sales of Medivir's pharmaceuticals on the Nordic market are made via our wholly owned subsidiary company, BioPhausia.

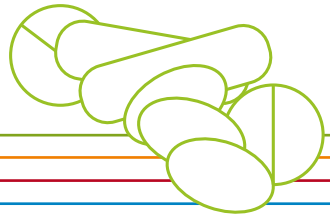
Our organisation

Medivir's pharmaceutical sales are handled by a commercially orientated organisation that focuses on identifying new opportunities for the development of existing pharmaceuticals and the acquisition of new ones. Identifying business opportunities and further developing mature or niche pharmaceuticals enables us to offer cost-effective treatment alternatives.

There are a number of staff functions within the company working to ensure that we have reliable product supply and that we deliver safe, high quality pharmaceutical products across the board. The regulatory sector of our operations monitors news and innovations in relation to the products and monitors developments at the Swedish Medical Products Agency. The team working with our regulatory activities analyses all changes implemented in relation to our pharmaceuticals and send out summaries of this work to the authority.

Medivir also has a pharmacovigilance department that monitors all of the news in relation to our pharmaceuticals and their active pharmaceutical ingredients worldwide. Any aberrations, such as side effects, are reported to the regulatory authorities in accordance with a regulated monitoring system. This department also responds to medical enquiries.

We have a very extensive knowledge and information base, detailing the ways in which our various pharma-



ceuticals work. Quality issues are always a top priority for Medivir and we have a number of people working with quality assurance at every stage of the process.

Medivir's logistics department monitors and structures transportation from the manufacturers to the right place at the right time and in the most efficient way. The logistics department is also responsible for the choice of distribution routing and stock management and ensures that there is an efficient product flow and that control over all costs is maintained.

> "We are keen to help ensure that large patient groups receive the help and treatment needed to improve their health and, hence, their quality of life."

Our pharmaceuticals and therapeutic areas

Medivir's pharmaceutical portfolio comprises a number of strong brands with well established prescription traditions. We market prescription pharmaceuticals for large patient groups in several therapeutic areas.

COLD SORES

Most cold sores are caused by the herpes simplex virus. These viral disorders are also known as labial herpes. Herpes sores often begin with small pricking sensations and itching, followed by a reddening that develops into small blisters and sores.

Xerclear is a cream for treating the indications and symptoms of labial herpes. It was the first pharmaceutical developed by Medivir all the way from the early research stage to a finished, marketed pharmaceutical product. Xerclear is marketed in Europe by our partner, GSK, under the **Zoviduo** and **ZoviraxDuo** brand names.

PAIN

When the body is injured in some way, pain receptors in the skin and the body's other tissues are activated. It is not until the pain impulse reaches the cerebral cortex that we become aware of the pain. Treating pain adequately requires a pain analysis because different types of pain require different types of treatment.

One of our best-selling pharmaceuticals is **Citodon**, which contains two analgesic substances (paracetamol and codeine). Paracetamol has both an analgesic and an antipyretic effect, while codeine reinforces the analgesic effect.

We have another pharmaceutical on the market that is used to treat pain, namely **Morfin Special**, which is an intravenous solution used in epidural injections.

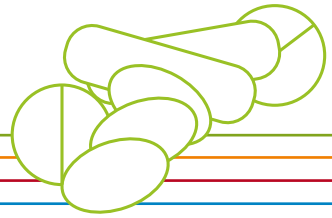
PSYCHIATRY

There are many different kinds of mental disorder, of which bipolar disorder, also known as manic-depressive disorder, is one example. People with bipolar disorder experience intermittent periods of unusually intense emotional states. It is estimated that approximately 5 per cent of the Swedish population suffers from bipolar disorder.

Lithionit is an other of our best-selling pharmaceuticals. Lithionit acts prophylactically against recurring periods of abnormal elation (mania) and clinically significant depression in connection with bipolar disorder. Lithionit is also used by hospitals to treat acute manic attacks.

RESPIRATORY ORGANS

The respiratory organs can be affected by a number of different diseases and symptoms, such as coughing, asthma and chronic obstructive pulmonary disease (COPD).



Asthma is caused by a bronchial inflammation. COPD is a respiratory disease where the lungs have been damaged in such a way that the bronchi are narrower than normal, making oxygen absorption more difficult. Coughing, by contrast, is not a disease but a symptom and is a reflex that is triggered when the nerve endings in the bronchi are irritated

We have several pharmaceuticals in the respiratory organs sphere. **Mollipect** cough medicine counteracts mucous coughs and also dilates (widens) the bronchi. We have a further two bronchi-dilating pharmaceuticals on the market, namely **Teovent** and **Theo-Dur**. Teovent is a rectal solution used to treat asthma, chronic bronchitis and respiratory problems caused by bronchial cramping in emphysema (a morbid condition with enlarged alveoli). Theo-Dur works by relaxing the cramping in the musculature of the bronchi, allowing the bronchi to dilate and thereby reducing the respiratory difficulties.

MUSCULOSKELETAL SYSTEM

The musculoskeletal system is the collective name given to the skeleton, muscles, tendons and ligaments. The skeletal muscles are the active part of the musculoskeletal system and the most common cause of muscular pain is that an excessive load or strain has, in some way, been placed on the muscles. Rather than acting directly on the muscles, muscle relaxant pharmaceuticals act centrally on the brain by blocking the nerve impulses that result in the body's perception of pain.

Paraflex, which is a muscle relaxant, was one of our best-selling pharmaceuticals during the year. Paraflex is primarily used to treat painful contractions in the skeletal muscles, e.g. in conjunction with lumbago, muscle strains, and similar conditions. We also have another pharmaceutical, called **Probecid**, which is used to treat gout.

STOMACH/INTESTINE

Most people suffer from gastrointestinal problems at some point in their lives. Diarrhoea and constipation are the commonest problems, and they are usually symptoms of digestive disorders, but there can also be other underlying causes. Doctors may, from time to time, need to investigate the intestines with x-rays or a colonoscopy to enable them to make the correct diagnosis, and sometimes, they may need to carry out some form of surgery on the intestines.

Laxabon is a powder used for intestinal lavage and is one of our best-known and most commonly prescribed pharmaceuticals. **Egazil**, which is administered in tablet form and is used when there is a tendency to cramping and abdominal pain in the gastrointestinal tract and bile ducts, is another of our products in the gastrointestinal area.

CARDIOVASCULAR SYSTEM

The cardiovascular system comprises the heart, blood vessels and the approximately five liters of blood transported around the body by the blood vessels. Cardiovascular diseases kill an estimated 17 million people worldwide every year, with the majority of these deaths due to heart attacks and strokes.

Cardiovascular disease is a widespread and common cause of ill health and we consequently produce a number of different pharmaceuticals in this area. We market **Nitroglycerin BioPhausia** and **Digoxin BioPhausia**, which act on different diseases in the therapeutic area. Nitroglycerin BioPhausia works by dilating the blood vessels to allow a better blood throughput in the heart muscle and thereby reduces the heart's workload.

Digoxin BioPhausia is administered in tablet form and is used to counteract cardiac insufficiency and tachycardia.

> “One of our primary objectives in the years ahead is to strengthen our proximity to our customers in the Nordic market.”

MINERALS

Vitamins and minerals fulfil many different functions in our bodies. Zinc is a mineral which, amongst other things, boosts the body’s immune system, helps heal wounds, and improves vision, fertility and reproduction. The most common cause of zinc deficiency is insufficient zinc in the diet.

Solvezink, which replenishes the body’s stores of zinc in people suffering from zinc deficiency, is one of our products. Solvezink is used to heal leg wounds in patients with zinc deficiency and in conjunction with acrodermatitis enteropathica (a genetic skin and intestinal disorder caused by zinc deficiency).

New therapeutic areas

We are constantly investigating the potential for expanding our range of pharmaceutical products, which may also result in our starting to operate in other therapeutic areas. We currently enjoy a strong position in the infectious diseases therapeutic area when it comes to the research and development of new pharmaceuticals, and while we do not, at present, have any approved pharmaceuticals on the market in this area, positive phase III data for simeprevir for the treatment of hepatitis C was reported during the year and registration applications will be submitted during the first half of 2013. Once approval is granted, we hold the sales rights for simeprevir in the Nordic region, while our partner, Janssen, holds the rights for the rest of the world.

Our patients

Patient safety and the demand for equal treatment for all is an important starting point for us in both our operational and our strategic work. It is only natural that the patient is the focus of our work, in that we develop and sell pharmaceuticals that are designed to improve people’s health and increase their quality of life. Facilitating the work of the health care services by producing pharmaceuticals that have fewer side effects, result in reduced treatment times, and are easier to administer is of the greatest importance to Medivir.

Our future

We have the resources needed for further expansion in the Nordic region and in order to build an even broader platform from which to operate. The talent pool of the commercial operations will be further expanded in 2013 in the selling, marketing, medical marketing and market access spheres. One of our primary objectives in the years ahead is to strengthen our proximity to our customers in the Nordic market, part of which entails being represented in the form of our own personnel in all of the Nordic countries.

Physicians, other health sector personnel, and pharmacy chains are all important customer groups for Medivir, but it is also of the utmost importance that we maintain an ongoing and well-informed dialogue with decision makers at county council and government level and with other authorities operating in the health and medical care sector.

The Nordic region is an heterogeneous market made up of five different countries with five different languages, five different sets of regulatory authorities, and five different pricing authorities. The market is, therefore, very complex with a number of different parameters that we must address appropriately if we are to generate successful commercial development in each, individual country. Our extensive experience of operating in the Nordic market ensures that we have a substantial advantage over many of our competitors in this respect and also makes us an attractive partner for a range of different commercial options.

Our parallel import pharmaceuticals

Medivir's wholly owned subsidiary, Cross Pharma, is one of the bigger operators in the Swedish parallel imports market. The past year has seen important progress made towards a further strengthening of Cross Pharma's position, both today and in the future.

Cross Pharma parallel imports proprietary third party pharmaceuticals from EU countries where the price level is lower than in Sweden. This is possible, thanks to the EU's principle of the free movement of goods within the Union, and means that pharmaceuticals for which there is a surplus capacity in one country can be exported to another country where there is a demand for this product. When the pharmaceutical is subsequently sold to pharmacies in Sweden, it is offered at a price lower than the manufacturing pharmaceutical company's listed price for that product. This results in increased competition and pricing pressure on patented prescription pharmaceuticals and Cross Pharma consequently helps generate savings not only for the Swedish medical sector as a whole, but for the individual patient as well.

Cross Pharma's ambition is to achieve a growth rate that outstrips that of the market and a number of important investments and strategic changes have been made during the year in order to lay the foundations for future expansion possibilities. Important measures taken during the year and which have helped generate positive growth potential for the future include are:

- Product portfolio expansion
- Activities designed to strengthen Cross Pharma's position with regard to the Swedish pharmacy chains
- Strengthening of the organisation and the further development of internal processes designed to support the company's continued growth strategy.

Focusing on quality and supply performance

A strong focus on quality, supply performance and a rapid response to market change have made Cross Pharma one of the leading parallel import sector operators in Sweden. The pharmaceutical portfolio, which is continuously being rejuvenated and developed, currently comprises around 120 different pharmaceuticals in a large number of therapeutic areas.

Cross Pharma has built up long-term, strong relationships with a network of around 70 suppliers in several European countries over the years. Parallel imported pharmaceuticals must be repackaged with Swedish-language information and patient information leaflets before they reach the Swedish market. This process is handled by the Polish-based company, Prodlekpol, which is a GMP (or Good Manufacturing Practices) certified, wholly owned subsidiary of Cross Pharma. All of Prodlekpol's work is carried out in accordance with strict and clear instructions from Sweden in order to guarantee safe, high quality products. Parallel imported pharmaceuticals are, moreover, strictly regulated and imports are closely monitored by the Swedish Medical Products Agency and its European equivalent, the EMA. Cross Pharma ensures, by maintaining full control over the product repackaging process, that all requirements are met and that a rapid product flow and correctly adjusted stock levels can be ensured. Cross Pharma's customers, once the pharmaceuticals reach the Swedish market, are the pharmacy chains. A completely different market for parallel imported pharmaceuticals opened up in Sweden in conjunction with the deregulation of the country's pharmacy monopoly, in that the pharmacies now independently negotiate the prices of the goods they buy in and market.

Net turnover increased

Net turnover in 2012 totalled SEK 384 million (with an operating margin of 3.7 per cent). Cross Pharma's aim is to continue its growth by offering the pharmacy chains a greater breadth of pharmaceuticals by expanding it product portfolio in the years ahead. New methodologies have also helped enhance operational efficiency, increase cooperation between different working groups, and lay the foundations for making better use of internal resources.

Increased growth in the years ahead

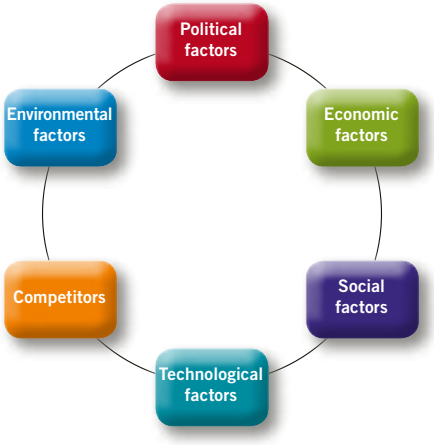
The goal for the years ahead is to continue the growth in net turnover and to further expand the portfolio, and to evaluate and develop new purchasing markets in order to increase our European coverage. Cross Pharma's ongoing integration of Prodlekpol, as part of the company's efforts to enhance efficiency and improve the quality of all its work, is another important task, and we anticipate completing this integration process by the end of 2013.

In an ever-changing world

New regulations and regulatory requirements, the need for new pharmaceuticals, and changes in population structures mean that companies that develop and market pharmaceuticals are constantly facing new operating conditions and challenges.

External factors

The operating conditions for pharmaceutical companies in Sweden and the Nordic region are constantly changing. There are a number of different factors that affect us, ranging from political, economic, technical and social factors to the impact of competitors' activities and the necessity for sustainable development.



New governmental directives on the monitoring of patients' compliance with prescribed treatments, together with innovations within the medical sector, also have an impact on the sector's development. The importance of being able to demonstrate cost-effectiveness, based on health economic models and data from patients, is expected to further raise the bar for pharmaceutical subsidies.

Patients all over the world are demanding greater and greater improvements in the treatment they receive. Only time will tell whether this results in individually tailored "polypills", but we can already see a desire for individualised treatment, not least in order to ensure optimum patient compliance. The establishment – or not – of "polypills" will ultimately depend on the overall view taken by the regulatory authorities of the clinical studies that form the basis for registration, patient safety and the effectiveness of the pharmaceutical.

Competition within the pharmaceutical industry is increasing, not least when it comes to the development of new pharmaceuticals in therapeutic areas of substantial need. The climate for cooperation between companies, however, is also now more favourable than before, increasing the potential for new collaborations. Increased interest in eco-friendly manufacturing and production of pharmaceuticals will probably prove to be very important in the future when it comes to which pharmaceuticals are procured, subsidised and recommended. We must, as an industry, demonstrate a long-term sustainable approach to development, from production to finished pharmaceutical.

Sources: Pharma 2020: Challenging business models (PWC); Pharma 2020: Marketing the future (PWC)

Four main stakeholders

The stakeholders in the pharmaceutical sector can be divided into four large primary groups: patients, funders and decision makers, health care and medical personnel, and pharmacies.

THE PATIENTS

The West's population is getting older. This and other demographic changes will mean, amongst other things, considerable effort being invested in the diseases of ageing. Today's patients are often well informed and are far more able than before to influence their own treatment, with internet access offering the ability to obtain information about diseases and treatment alternatives, while the capacity to monitor one's own treatment has also improved. Taken as a whole, these factors mean that there is an ever-growing demand for communication between the market's operators. Patient safety and the demand for equal treatment for all are – and will continue to be – important starting points for Medivir.

FUNDERS AND DECISION MAKERS

Authorities are monitoring prescribed pharmaceuticals to a greater degree than before in order to reduce expenditure on pharmaceuticals, and there is a consequent increase in

> “New governmental directives on the monitoring of patients’ compliance with prescribed treatments, together with innovations within the medical sector, also have an impact on the sector’s development.”

prescriptions for generic products. The Swedish Government has initiated a programme with the aim of drawing up a national pharmaceutical strategy that will cover everything from research and innovation to monitoring effects in everyday clinical practice. The results of this work will impact companies operating throughout the pharmaceuticals chain – companies such as Medivir. A similar trend is apparent in many other countries too.

New payment models are being launched and value-based pricing or international reference pricing is under discussion. Whatever the system – and the system employed often differs from one country to another – Medivir is working to ensure we can supply our pharmaceuticals to the benefit of the patients.

THE HEALTH CARE & MEDICAL SECTOR

The traditional target group for the pharmaceutical industry are the people who work within the health care and medical sector. Collaboration with people working in this sector is important, not least when it comes to gathering knowledge and an understanding of the patients who require treatment. It is also only natural that companies who develop pharmaceuticals focus on the patient. Medivir places great importance on its ability to facilitate the work of the health care and medical sector by developing pharmaceuticals that have fewer side effects, reduced treatment times, and easier administration. The dialogue with the health care and medical sector will, therefore, continue to be of great importance.

PHARMACIES

Pharmacies interact with large numbers of patients every day and hence have an important part to play in helping ensure better use of pharmaceuticals. In many countries with a deregulated pharmacy market, such as Sweden, the pharmacies have an important role to play in offering greater accessibility and the potential for new services and products.

Competitive in a changing world

Medivir considers and takes into account relevant external factors when looking at how the company will develop in future, in order to identify the ways in which we can enhance our competitiveness in relation to other companies. We work actively, for example, to ensure we can offer a pharmaceutical portfolio that matches the demand for tomorrow’s pharmaceuticals and analyse the best way of working with and developing pharmaceuticals that offer high cure rates and are, at the same time, involved in the prevention of communicable diseases. We will adjust to operating in a society in which we are paid for the benefits our pharmaceuticals provide – known as “pay for performance”. We will, wherever possible, take responsibility for patient compliance and for sustainable development. We will endeavour to work more closely with decision makers and to listen to the needs of the medical sector and patients. This will require a multidisciplinary organisation that is able to work with broad networks and has an efficient decision making process.

PARTNERS

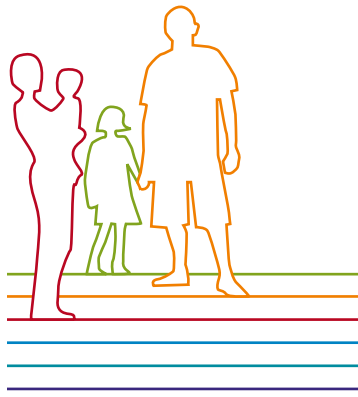
One of the ways in which we can enhance our competitiveness is by working in partnership with other operators. If we are to be an attractive partner, we must be able to offer the things that prioritised partners are looking for. We know, with regard to our research operations, that attractive projects possess one or more of the following attributes:

- Low risk
- Substantial market potential
- Unique mechanism of action
- A sound scientific basis
- Strong patent protection

Few projects meet all of these criteria and clear communication with potential partners is, therefore, a prerequisite of building a consensus view with regard to the value of our research projects.

In order to be an attractive commercial partner, we must be able to demonstrate a history of healthy sales and good margins for the products in our existing portfolio, and a successful development of these products. We must also be able to demonstrate our ability to launch new products successfully.

Medivir's social responsibility



All companies depend on the outside world in which they operate. This outside world has become increasingly global, with business exchanges and other forms of collaboration often spanning the entire world.

Existing responsibility work

Medivir operates in a responsible way and in strict compliance with the stringent demands of regulatory authorities and legislation governing research pharmaceutical companies. This responsibility relates, for example, to the way in which we handle the environmentally hazardous substances used in our research and the way in which we monitor and report the side effects of the pharmaceuticals we market. We adhere strictly to official regulations and guidelines, such as the documentation of research trials (Good Laboratory Practice, GLP), clinical trials (Good Clinical Practice, GCP), pharmaceutical manufacturing (Good Manufacturing Practice, GMP), and pharmaceutical distribution (Good Distribution Practice, GDP).

Our existing responsibility work also includes activities that extend above and beyond those required by legislation and regulation.

Active environmental work

We endeavour to minimise the harmful environmental effects of our research and production work and strive to recycle everything that can be recycled. Hazardous waste that cannot be recycled is stored, processed and disposed in accordance with best practice for such work. Our research facility in Huddinge handles hazardous waste, primarily in the form of solvents and chemically contaminated materials, which is subsequently processed. We have established good routines for recycling paper, consumable plastics, glass packaging and cardboard. All of our production is carried out by contract manufacturers with production facilities located in Switzerland, Germany, Portugal, Finland, Norway and Sweden.

> "Medivir operates in a responsible way and in strict compliance with the stringent demands of regulatory authorities and legislation governing research pharmaceutical companies."

Focus on stakeholder dialogues

Engaging in stakeholder dialogues is an important concern for companies who wish to conduct their operations in a sustainable and responsible manner. Stakeholders are defined as everyone who is affected by the company's operations. The health care and medical sector and the patients who use our pharmaceuticals are amongst our most important stakeholders and for us, the dialogue about their needs and feedback on how our pharmaceuticals work in practice is critical to our success.

Responsibility in practice

In 2012, our work in the field of bipolar disorder (manic-depressive disorder) included a collaboration with the nationwide patient and relative association, Balans, which works to spread awareness of depression and bipolar disorder. Medivir and Balans worked together to draw up a questionnaire on attitudes towards and perceptions of bipolar disorder that the survey company, Novus Opinion, put to just over 1,000 Swedes. The results were summarised in a report presented in conjunction with World Mental Health Day on 10 October. The report attracted considerable attention and was quoted in the national press, radio and TV, helping to increase awareness of bipolar disorder.

Another initiative during the past year involved the production of patient information in foreign languages. It is of the utmost importance, if prescribed treatments are to be successful, that the patients understand the instructions they are given by medical personnel on how to take and handle the medicine. In 2012, we translated patient information into the seven most common foreign languages in Sweden, thereby helping to improve medical care and treatment results.

Focusing on employees

The core values function as a compass in our day-to-day activities and guide us in our work, our conduct and our decisions.

Committed and skilled employees, coupled with sound, transparent leadership, are some of the most important prerequisites for our success by far.

We work actively and purposefully to ensure that all employees are happy and feel involved. High transparency levels, rapid and clear communication, and clearly defined goals that are well supported by every individual and every working group are all important to Medivir.

Our employees are, without question, our most important resource. We endeavour at all times to develop our employees' know-how and expertise in parallel with the development of our operations. Our goal is to offer competitive remuneration packages, opportunities for personal development and good working conditions, and to ensure that expertise not only stays within the company but that we can attract skilled new employees.

Target definitions and values

In 2012, we implemented a programme aimed at progressing our management by objectives. The company-wide goals have been broken down more clearly at departmental and individual level. The individual goals have been drawn up in collaboration between employee and manager and are based on every individual employee's specific job situation and vary in line with their position and role within the company. The goals are followed up regularly during the year in goal fulfilment and appraisal talks.

Another important programme implemented during the year was the creation of a shared set of core values. All employees were invited to participate in a process during which a number of value words were identified and developed, after which we concentrated actively on working up these words and implementing them into the company's processes. Our core values describe what motivates us and what is important to us. Our value words symbolise who we are, what we stand for, and how we want to be perceived. The objective of this work is for the core values to function as a compass in our day-to-day activities and to guide us in our work, our conduct and our decisions. In 2013, we will continue working actively to ensure that the core values are supported and applied throughout every part of the company. All employees should conduct themselves in line with the shared core values and will thereby not only improve the efficiency of our work, but also ensure increased job satisfaction in the workplace.

> “All employees were invited to participate in a process during which a number of value words were identified and developed.”

Passionate, courageous, uncompromising, creative, agile, focused, collaborative

New wage-setting model

A new wage-setting model has been developed and implemented within the company. Under the new wage-setting model, employees are assessed on the basis of two criteria, namely individual goal fulfilment and conduct in accordance with our value words. We have also carried out a salary mapping process during the year in cooperation with our trade union representatives in order to ensure that Medivir offers equal pay for equal work for all employees.

Management programme

It is of the utmost importance that the company’s managers have a good understanding of our expectations of their conduct and performance and to this end, Medivir has drawn up and implemented a management policy with clearly defined management skills during the year. All managers will be evaluated in line with these designated skills.

Securing the management talent pool and developing management skills are an important part of Medivir’s strategy for development and success in the future. A substantial investment in managerial development has been made during the year in order to ensure we are able to attract, retain and motivate employees to achieve Medivir’s goals. Just over 70 per cent of the company’s managers have now taken part in a wide-ranging management skills programme.

Recruitment

The majority of the company’s managers have been trained in skill-based interview methodology as part of our efforts to quality assure our recruitment processes and to ensure that we conduct recruitment processes in a manner that results in Medivir employing the right person for the right job.

“The managerial skills programme has given me a greater awareness and understanding of the underlying factors that affect the interaction between managers and employees. In the past, I have usually acted on instinct: now I can actively select the most appropriate way of handling different situations.”

Ola Rodell,
IT-manager

“As a new manager within the company, it was very valuable for me to learn the basics of management. I feel as though I have taken away from the programme a whole armful of relevant tools that I can use in my day-to-day work.”

Åsa Jansson,
acting Director Medical Information & Pharmacovigilance

“Medivir’s managerial skills programme has broadened my leadership skills and given me a good toolbox for handling future challenges.”

Johan Carlsson,
Director Supply

“An instructive course with many enriching and challenging practical exercises. Above all, the course gave me an increased self-awareness – something that is of very real use to me in my role as a manager.”

Gabrielle Meyerson,
Director, DMPK & Bioanalysis

Medivir from a capital markets perspective

Providing continuous and transparent information about our operations generates understanding and credibility.

Our efforts to highlight Medivir to the capital markets in Sweden have continued in 2012 with a focus on both institutional investors and private owners at various investor seminars. We have also continued our work on broadening our foreign ownership.

Transparency and openness

A long-term perspective, consistent actions and transparency are all required in order to highlight the various aspects of our operations, whether they be early stage or more mature projects. Transparency is steered by a number of factors, with ethics, accuracy and relevant data being of the utmost importance in illuminating the various projects. Our extensive involvement in the development of new and improved pharmaceuticals to treat hepatitis C has attracted considerable attention in recent years. As the projects reach late clinical phase and become more visible, we have seen an increasing interest in Medivir as a company and a consequent increase in general interest amongst both national and international investors.

Investors who invest in development companies, such as Medivir, know that the business model is characterised by high risk and that the majority of project will never reach market registration. We endeavour to communicate clearly what Medivir does to reduce various risks and to highlight the potential of the various projects. Last year's commercial acquisitions have also contributed to an increase in the importance of illustrating the ways in which the preconditions and outlooks for the company's products are constantly changing, and to the increase in demand for information. The majority of our ongoing work is documented and presented on our website (www.medivir.se), partly in order to satisfy the increasing interest in Medivir, but also in order to provide a range of stakeholders with information about our operations. As the projects progress, the need for an ongoing dialogue with different stakeholders in the capital market will increase.

Risk minimisation and commercial development

Running large-scale, high quality clinical programmes is difficult for most small development companies. Partnerships are an attractive alternative in order to reduce the operating risk in financial terms while still enabling progress in the portfolio. Medivir's partnership with Janssen to develop simeprevir for the treatment of hepatitis C is a good example of a successful partnership. Hepatitis C is a newsworthy and commercially interesting therapeutic area in which new and improved treatment options will revolutionise the treatment of patients with hepatitis C over the next ten years.

Simeprevir and Medivir, in partnership with Janssen, are well positioned for the next developmental steps in the hepatitis C treatment sphere.

We have also made considerable progress, over and above our successes in the hepatitis C sphere, with our strategy of creating continuous revenue streams. This is done both via the company's pharmaceutical portfolio, which is represented by 15 or so proprietary prescription pharmaceuticals that are sold in the Nordic market, and via Cross Pharma and parallel imports of pharmaceuticals in Sweden. The profit generated by the commercial operations finances part of Medivir's research portfolio.

Increased interest in Medivir

Medivir is actively monitored by most of the Nordic banks' analysts, many of whom regularly write reports and updates on Medivir. A handful of US analysts have also been actively monitoring the company's development for a number of years now. Interest in Medivir as a company, our research projects, and our commercial presence in the Nordic region has increased over the past year.

Analysts who monitor Medivir

Credit Suisse
Koon Ching, Ravi Mehrotra

Danske Bank
Mattias Häggblom

D. Carnegie AB
Carsten Lønborg Madsen

Enskilda Securities
Lars Hevreng

Jefferies International Ltd
Peter Welford

Nordea Markets
Erik Hultgård

Pareto Öhman Fondkommission
Yilmaz Mahshid

Redeye
Peter Östling

Remium
Alexander Weiss

Svenska Handelsbanken
Peter Sehested

The Medivir share

Medivir's class B share was floated on the Nasdaq OMX Stockholm Stock Exchange on 14 November 1996. The high-vote class A share is not listed.

Share structure, earnings per share, and equity

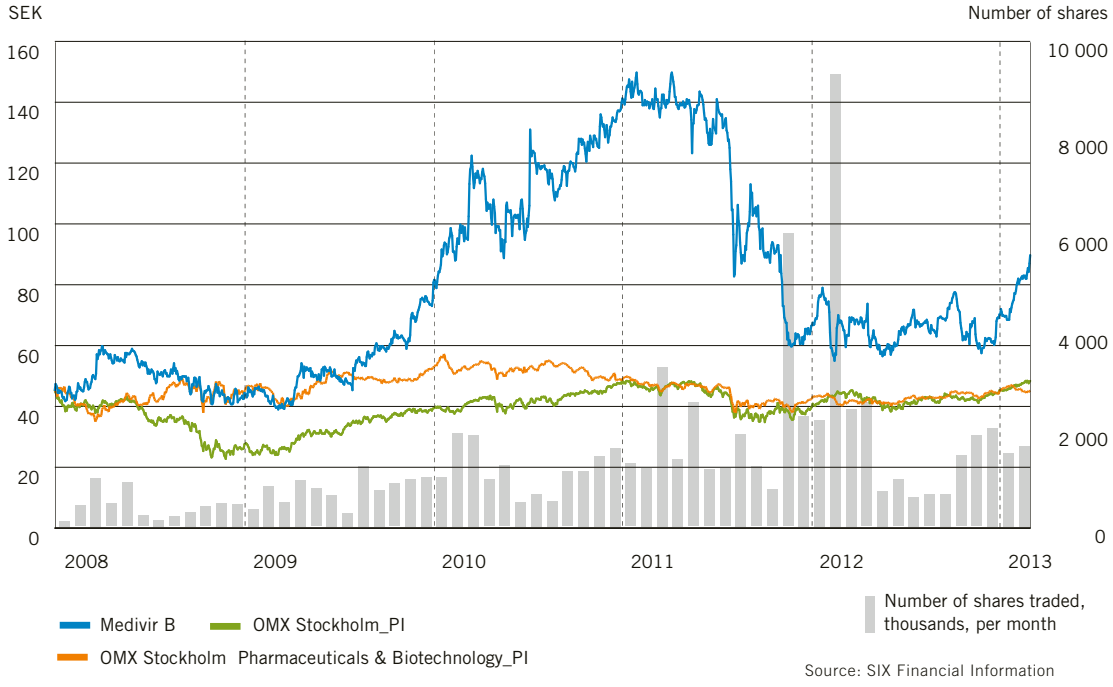
There were a total of 31,260,027 (31,253,827) shares in Medivir AB at the year end, 660,000 (660,000) of which were class A shares and 30,600,027 (30,593,827) class B shares with a nominal value of SEK 5. The average number of shares during the year was 31,256,927. All of the shares grant equal entitlement to a share in Medivir's assets and profits. Class A shares carry 10 voting rights while class B shares carry 1 voting right. The share capital at the year end totalled SEK 156.3 (156.3) million and the equity totalled SEK 874.9 (1,095.6) million. Basic and diluted earnings per share, based on a weighted average number of outstanding shares, were SEK –7.01 (3.80). Equity per share was SEK 27.99 (35.05). The equity/assets ratio was 81.3 (80.7) per cent. For a presentation of Medivir's financial risks and the principles applied for financial risk management, see Note 8, "Financial Risks", on page 71.

SHARE STRUCTURE, 31 DECEMBER 2012

Share class	Number of shares	Number of votes	% of capital	% of votes	Shares after full exercise of options
A, 10 votes	660,000	6,600,000	2.1	17.7	660,000
B, 1 vote	30,600,027	30,600,027	97.9	82.3	31,029,923
Total	**31,260,027**	**37,200,027**	**100.0**	**100.0**	**31,689,923**

Share price performance and turnover, 2012

Medivir's share price rose by 3.8 per cent in 2012 from SEK 66.50 to SEK 69.00. The Nasdaq OMX Stockholm Stock Exchange's Mid Cap index (OMX-SMCPI) rose by 7.5 per cent during the same period. Medivir's market capitalisation at the end of 2012 was SEK 2.16 billion, based on the closing price paid at the year-end of SEK 69.00. A total of 25,411,834 Medivir shares were traded on the Nasdaq OMX Stockholm Stock Exchange in 2012, corresponding to a turnover rate of 83 per cent in comparison with 73 per cent for the Nasdaq OMX Stockholm Stock Exchange as a whole. The share price on February 28 2013 was SEK 88.75, corresponding to a market capitalisation of SEK 2.78 billion.



Source: SIX Financial Information

Beta value

Medivir's class B share had a beta value of SEK 0.77 on 31 December 2012. The beta value is based on historic values for the share's closing price paid on the final day of trading in each of the last 24 months. The same measurement is applied to the Nasdaq OMX Stockholm Stock Exchange's All-share Index and provides an indication of the extent to which a share price fluctuates against an index. If a share has the same price variation as the index, the share's beta value is 1.0. If the share has been more volatile than the index, the value is higher than 1.0, and vice versa.

Dividend policy

A dividend proposal will not be raised until such time as long-term profitability can be predicted as a result of the launch of new pharmaceuticals on the market.

Warrants and staff stock options

The purpose of stock option programmes is to promote the company's long-term interests by motivating and rewarding the company's senior executives and other employees. Medivir had one outstanding stock option programme (2010-2013) at the period end, comprising 394,400 options corresponding to 429,896 class B shares. 5,688 options from the 2007-2012 programme were converted during the year and the remaining 312,419 options in the programme were waived in conjunction with the expiry of the programme on 30 April 2012. Options converted during the year have increased the share capital by SEK 31,000 and other capital contributed by SEK 0.3 million. The number of outstanding options corresponds to approximately 1.4 per cent of the capital and approximately 1.2 per cent of the votes and upon full conversion, could increase the equity by SEK 56.9 million and the total number of shares to 31,689,923. The conversion terms and exercise price for the stock option programmes were restated after the preferential rights issue in Q2 2010 and confer the right to conversion of 1.09 share per option. For a more detailed description of Medivir's staff stock option programmes, see Note 5 on page 69 and the table below.

OUTSTANDING STOCK OPTION PROGRAMME, 31 DEC. 2012

Type	Duration	Number	Exercise price, SEK	Rights to no. of shares	Outstanding shares today and at full conversion
No. of shares, 31 Dec. 2012					31,260,027
Staff stock option programme	2010-2013	394,400	132,30	429,896	429,896
Total		**394,400**		**429,896**	**31,689,923**

Shareholder agreement and pre-emption

There is an agreement between the holders of Medivir's class A shares whereby the parties undertake to abide by the decisions on current issues mutually agreed before the Annual General Meeting. If, during their preparatory deliberations, the parties are unable to agree on a particular issue, the decision shall accord with the opinion held by the majority of the class A share votes represented during the deliberations. The agreement also requires any holder of class A shares wishing to transfer his or her class A shares to another holder of class A shares or to a third party to have the shares reclassified as class B shares. The same applies if a party acquires class A shares in Medivir in any other way. If so decided by a majority of the holders of class A shares, the class A shares may be transferred to a new owner without reclassification, at which time the new owner shall become a signatory to the current shareholders' agreement for holders of class A shares. Pre-emptive rights, as specified in the company's Articles of Association, shall apply to class A shares.

MEDIVIR'S 15 LARGEST SHAREHOLDERS, 31 DEC. 2012[1)]

Name	Class A shares	Class B shares	% of votes	% of capital
Bo Öberg	284,000	262,475	8.3	1.8
Nils Gunnar Johansson	284,000	76,575	7.8	1.2
Staffan Rasjö	0	2,690,731	7.2	8.6
Skandia Fonder	0	1,564,282	4.2	5.0
AFA Försäkring	0	1,520,572	4.1	4.9
UNIONEN	0	1,204,200	3.2	3.9
Handelsbanken Fonder	0	1,124,229	3.0	3.6
Alecta Pensionsförsäkring	0	1,000,000	2.7	3.2
Christer Sahlberg	92,000	29,881	2.6	0.4
Goldman Sachs & Co	0	940,489	2.5	3.0
DnB Carlsson Fonder	0	905,142	2.4	2.9
Tredje AP-Fonden	0	829,233	2.2	2.7
Banque Carnegie Luxembourg	0	736,933	2.0	2.4
Länsförsäkringar Fondförvaltning	0	721,795	1.9	2.3
JPM Chase NA	0	608,753	1.6	2.0
Total, 15 largest shareholders	**660,000**	**14,215,290**	**56.0**	**47.6**
Total, other shareholders		16,384,737	44.0	52.4
Total	**660,000**	**30,600,027**	**100.0**	**100.0**

1) Source: Euroclear Sweden. Ownership data in the table may comprise composite data from multiple entries in Euroclear's statistics. These composite entries are designed to show an institution's or private person's total holdings in Medivir. Such composite entries have not been utilised in other tables relating to the Medivir share.

SHARE AND SHAREHOLDER STRUCTURE

Year	Transaction	Nominal amount, SEK	Change in share capital, SEK	Total share capital, SEK	Total no. of class A shares	Total no. of class B shares	Total no. of shares
1988/89	Incorporation	10		50,000	5,000		5,000
	New share issue 1:1	10	50,000	100,000	10,000		10,000
	New share issue 3:1	10	300,000	400,000	10,000	30,000	40,000
1991/92	Bonus issue 1:1	10	400,000	800,000	20,000	60,000	80,000
	New share issue 1:8	10	100,000	900,000	22,500	67,500	90,000
1992/93	Bonus issue 4:1	10	3,600,000	4,500,000	112,500	337,500	450,000
1994/95	Non-cash issue 1:7	10	2,250,000	6,750,000	112,500	562,500	675,000
1996	Bonus issue 3:1	10	20,250,000	27,000,000	450,000	2,250,000	2,700,000
	Split 2:1	5		27,000,000	900,000	450,000	1,350,000
	Reclassification of class B shares	5		27,000,000	740,000	4,660,000	5,400,000
	New share issue 598:2700	5	5,980,000	32,980,000	740,000	5,856,000	6,596,000
1997	Reclassification of class B shares	5		32,980,000	660,000	5,936,000	6,596,000
1999	Non-cash issue	5	295,110	33,275,110	660,000	5,995,022	6,655,022
2000	Private placement	5	7,025,000	40,300,110	660,000	7,400,022	8,060,022
	Non-cash issue	5	475,000	40,775,110	660,000	7,495,022	8,155,022
	Exercise of options 1996-2001	5	665,000	41,440,110	660,000	7,628,022	8,288,022
2001	Exercise of options 1996-2001	5	500	41,440,610	660,000	7,628,122	8,288,122
2002	Private placement	5	1,507,390	42,948,000	660,000	7,929,600	8,589,600
2004	New share issue 2:1	5	21,498,410	64,446,410	660,000	12,229,282	12,889,282
	Exercise of options 2002-2007	5	66,645	64,513,055	660,000	12,242,611	12,902,611
2007	New share issue 5:3	5	38,707,830	103,220,885	660,000	19,984,177	20,644,177
	Exercise of options 2002-2007	5	996,850	104,217,735	660,000	20,183,547	20,843,547
2010	New share issue	5	26,219,390	130,437,125	660,000	25,427,425	26,087,425
	Private placement	5	11,250,000	141,687,125	660,000	27,677,425	28,337,425
	Exercise of options 2005-2010	5	921,650	142,608,775	660,000	27,861,755	28,521,755
	Exercise of options 2007-2012	5	357,370	142,966,145	660,000	27,933,229	28,593,229
2011	Exercise of options 2007-2012	5	496,705	143,462,850	660,000	28,032,570	28,692,570
	Non-cash issue	5	12,806,285	156,269,135	660,000	30,593,827	31,253,827
2012	Exercise of options 2007-2012	5	31,000	156,300,135	660,000	30,600,027	31,260,027

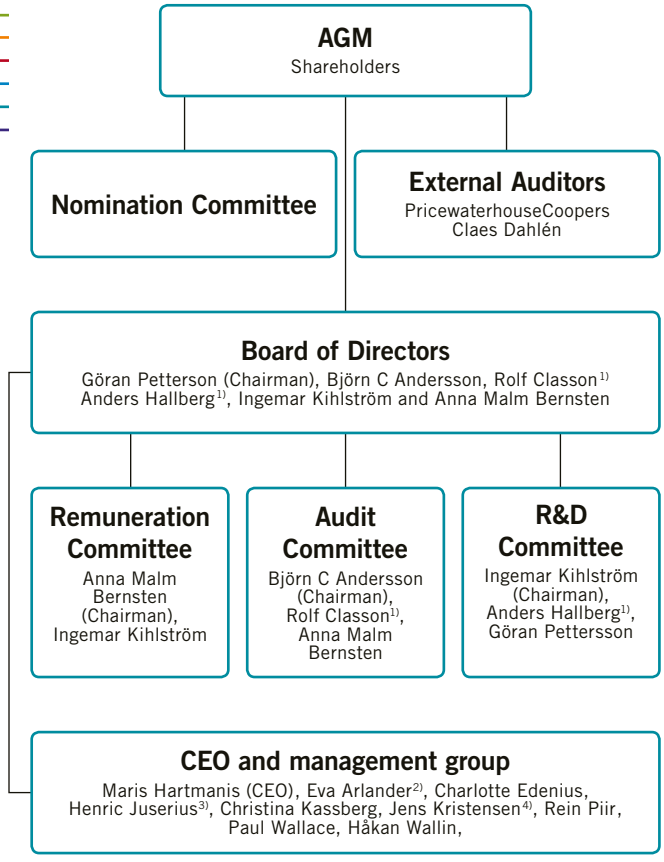
SHAREHOLDER BREAKDOWN BY SIZE OF HOLDING, 31 DECEMBER 2012

	No. of share-holders	No. class A shares	No. class B shares	% of capital	% of votes
1–100	5,015		200,156	0.64	0.54
101–1,000	4,657		1,836,634	5.88	4.94
1,001–5,000	992		2,190,302	7.01	5.88
5,001–20,000	215		2,100,544	6.72	5.65
20,001–100,000	77		3,997,692	12.79	10.75
100,001–	48	660,000	20,274,699	66.96	72.24
Total	**11,004**	**660,000**	**30,600,027**	**100.0**	**100.0**

SHAREHOLDER CATEGORIES, 31 DECEMBER 2012

	% of votes	% of capital	No. of shareholders
Swedish institutions	35.12	41.80	648
Foreign institutions	23.26	27.68	337
Swedish private investors	41.40	30.27	9,929
Foreign private investors	0.22	0.25	90
Total	**100.0**	**100.0**	**11,004**

Corporate Governance Report



1) Appointed at AGM on 10 May 2012.
2) Up to and including June 2012.
3) Appointed in August 2012.
4) Up to and including July 2012.

The Medivir Group comprises 14 companies that conduct operations in three countries. The Parent Company of the Group is the Swedish public limited company, Medivir AB, whose shares are quoted on the Nasdaq OMX Stockholm Exchange.

Good corporate governance is an essential component of Medivir's efforts to create value for its shareholders and to this end, we endeavour at all times to:

- Generate optimum conditions for active and responsible corporate governance.
- Achieve a well-balanced division of responsibility between owners, the Board of Directors, and the company management.
- Maintain a high level of transparency in relationships with owners, the capital market, employees and society at large.

The figure to the left illustrates Medivir's corporate governance model and the way in which the central bodies operate.

External regulations

As a Swedish public limited company with securities quoted on the Nasdaq OMX Stockholm Exchange, Medivir is obliged to comply with a variety of different regulations that impact on the company's governance. The most important external regulations include:

- The Swedish Companies Act
- Accounting Regulations
- The Nasdaq OMX Stockholm Exchange Rules for Issuers
- The Code of Corporate Governance

Compliance with applicable regulations for stock market trading

No breaches of applicable stock market regulations have occurred and Medivir's operations have been conducted in accordance with generally accepted practice on the stock market.

Compliance with the Swedish Code of Corporate Governance

Medivir has applied the Code of Corporate Governance since 1 July 2008 and has undertaken to follow best practice, wherever possible, with regard to corporate governance. Medivir has not deviated from any of the regulations specified in the Code. The Code can be viewed on the website of the Swedish Corporate Governance Board, which is responsible for the administration of the Code. (www.corporategovernanceboard.se).

Internal regulations

Medivir has also established internal regulations in order to comply with legislative and regulatory provisions and with the high ethical standards we have set for ourselves. These regulations include:

- The Articles of Association
- The Board of Directors' Rules of Procedure and the CEO's Instructions
- The Board Committee's Rules of Procedure
- Guidelines for remuneration to senior executives
- Financial policy
- IT policy
- Accounting and HR Manual

Significant events in 2012

- A new Board of Directors was appointed at the 2012 Annual General Meeting of the company's shareholders through the re-election of Björn C Andersson, Ingemar Kihlström, Anna Malm Bernsten and Göran Pettersson (Chairman) and the new election of Rolf Classon and Anders Hallberg.
- Henric Juserius joined the Group's management group as its new Executive Vice President Commercial. The clinical development operations were also integrated into the R&D organisation, headed by Charlotte Edenius.

The share and shareholders

Medivir's class B share has been traded on the Nasdaq OMX Stockholm Exchange's main market since 1996. The class A share is not quoted. All shares are equally entitled to participation in Medivir's assets and profits. Class A shares grant entitlement to 10 votes per share and class B shares to 1 vote per share. The class A shares are covered by a pre-emption clause in the Articles of Association and a conversion clause, whereby holders of class A shares may convert class A shares to class B shares. Every person entitled to vote at shareholders' meetings may vote for the full number of shares held and represented without limitation.

Medivir's share capital totalled SEK 156.3 (156.3) million at the year-end, divided between 31,260,027 (31,253,827) shares, each with a nominal value of SEK 5. The closing price at the year-end was SEK 69.00 (66.50) per share, corresponding to a market capitalisation of SEK 2,157 (2,078) million.

There were a total of 11,004 (10,635) shareholders at the year-end, 9,672 (9,425) of whom held 1,000 or fewer shares. 87.9 (88.6) per cent of the shareholders comprised shareholders with 1,000 or fewer shares.

The 10 biggest shareholders accounted for 34.0 (29.1) per cent of the total number of shares and 45.6 (40.4) per cent of the total number of votes. Bo Öberg was the largest shareholder by votes, followed by Nils-Gunnar Johansson and Staffan Rasjö. Foreign owners accounted for 27.9 (28.0) per cent of the total equity. For additional information on the ownership structure, see pages 32-33.

Decision-making at shareholders' meetings

Medivir's shareholders exercise their right of decision at shareholders' meetings (Annual General Meetings and any Extraordinary General Meetings). Most of the decisions at shareholders' meetings are taken with a simple majority. In some cases, however, the Swedish Companies Act prescribes that decisions shall be taken by a qualified majority.

Annual General Meeting

Shareholders exercise their control over the company at the Annual General Meeting or, where relevant, at Extraordinary General Meetings, which constitute Medivir's supreme decision-making body. The Annual General Meeting shall be held within six months of the end of the financial year. The items on the agenda of the Annual General Meeting for resolution shall include the election of the Board of Directors and the Chairman of the Board, the appointment of auditors, the adoption of Income Statements and Balance Sheets, the appropriation of the company's unappropriated earnings, and the discharge from liability for the members of the Board and CEO, the Nomination Committee and its work, and guidelines on remuneration for senior executives. Details of the company's previous Annual General Meetings can be found on Medivir's website, where information on shareholders' entitlement to raise matters for consideration at the Annual General Meeting, and on when such requests for consideration by shareholders should be received by Medivir, can also be found.

2012 Annual General Meeting

The 2012 Annual General Meeting was held on 10 May 2012. 72 (78) shareholders attended the meeting, either in person or through proxies, representing approximately 40.86 (42.4) per cent of the votes. Attorney-at-Law, Erik Sjöman, was elected Chairman of the Meeting. All members of the Board elected by the Meeting, with the exception of Anna Malm Bernsten, were present. The Minutes of the Meeting are available on Medivir's website. The matters resolved by the Meeting included:

- The re-election of Board Members Göran Pettersson, Björn C Andersson, Anna Malm Bernsten and Ingemar Kihlström. The new election of two Board Members, namely Anders Hallberg and Rolf Classon. The re-election of the Chairman of the Board, Göran Pettersson.
- The Directors' fees for the period until the next Annual General Meeting were maximised at SEK 2,055,000, divided between them as follows:

Chairman	470,000
Five members (SEK 210,000 each)	1,050,000
Audit Committee (convening: SEK 80,000, two members: SEK 65,000 each)	210,000
Remuneration Committee (convening: SEK 65,000, one member: SEK 50,000)	115,000,
R&D Committee (convening: SEK 80,000, two members: SEK 65,000 each)	210,000
Total	**2,055,000**

- SEK 20,000 shall, over and above their ordinary fee, be payable to Board Members resident outside of Europe for every physical Board meeting attended, the annual total payable to each member not, however, to exceed SEK 100,000.
- The Auditor's fee for the period until the next Annual General Meeting shall, as before, be payable on account.
- Guidelines for remuneration to senior executives.
- Procedures for the appointment of the Nomination Committee and its work.
- Authorisation of the Board of Directors on one or more occasions before the next Annual General Meeting, with or without deviation from the shareholders' preferential rights, to approve the new issue of class B shares in a number that shall not, collectively, exceed 10 per cent of the total number of class B shares outstanding after utilisation of the authorisation.[1)]

2013 Annual General Meeting

Medivir's 2013 Annual General Meeting will be held on 6 May at the IVA Conference Centre in Stockholm. Shareholders wishing to raise a matter for consideration by the Annual General Meeting must submit a written request to the Board of Directors in good time prior to the Meeting. See Medivir's website for further information.

Nomination Committee

The Nomination Committee procedure adopted at the 2012 Annual General Meeting entails the following:

- The Chairman of the Board shall contact the three biggest shareholders in terms of number of votes at the end of the third quarter of the year and offer them the opportunity to each appoint a representative to the Nomination Committee.
- Should any of these shareholders waive their right to appoint a representative, the right shall pass to the shareholder with the next largest shareholding after these shareholders.
- The Chairman of the Board shall, in accordance with the procedure, also be a member of the Nomination Committee. The Nomination Committee members shall jointly elect a Chairman to lead its work.

The Nomination Committee shall draw up proposals for the nomination and remuneration of the Board of Directors, the Chairman of the Board and, where relevant, auditors. It shall, furthermore, develop methods of appointing the Nomination Committee and its Chairman. The findings of the Nomination Committee shall be submitted to the Annual General Meeting for adoption. Shareholders can submit proposals to the Nomination Committee by means including emails to valberedning@medivir.se. The names of the shareholder representatives who make up the Nomination Committee shall be published no later than six months before the Annual General Meeting.

1) The authorisation has not been utilised in 2012.

Members of the Nomination Committee

The current Nomination Committee comprises the Chairman of the Board and the three members appointed by the three shareholders with the largest shareholdings on 30 September 2012:

- Anders Algotsson, Chairman and representative of AFA Försäkring
- Annelie Enquist, representative of Skandia Fonder
- Bo Öberg, founder and representative of the class A shareholders.

The Chairman of the Board of Medivir, Göran Pettersson, is also a member of the Nomination Committee.

NOMINATION COMMITTEE BEFORE THE 2013 AGM

Name	Representing	Proportion of votes, %, on 30 Sept. 2012
Annelie Enquist	Skandia Fonder	4.28
Anders Algotsson	AFA Försäkring	4.09
Bo Öberg	Class A shareholders	18.73
Göran Pettersson	Medivir's Board of Directors	0.05
Total		**27.15**

Nomination Committee duties

The duties of the Nomination Committee have changed over the years in order to comply with the requirements of the Swedish Code of Corporate Governance. The primary duty of the Nomination Committee continues, however, to be to propose candidates for election to the Board of Directors. The Nomination Committee must, in order to ensure its ability to evaluate the expertise and experience required of the Board Members, keep itself informed of the Group's strategy and the challenges it will face in the years ahead.

The Nomination Committee must also take into consideration all applicable rules governing the independence of the members of the Board.

The Nomination Committee shall also draw up proposals for resolution by the Annual General Meeting regarding the remuneration and fees payable to:

- Members of the Board who are not employed by the company and who are elected by the Annual General Meeting
- The Auditor
- The members of the Nomination Committee

The Nomination Committee has not, to date, proposed the payment of any remuneration to its members. The Nomination Committee proposes auditor candidates in consultation

ATTENDANCE BY THE MEMBERS OF THE BOARD AT MEETINGS HELD IN 2012 [1)]

Name	Elected	Born	Function	Board meetings, Present/total number of Board meetings	Remuneration Committee Present/total number of Committee meetings	Audit Committee Present/total number of Committee meetings	R&D Committee Present/total number of Committee meetings	Independent
Björn C Andersson	2008	1946	Member	10/11		Chairman, 4/4		Yes
Rolf Classon[2)]	2012	1945	Member	5/7		Member, 2/2		Yes
Anders Hallberg[2)3)]	2012	1945	Member	6/7			Member, 1/2	No
Ingemar Kihlström	2008	1952	Member	11/11	Member, 2/2		Chairman, 2/2	Yes
Anna Malm Bernsten	2006	1961	Member	10/11	Chairman, 2/2	Member, 4/4		Yes
Göran Pettersson	2008	1945	Chairman	11/11			Member, 2/2	Yes

1)Members prevented from attending a Board meeting have been afforded the opportunity to submit their views to the Chairman before the meeting.
2) Appointed at the 2012 AGM.
3) Independent in relation to the company's major shareholders. Not independent in relation to the company and the company management. Anders Hallberg is part of a consortium of people who, under the terms of an agreement with Medivir, are entitled to receive certain royalty payments on products that the company may develop, based on patented inventions previously acquired from the consortium.

with the Board's Audit Committee. The Nomination Committee is also tasked with proposing a candidate for election as Chairman of the Annual General Meeting.

The work of the Nomination Committee for the 2013 Annual General Meeting

The work of the Nomination Committee begins with a review of a checklist detailing all of the duties of the Nomination Committee as prescribed by the Swedish Code of Corporate Governance and by the Nomination Committee's Rules of Procedure, which have been adopted by the Annual General Meeting. A timetable is also set for the work to be carried out. A good understanding of Medivir's operations is vital in enabling the members of the Nomination Committee to carry out their duties.

The Chairman of the Board is responsible for the annual appraisal of the work of the Board of Directors, including the efforts of the individual members of the Board. The Nomination Committee has been informed of the results of these appraisals, including the appraisal of the Chairman of the Board. The Nomination Committee is able, on the basis of this information, to adjudge the expertise and experience required on the part of the members of the Board.

The Nomination Committee has also studied the Group's and Audit Committee's appraisals of the quality and efficiency of the auditor's work, including recommendations for auditors and audit fees.

The Nomination Committee had held four meetings, at which all members were present, by 25 March 2013. The Nomination Committee's full proposal for the 2013 Annual General Meeting was published in conjunction with the issue of the notice convening the Annual General Meeting.

Duties and work of the Board of Directors

The primary duty of the Board of Directors is to manage the Group's operations on behalf of the owners in such a way that the owners' interests, in terms of a long-term healthy return on capital invested, are optimally protected. The work of the Board is regulated by means of, among other things, the Swedish Companies Act, the Swedish Code of Corporate Governance, the Articles of Association, and the Rules of Procedure adopted by the Board for its work. Medivir's Articles of Association are available on the company's website.

The Board of Directors manages and decides on Group-wide issues such as:

- strategic orientation and significant objectives;
- significant issues in relation to financing, investments, acquisitions and divestments;
- following up and monitoring operations, information provision and organisational issues, including appraisals of the Group's executive management;
- appointment and, when required, dismissal of the company's CEO;
- overall responsibility for setting up efficient systems for internal monitoring and risk management;
- significant policies

The composition of the Board of Directors

The Board of Directors shall, in accordance with the Articles of Association, comprise a minimum of three and a maximum of ten members and a maximum of two Deputy Members. The members shall serve from the end of the Annual General Meeting at which they are elected until the end of the next Annual General Meeting. There is no limit on the number of consecutive periods during which a person may be a Board Member. The CEO may be elected to the Board but under the provisions of the Swedish Companies Act, a CEO of a public limited company may not be appointed Chairman of the Board.

The Board of Directors elected by the shareholders at the 2012 Annual General Meeting for the period until the end of the 2013 Annual General Meeting comprised six members and no Deputy Members, including the Chairman of the Board. See page 44 for a description of the members of the Board.

Independence

Several different types of independence requirement apply to the Board of Directors and its Committees. Medivir applies independence requirements taken from applicable Swedish legislation, the Swedish Code of Corporate Governance, and Nasdaq's stock exchange rules.

The Nomination Committee evaluates the Board's independence ahead of the Annual General Meeting. The Board has been adjudged to fulfil the applicable requirements for independence. The evaluation of each member of the Board's independence is presented in the table above. Anders Hallberg has been adjudged to be independent in relation to the company's major shareholders, but not independent in relation to the company and the company management. Anders Hallberg is part of a consortium of people who, under the terms of an agreement with Medivir, are entitled to receive certain royalty payments on products that the company may develop, based on patented inventions previously acquired from the consortium.

Rules of Procedure and Board meetings

The Board of Directors adopts written Rules of Procedure every year in accordance with the provisions of the Swedish Companies Act, clarifying the duties of the Board and regulating the internal division of labour of the Board and its Committees, including the role of the Chairman, the decision-making processes within the Board, the Board's schedule of meetings, notices convening Board meetings, agendas and minutes. The Rules of Procedure also regulate the way in which the Board shall receive information and documentation in order to ensure its ability to take well-founded decisions. The Board of Directors also adopts written instructions for the Chief Executive Officer each year, clarifying the CEO's responsibility for the ongoing administration, methods of reporting to the Board, requirement for internal control instruments, and other matters requiring a decision by the Board or reporting to the Board.

The Rules of Procedure require a Board meeting following election to be held immediately after the Annual General Meeting. The Board normally also holds a minimum of six further meetings each year. Four of these meetings are held in conjunction with the publication of the Group's annual and interim financial reports. At least one of the meetings deals with the research portfolio and at least one deals with specific strategic issues. The budget and economic outlook are addressed during the final meeting of each calendar year. Additional meetings, including telephone conferences, are held as required.

The duties of the Chairman of the Board

The Chairman of the Board is responsible for ensuring that the work of the Board is well organised, conducted efficiently, and that the Board fulfils its obligations. The Chairman monitors the operations in dialogue with the CEO and is also responsible for ensuring that other Board Members receive the information and documentation required to enable a high standard of discussion and decision-making, and for monitoring the implementation of the Board's decisions. The Chairman is, furthermore, responsible for conducting an annual appraisal of the Board's work and for ensuring that the Nomination Committee is provided with the results of the appraisals. The Chairman represents Medivir on ownership issues.

The work of the Board of Directors in 2012

The Board of Directors has held eleven minuted meetings in 2012. The attendance of the individual members of the Board at these meetings is shown in the table on page 37. All of the meetings during the year have followed an approved agenda which, together with the documentation for every item on the agenda, was supplied to the members before the Board meetings. An ordinary Board meeting usually lasts for half a day in order to ensure sufficient time for presentations and discussions. An appointed lawyer has acted as secretary at all Board meetings. The CEO and CFO participate in the majority of Board meetings. Reviews of the current business position, the Group's results and financial position, and the outlook for the rest of the year are conducted at every ordinary Board meeting. A member of the Group's management group will usually also review a relevant strategic issue. Reports on the work of the committees are usually also presented at each Board meeting by the Chairmen of the respective committees.

The work of the Board during the year has largely focused on:

- Interim Reports, the full-year financial statement, and the annual accounts
- Financial performance
- Financing issues and the Group's capital structure
- Research and pharmaceutical development
- Acquisition issues
- Strategic orientation
- Partnerships and collaborations
- Significant investments and undertakings

Board committees

There are three consultative committees within the Board of Directors: the Remuneration Committee, the Audit Committee, and the R&D Committee.

The Remuneration Committee

The Remuneration Committee is appointed by the Board of Directors and shall comprise a maximum of four members. The 2012 Remuneration Committee has comprised Ingemar Kihlström and Anna Malm Bernsten (Chairman).

The Committee is an advisory one and has no independent right of decision.

The primary duty of the Remuneration Committee is to represent the Board on issues relating to remuneration and employment terms for the CEO and senior executives who report directly to the CEO, based on the remuneration and employment terms for the CEO and other senior executives adopted by the Annual General Meeting. The Committee reports continuously on its work to the Board of Directors.

The Remuneration Committee has held two minuted meetings in 2012. The attendance of the individual Board Members is shown in the table on page 37. The Committee has also held a number of consultations by telephone and email. The Committee has largely focused on:

- Reviews of proposals regarding salaries and remuneration for the CEO and other senior executives.
- Reviews of proposals for a programme for short-term performance-related pay.
- Reviews of proposals for a programme for long-term performance-related pay.

The Audit Committee

The Audit Committee is appointed by the Board of Directors and shall comprise a maximum of four members. The 2012 Audit Committee has comprised Björn C Andersson (Chairman), Rolf Classon and Anna Malm Bernsten. The members are independent and have audit competence. The Committee advises the Board of Directors and has no independent right of decision.

The primary duty of the Audit Committee is to support the Board of Directors in its work with Medivir's risk management, governance and internal control, and to quality assure the financial reporting. The Committee considers significant auditing issues that affect the Group and meets on an ongoing basis with Medivir's auditors and evaluates the audit process. The Committee also assists the Nomination Committee in the production of proposals for auditors and the fees payable to auditors, and approves the supplementary services that the company may purchase from its external auditors. The Chairman of the Audit Committee is responsible for ensuring that the entire Board of Directors is kept continuously informed of the work of the Committee and, when necessary, submits matters to the Board for decision.

The Audit Committee has held four minuted meetings in 2012. The attendance of the respective Board Members is shown in the table on page 37. The CEO and CFO have attended all meetings. The Committee has largely focused on:

- The scope and accuracy of the year-end financial statement.
- Reviews of the company's risk management, governance and internal controls.
- Significant audit issues.
- Reviews of reports from the company's Auditor elected by the Annual General Meeting, including the Auditor's audit plan.

The R&D Committee

The R&D Committee is appointed by the Board of Directors and shall comprise a maximum of five members. The 2012 R&D Committee comprised Anders Hallberg, Ingemar Kihlström (Chairman) and Göran Pettersson. The Committee is an advisory one and has no independent right of decision over and above that specified below.

The primary duty of the R&D Committee is to review and evaluate the research portfolio and to provide the Board with supporting data ahead of decisions on the strategic orientation of the R&D portfolio. The R&D Committee also has an advisory role in relation to the company management with regard to specific scientific matters.

The R&D Committee has held two minuted meetings in 2012. A number of physical, non-minuted working meetings and telephone conferences have also been held during the year. The attendance of the respective Board Members is shown in the table on page 37. The Committee has largely focused on 6-monthly reviews and evaluations of the research portfolio

Group management

The Board appoints the CEO and, where necessary, the Deputy CEO. The CEO leads the work of the Group management and is, together with the Group management, responsible for ensuring that the operating activities are conducted in accordance with the provisions of the Swedish Companies Act, other legislation and regulations, applicable regulations for listed companies, the Articles of Association, and the CEO's Instructions. At the beginning of 2012, the Group management comprised eight people (two women and six men) and at the end of the year, it comprised seven people (two women and five men). The Group management group has a broad composition of individuals with in-depth and extensive experience of research and development, the marketing and sale of pharmaceuticals, and the requisite expertise in accounting, finance and communication. For a presentation of the Group management, see page 45. The role of the Group management is to:

- Establish a long-term vision, a corporate culture and strategies and policies based on the goals established by the Board of Directors.
- Establish goals for the operating units, allocate resources and follow up on the units' results.
- Produce information and documentation as support data that enables the Board to take well-founded decisions Medivir converts strategic goals into results goals for the

operating units. The primary objective of this work is to enable measurement of:

- The development of the research portfolio.
- Financial performance and results per operating unit.
- Employee satisfaction and influence.

Goals are updated for the year ahead on the basis of the annual strategic work. Goals are set for each unit and communicated throughout the organisation. The goals are a management tool used to adapt the goals of the operating units and employees in line with the company's goals and to monitor goal fulfilment and identified risks.

Medivir has two business areas: the Pharmaceuticals business area comprises the Group's research and development projects, the Xerclear cold sore pharmaceutical, and the original pharmaceuticals owned by BioPhausia. The Parallel imports business area imports pharmaceuticals to the Swedish market via Cross Pharma.

Election of auditors

The duties of the Nomination Committee include proposing an auditor to the Annual General Meeting.

PricewaterhouseCoopers AB (PwC) was appointed as the company's external auditors for a one-year period up to and including the 2013 Annual General Meeting. Authorised Public Accountant, Claes Dahlén, is the Auditor-in-Charge for Medivir.

The work of the auditors:

- The auditors work to an audit plan that incorporates the views submitted by the Audit Committee and the Board of Directors. They report their observations on a rolling basis to the Audit Committee and the Board, both during the course of the audit and in conjunction with the preparation of the annual accounts.
- Reviewing the interim reports and the annual financial statement in order to assess their accuracy, completeness and the correspondence of the accounts with generally accepted accounting practice and relevant accounting principles.
- The auditors attend the Annual General Meeting at which they present details of the audit work and observations made.

PwC submits audit reports for Medivir AB, the annual accounts of the company's subsidiary companies, the consolidated accounts and the administration of Medivir AB. The auditors also conduct a review of the Q3 report. PwC replaced Ernst & Young as auditors for the BioPhausia corporate group in the fourth quarter of 2011.

Medivir has, in addition to the audit engagement, consulted PwC on tax issues and a range of accounting and financial matters. PwC verifies its independence ahead of its decision to offer independent advisory services to Medivir over and above its audit engagement.

Remuneration to the Board of Directors and senior executives

REMUNERATION PRINCIPLES

Remuneration principles for senior executives of Medivir are determined by the Annual General Meeting. The term, senior executives, refers to the CEO and other members of the management group.

The Nomination Committee's proposed guidelines for remuneration to senior executives were adopted at the 2012 Annual General Meeting. These guidelines essentially are consistent with the principles previously applied. The guidelines mean, in effect, that the company shall offer a competitive total remuneration package that enables the recruitment and retention of qualified senior executives. Remuneration for senior executives may comprise a fixed salary, performance-related pay, incentive programmes approved by the Annual General Meeting, pensions and other benefits. The fixed salary shall take into account the individual's areas of responsibility and experience. Cash performance-related pay may total a maximum of 50 per cent of the annual fixed salary. Performance-related pay shall be linked to predetermined and quantifiable criteria, structured with the aim of promoting the company's long-term value creation.

For additional information on remuneration, see Note 5, page 68.

The Board's proposal for remuneration guidelines to be submitted to the 2013 Annual General Meeting are essentially consistent with the principles applied previously. See page 51 for the Board's full proposal to the 2013 Annual General Meeting.

LONG-TERM INCENTIVE PROGRAMMES

The purpose of long-term incentive programmes is to promote the company's long-term interests. Added value is created by motivating and rewarding the company's senior executives and other employees. Each year, the Board agrees on a proposal for submission to the Annual General Meeting with regard to any new long-term incentive programmes and their scope, objectives and the number of participants. A three-year stock option plan comprising 394,400 share warrants and staff stock options was approved at the 2010 Annual General Meeting. After vesting, the options can be exercised to subscribe for new class B shares upon payment of an exercise price.

REMUNERATION TO SENIOR EXECUTIVES (SEK 000) [1]

Function	Year	Fixed salary	Performance-related pay	Severance pay	Benefits	Total	Pension	Total incl. pension
CEO[2]	**2012**	**3,300**	**990**	–	**85**	**4,375**	**1,184**	**5,559**
	2011 [1]	3,690	–	1,694	21	5,405	356	5,761
Other senior executives	**2012**	**8,888**	**1,414**	**2,006**	**530**	**12,838**	**2,387**	**15,225**
	2011 [1]	8,818	–	–	4,906	13,724	1,940	15,664
Total	**2012**	**12,188**	**2,404**	**2,006**	**615**	**17,213**	**3,571**	**20,784**
	2011 [1]	12,508	–	1,694	4,927	19,129	2,296	21,425

1) At the beginning of 2012, the management group, including the CEO, comprised 8 people. At the end of the year, it comprised 7 people. At the beginning of 2011, the management group, including the CEO, comprised 9 people. At the end of the year, it comprised 8 people.
2) Maris Hartmanis replaced Ron Long as CEO in September 2011.

DIRECTORS' FEES (SEK 000) [1]

		Director's fees		Audit Committee		Remuneration Committee		R&D Committee		Total	
Name	**Function**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**	**2012**	**2011**
Björn C Andersson	Member	210	200	80	80	–	–	–	–	290	280
Rolf Classon	Member	210	–	65	–	–	–	–	–	275	–
Anders Hallberg	Member	210	–	–	–	–	–	65	–	275	–
Ingemar Kihlström	Member	210	200	–	–	50	65	80	65	340	330
Anna Malm Bernsten	Member	210	200	65	65	65	50	–	–	340	315
Göran Pettersson	Chairman	470	450	–	–	–	–	65	–	535	450
Total		**1,520**	**1,050**	**210**	**145**	**115**	**115**	**210**	**65**	**2,055**	**1,375**

1) Remuneration to the Board of Directors for the period from May 2012 to April 2013 and for the period from May 2011 to April 2012, SEK thousands. The fee payable to members of the Board elected by the Annual General Meeting is determined by the Annual General Meeting in line with proposals by the Nomination Committee. Remuneration has been paid as shown in the above table in 2012 and 2011. The remuneration does not include travel expenses. Consultancy fees, approved by the Board of Directors, and totalling SEK 414,000 have also been paid to Bernsten Konsult AB in 2012.

REMUNERATION TO SENIOR EXECUTIVES

The term, senior executives, refers to the CEO and other members of the management group. Medivir gathers and evaluates information on competitive remuneration levels for relevant sectors and markets on a rolling basis. Remuneration payments in 2012 and 2011 are shown in the above table.

REMUNERATION TO THE BOARD OF DIRECTORS

The Director's fee payable to members of the Board of Medivir is determined by the Annual General Meeting in line with proposals by the Nomination Committee. Remuneration payments in 2012 and 2011 are shown in the above table.

AUDITORS' FEES

Fees for auditing Medivir's accounts are determined by the Annual General Meeting in line with proposals by the Nomination Committee. Remuneration payments in 2012 and 2011 are shown in the table below.

AUDITORS' FEES (SEK 000)

	2012	2011
PwC		
Audit engagement	1,003	537
Auditing services over and above the audit engagement	116	330
Tax advice	196	336
Other services	1,087	1,323
Subtotal	**2,402**	**2,526**
Ernst & Young		
Audit engagement	129	553
Auditing services over and above the audit engagement	–	27
Other services	88	–
Subtotal	**217**	**580**
Total	**2,619**	**3,106**

Board of Directors' internal controls report

The Board of Directors' responsibility for internal controls is regulated in the Swedish Companies Act and the Swedish Code of Corporate Governance. Internal controls with regard to the financial reporting are one component of the total internal controls system within Medivir and are a central component of Medivir's corporate governance.

Internal control of the financial reporting

The overall purpose of the internal control is to provide reasonable assurance that the company's strategies and goals are monitored and that the owners' investments are protected. The internal control shall, furthermore, provide reasonable assurance that the external financial reporting is reliable and has been prepared in accordance with generally accepted accounting practices, that applicable legislation and regulations have been observed, and that the requirements of listed companies have been observed. According to the COSO framework, the internal control shall include, among other things, a control environment, risk assessment, control activities, information and communication, and monitoring.

Control environment

Medivir's internal control structure is based on the division of labour between the Board of Directors and its Committees, and the CEO and President. The control environment also includes the culture that the Board of Directors and company management communicate and operate from. Medivir's control environment is based on:

- Steering documents such as the Board's Rules of Procedure and the CEO's Instructions, policies and guidelines.
- Corporate culture and values.
- The company's organisation and the way in which it conducts its operations, with clearly defined roles and areas of responsibility, and delegation of authority.
- Group-wide planning processes such as the process for appraisal of the R&D portfolio and the annual budget process.

Medivir's financial reporting complies with the laws and regulations applicable to companies listed on the main market of the Nasdaq OMX Stockholm Exchange. The internal control environment includes, in addition to external laws and regulations, policies and guidelines for the financial reporting, such as the finance policy, endorsement and authorisation instructions, and the purchasing and investment policy. The internal steering documents are updated regularly in line with changes in legislation. Checklists have also been drawn up for important routines and processes. Internal instructions and routines are developed on a rolling basis. Financial reports are drawn up on a monthly and quarterly basis for the Group, the Parent Company, the subsidiary companies, operating units and projects. The process includes specific controls that shall be carried out in order to ensure that the reports are of a high quality

Risk assessment

An effective risk assessment reconciles Medivir's business opportunities and results with the requirements of shareholders and other stakeholders for stable, long-term value growth and control. The process of research and pharmaceutical development, all the way up to approved registration, is both highly risky and capital-intensive. The majority of the projects launched never achieve market registration. If competing products take market shares or competing research projects achieve better effect and reach the market more quickly, the future value of Medivir's product and project portfolio may be lower than expected. Medivir's ability to produce new CDs (candidate drugs), to enter into partnerships for its projects, to successfully develop its projects to market launch and continued sale, and to secure funding for its operations, are decisive in terms of the company's future.

Medivir is exposed to the following main risk categories:

- External risks – such as regulatory approval, competition, price changes, external seasonal fluctuations, and patent protection.
- Operating risks – such as integration risk, production risk and reliance on key persons and partnerships.
- Financial risks – such as liquidity, interest, currency and credit risks.

For a more detailed presentation of risk exposure and the way in which Medivir handles it, see pages 52-53.

The risk of material misstatements in reporting may arise in conjunction with bookkeeping and valuation of assets, liabilities, income and expenses, or deviations from disclosure requirements. Other risks in conjunction with the financial reporting include fraud, losses or embezzlement of assets or improper preference of another party at the company's expense.

Medivir's risk assessment with regard to the financial reporting is intended to identify and evaluate the most significant risks that affect the internal controls with regard to the financial reporting. Policies and guidelines for account-

ing and financial reporting comprise the areas of particular importance in promoting correct and complete accounting, reporting and information provision at the right time. Risks identified are handled through well-documented processes, through a clear division of responsibility and labour, and an appropriate decision-making process. Important transactions consequently require special approval in order to ensure that assets are managed correctly.

Control activities

The primary purpose of the control activities is to prevent, identify and rectify errors in the financial reporting. Routines and activities have been structured to handle and action significant risks in relation to the financial reporting.

The activities include analytical monitoring and comparison of profit performance or items, reconciliation of accounts and balance specifications, and approval of all business transactions and partnership agreements, powers of attorney and authorisation instructions, and accounting and valuation principles. Access to ERP systems is largely restricted in line with authorisation, responsibilities and roles.

There is an established Controller function that carries out control activities at all levels within the company. The function analyses and follows up on deviations from budget, draws up forecasts, follows up on significant fluctuations over periods, and reports within the company, thereby reducing the risk of misstatements in the financial reporting.

Information and communication

Medivir has information and communication pathways that are designed to promote the completeness and accuracy of the financial reporting. The Board of Directors approves the consolidated annual accounts and the year-end financial statement, and tasks the CEO with presenting quarterly reports in accordance with the Board's Rules of Procedure. All financial reports are published in accordance with applicable regulations. External information is communicated by means of, among other things, Medivir's website (www.medivir.se), where quarterly reports, year-end financial statements, annual reports, press releases and news are published in chronological order. The website is also complemented with information from press conferences and analysts' meetings.

The Board of Directors receives regular financial reports on the Group's position and profit performance. Meetings are held within the company at management group level, and then at the level deemed appropriate by the respective units. Important communication channels within the company include the intranet, where policies, guidelines and information are published, and regular information meetings for all members of staff.

Monitoring

The Board of Directors considers all of the Group's quarterly reports, year-end financial statements and annual reports before publication. The Board receives regular financial reports on the Group's position and profit performance and the Group's financial situation is discussed at every Board meeting.

The Board's monitoring of the internal controls in respect of the financial reporting is primarily conducted through the Audit Committee. Medivir's auditors carry out regular reviews of the operations in accordance with a set audit plan and follow up on selected aspects of the internal controls annually within the framework of the statutory audit. Once an audit is completed, observations are reported back to the Audit Committee on a rolling basis. The auditors also attend one Board meeting per year and report their observations made during the audit for the year and the operational routines. The practice on these occasions is to set time aside for specific discussions not attended by the CEO or other employees.

The company has a simple legal and operational structure and well-developed steering and internal control systems. The Board of Directors has, therefore, opted not to institute a special internal audit process. The Board and the Audit Committee evaluate and monitor the situation continuously with regard to the possible establishment of an internal audit function.

The Board of Directors

BJÖRN C ANDERSSON
Born 1946. Member of the Board since 2008 and Chairman of Medivir's Audit Committee. He has a Licentiate in Economics and was previously employed by Handelsbanken where he was the Deputy CEO and Director of Handelsbanken Markets and, subsequently, Director of Handelsbanken Asset Management. Björn is the Chairman of the Board of NAXS Nordic Access Buyout Fund AB and a member of the Boards of Bliwa Livförsäkring, Euroben Life & Pension Ltd, Nordben Life Insurance & Pension and SPP Fonder AB.
Shares in Medivir: 2,500 class B.

ANNA MALM BERNSTEN
Born 1961. Member of the Board since 2006, and also a member of Medivir's Audit and Remuneration Committees. Anna holds a B.Sc. in Engineering, has extensive knowledge of the life sciences sector, and runs her own management and business development firm. Anna has held senior executive positions in GE Healthcare Life Sciences, Pharmacia, Assa Abloy, Medivir, Baxter Medical and Carmeda AB. Anna is a member of the Boards of Birdsteep ASA, Cellavision AB, Fagerhult AB, Matrisen AB and Nolato AB and is the Chairman of the Board of Scientific Solutions AB. She was previously a member of the Board of BioPhausia AB
Shares in Medivir including holdings via companies: 3,406 class B.

ROLF CLASSON
Born 1945. Member of the Board since 2012. Rolf holds a Master's degree in Political Science from the University of Gothenburg. He has extensive experience of senior executive positions in the pharmaceutical and medical technology industry with such companies as Pharmacia and Bayer Diagnostics, and as Global CEO for Bayer Healthcare. He was also a Divisional Manager at Swedish Match. Rolf's current directorships include membership of the Boards of Hill-Rom Corporation (USA), Auxilium Pharmaceuticals (USA), Tecan Group (Switzerland), Fresenius Medical Care (Germany) and Aerocrine AB (Sweden).
Shares in Medivir: 0

ANDERS HALLBERG
Born 1945. Member of the Board since 2012. Anders has held a professorship in Medicinal Chemistry at Uppsala University's Faculty of Pharmacy since 1990 and has also held a number of positions as scientific advisor at AstraZeneca and smaller pharmaceutical companies between 1990 and 2006. Prior to this, he was the Head of the Medicinal Chemistry Department at Astra in Lund. Between 2006 and 2011 he was the Vice Chancellor of Uppsala University. He has published over 250 scientific articles, a large number of which are on the subject of pharmaceuticals for infectious diseases. Anders Hallberg is currently a member of the Government's Research Committee, the Royal Swedish Academy of Sciences, and the Royal Swedish Academy of Engineering Sciences.
Shares in Medivir, including family: 1,600 class B

INGEMAR KIHLSTRÖM
Born 1952. Member of the Board since 2008, Chairman of Medivir's Remuneration Committee and member of the R&D Committee. Ingemar is an Associate Professor at Uppsala University and a life sciences advisor, via his own consultancy firm. Ingemar has extensive experience of the pharmaceutical sector and business development from both the pharmaceutical industry and the finance sector. Ingemar has previously held senior executive positions with Pharmacia, Aros Securities and ABG Sundal Collier. He currently has a number of directorships in Scandinavia, including as a member of the Boards of HealthInvest Partners AB, Miris AB and Respiratorius AB. Ingemar is also Chairman of the Boards of Creative Antibiotics AB, Hammercap AB, RecoPharma AB and Spectracure AB.
Shares in Medivir, including family: 9,350 class B.

GÖRAN PETTERSSON
Chairman of the Board. Born 1945. Elected to the Board of Medivir in 2008. Göran is a graduate pharmacist and market economist (IHM) and has extensive experience of the Swedish pharmaceutical industry, both in Sweden and other countries. Göran has run his own life sciences consultancy firm since 2000 and has previously held senior executive positions in the Astra corporate group, KabiVitrum, Pharmacia/PharmaciaUpJohn and Meda. Göran holds a number of directorships in other companies and is the Chairman of the Board of Axelar AB and a member of the Boards of Pfizer Sweden Pensionsstiftelse, Pergamum AB and Recipharm AB.
Shares in Medivir, including family: 19,550 class B.

Anders Hallberg, Anna Malm Bernsten, Rolf Classon, Björn C Andersson,Ingemar Kihlström, Göran Pettersson.

Management

CHARLOTTE EDENIUS
Born 1958. MD and PhD, Karolinska Institute. EVP R&D. Employed since 2010. Formerly Senior Vice President Preclinical and Clinical R&D at Orexo, Chief Scientific Officer at Biolipox and various positions within AstraZeneca's clinical R&D.
Shares in Medivir, including family: 10,232 class B.
Option programme 2010-2013: 2,000 warrants, 2,000 staff stock options.

MARIS HARTMANIS
Born 1953. Ph.D. and Associate Professor of Biochemistry at the Royal Institute of Technology, Stockholm. President and CEO of Medivir and CEO of BioPhausia. Employed since 2011. Over 25 years' experience of the Life Sciences industry in a range of different senior executive and R&D positions, including at BioPhausia, Gambro, Amersham and Pharmacia.
Shares in Medivir: 30,000 class B.

HENRIC JUSERIUS
Born 1963. B.Sc. Business Economics and Management, Umeå University. EVP Commercial. Employed since 2012. Henric's previous position was as the Nordic Region Commercial Director for Actelion Pharmaceuticals. He has extensive experience in the sector and has worked with the marketing and sale of pharmaceuticals for over 20 years at companies such as Astra, GlaxoWellcome, Pfizer, Serono and Actelion.
Shares in Medivir: 0.

CHRISTINA KASSBERG
Born 1968. B.Sc. Economics. EVP Finance & Administration. Employed since 2000. Previous positions include Controller at Medivir AB, Accounting Manager at Skandia Link Multifond and Auditor at Öhrlings PricewaterhouseCoopers.
Shares in Medivir, including family: 19,618 class B.
Option programme 2010–2013: 9,500 warrants, 9,500 staff stock options.

REIN PIIR
Born 1958. B.Sc. Business Economics and Management. EVP Corporate Affairs & IR. Employed since 2000. Previous senior positions include Health Care and Research at D. Carnegie AB, and Analysis & Strategy at SPP.
Shares in Medivir: 0.
Option programme 2010–2013: 9,500 warrants, 9,500 staff stock options.

PAUL WALLACE
Born 1962. Ph.D., University of Cambridge. EVP Business Development. Employed since 2000. Formerly EVP Business Development at Peptide Therapeutics plc. and Director of Research at Eclagen, both in the UK.
Shares in Medivir: 6,200 class B.
Option programme 2010–2013: 9,500 warrants, 9,500 staff stock options.

HÅKAN WALLIN
Born 1962. B.Sc. Business Economics and Management, Stockholm University, and CEFA from the Stockholm School of Economics. EVP Corporate Development. Employed since 2010. Previous senior executive positions include ABG Sundal Collier AB's Corporate Finance department, Libertas Capital Nordic AB and Ernst & Young's Corporate Finance.
Shares in Medivir: 2,600 class B.
Option programme 2010–2013: 9,500 warrants, 9,500 staff stock options

Maris Hartmanis, Charlotte Edenius, Henric Juserius, Rein Piir, Håkan Wallin, Christina Kassberg, Paul Wallace.

Directors' Report

The Board of Directors and the President of Medivir AB (publ.), corporate ID no. 556238-4361, whose registered offices are in Huddinge, Sweden, hereby submit the Annual Report for the operations of the Group and the Parent Company, Medivir AB (publ.) for the 2012 financial year.

All figures refer to the 2012 financial year of the Group unless otherwise indicated. Comparisons, unless otherwise indicated, are made with the 2011 financial year.

The Medivir Group comprises 14 companies with operations in three countries. The BioPhausia Group is included as from 31 May 2011. The Swedish public limited company, Medivir AB, whose shares are quoted on the Nasdaq OMX Stockholm exchange, is the Parent Company of the Group. For additional information, please visit www.medivir.se.

Operations

Medivir is a collaborative and agile pharmaceutical company with an R&D focus on infectious diseases and a leading position in the field of hepatitis C. In 2011, Medivir acquired a commercial pharmaceutical portfolio through the acquisition of BioPhausia, in what was an important step en route to achieving our goal of becoming a profitable, high-growth Nordic pharmaceutical company. Medivir is now a pharmaceutical company that integrates successful pharmaceutical development with a Nordic market presence. The Group's commercial goal is to become a profitable pharmaceutical company whose primary focus is in the field of infectious diseases.

Medivir is organised into two business areas, Pharmaceuticals and Parallel imports. Sales by Pharmaceuticals and Parallel imports generated revenues totalling approximately SEK 555 million. The Pharmaceuticals business area includes the Group's research and development portfolio, the in-house developed cold sore medication, Xerclear, and fifteen proprietary pharmaceuticals, the best known of which are Citodon, Laxabon, Lithionit and Mollipect. Sales of proprietary pharmaceuticals have shown stable growth during the year and EBITDA margins continued to be good. The Parallel imports business area, Cross Pharma, imports, repacks and sells third party proprietary pharmaceuticals in the Swedish market. Cross Pharma's net sales have increased by 23.6 per cent during the year.

Medivir has the in-house expertise to take a project from early research stage to clinical development and sales. The focus of the pharmaceutical development work is on infectious diseases and it is in this sphere that most of the projects are found. The project portfolio also includes two projects focusing on other disease areas in which proteases have a key role in the progression of the disease.

Medivir has, over the years, entered into a number of successful partnerships with other pharmaceutical companies for the development of new pharmaceutical compounds and currently has a number of ongoing partnerships, in both clinical and preclinical phases, with both established pharmaceutical companies and smaller biotechnology companies. The research portfolio comprises nine pharmaceutical projects, five of which are being conducted in collaboration with partners. Seven of the projects are focused on infectious diseases, and four of these are in the hepatitis C sphere. Two of the hepatitis C projects are being run in collaboration with partners and two under Medivir's own management. Medivir is currently well positioned in the hepatitis C segment and registration applications will be submitted during the first half of 2013 for simeprevir – a project being conducted in partnership with Janssen Pharmaceuticals.

Significant events in 2012

The Xerclear cold sore pharmaceutical

Xerclear is Medivir's in-house developed cold sore pharmaceutical that is marketed via partners. In 2012, GSK (Medivir's partner) began the OTC launch of Xerclear in Europe under the Zoviduo and Zovirax Duo brand names. GSK is responsible for the commercial development of Xerclear, which means that GSK is responsible for obtaining market approval for non-prescription sales in all of the regions covered by the agreement between the two companies. GSK shall also, in addition to financing the commercial development of Xerclear, pay up to a two-digit royalty on sales to Medivir for its exclusive rights. The remaining contractually stipulated milestone payments of EUR 1.9 million fall due for payment in conjunction with future OTC launches in various predefined countries.

Simeprevir – protease inhibitor for the treatment of hepatitis C

Simeprevir is a protease inhibitor developed by Medivir in collaboration with Janssen Pharmaceuticals, a company within the Johnson & Johnson corporate group. Simeprevir is administered as a single capsule (150 mg) once a day for the treatment of hepatitis C.

Three pivotal phase III trials of simeprevir were presented at the end of the year. The QUEST-1, QUEST-2 and PROMISE trials comprised patients infected with HCV genotype 1. The results show that treatment with simeprevir results in a good virological response, that the safety profile is comparable with standard forms of treatment, and that a majority of the patients were able to cease all treatment after 24 weeks.

Phase III trials of simeprevir in combination with pegylated interferon and ribavirin on patients infected with HCV genotype 4 are also ongoing. These patients have either not

been treated before ("treatment naïve") or have redeveloped the virus after completion of a previous course of treatment ("relapsers").

The long-term goal is to develop an interferon- and ribavirin-free combination therapy for hepatitis C. Simeprevir's properties make it well-suited to form the cornerstone of any future combination therapy of this kind, comprising two or more direct-acting antiviral pharmaceuticals with different mechanisms of action, and a number of clinical collaborations began during the year in order to study interferon-free combination therapies with simeprevir. Trials are ongoing or scheduled to start in early 2013 involving simeprevir in combination with:

- Sofusbuvir (GS-7977, nucleotide polymerase inhibitor; Gilead)
- Daclatasvir (NS5A inhibitor; BMS)
- TMC647055/r (non-nucleoside polymerase inhibitor and a low dose of ritonavir; Janssen)
- VX-135 (nucleotide polymerase inhibitor; Vertex)
- DX719 (NS5A replication complex inhibitor; Idenix)

Polymerase inhibitor for the treatment of hepatitis C virus infections

Medivir is conducting a collaboration project with Janssen Pharmaceuticals in the hepatitis C sector, namely the development of a nucleotide-based HCV NS5B polymerase inhibitor. A number of substances have been evaluated on an ongoing basis throughout the year, laying the foundations for further preclinical development. Nucleotide NS5B polymerase inhibitors have proven to have a favourable profile for use in combination with other direct-acting antiviral pharmaceuticals in future interferon-free treatments of the hepatitis C virus.

In-house hepatitis C projects

Medivir also has two in-house projects aiming to develop treatments for the hepatitis C virus. One is an NS5A-replication complex inhibitor while the other is a nucleotide-based NS5B polymerase inhibitor. Both projects are in the preclinical optimisation phase. The replication complex inhibitor has made important progress during the year with the identification of several chemical series with powerful anti-HCV activity. The researchers have also identified unique molecules with high potency against mutant HCV genotype 1a viral strains that have developed a resistance to first generation NS5A replication complex inhibitors. Medivir intends to develop the next generation of NS5A inhibitors with an improved profile in respect of genotype coverage.

The scope of the nucleotide-based NS5B polymerase inhibitor project was expanded with the addition of new nucleotide structures as a result of the acquisition of Novadex.

MIV-711 – a cathepsin K inhibitor for the treatment of bone disorders

MIV-711 is a potent, selective, reversible inhibitor of cathepsin K, a protease that is important in bone and cartilage resorption. MIV-711 is developed as a new treatment method for disorders where reduced cathepsin K activity may be beneficial, e.g. in the treatment of osteoporosis, arthritis and bone metastasis. The clinical phase I programme for MIV-711 started in May. In phase Ia, increasing single doses were administered to healthy volunteers in order to evaluate safety, tolerability, pharmacokinetics and the effect on biomarkers. The results were very promising and a phase Ib trial began in August. In phase Ib, repeat once daily doses will be administered to healthy volunteers, including post-menopausal women.

Cathepsin S inhibitor for the treatment of neuropathic pain

The cathepsin S protease affects a variety of inflammatory mechanisms in the central nervous system. In preclinical models for neuropathic pain, inhibition of cathepsin S has shown good efficacy. Medivir's cathepsin S inhibitor project is in the preclinical optimisation phase. A number of potential candidate drugs have been identified during the year and these molecules are currently being evaluated with regard to safety. The results presented to date are promising. The compounds have also been further evaluated in preclinical models for the treatment of neuropathic pain.

Collaboration with the Swedish University of Agricultural Sciences on the development of new antibiotics

Medivir has also begun a partnership with the Swedish University of Agricultural Sciences (SLU) in order to identify and develop new pharmaceutical substances to treat bacteria that have developed resistance to antibiotics. The substances developed by SLU during the early screening partnerships will subsequently be developed by Medivir. Medivir will pay research support to SLU for the duration of the screening partnership and a small percentage of future income if any future substances are developed or commercialised.

Acquisition of Novadex's preclinical research programme and prodrug technologies

In September, Medivir acquired preclinical research assets from Novadex Pharmaceuticals AB. The acquisition includes intellectual property rights, and a research portfolio including early antiviral research programmes, of which one is directed to recently identified nucleotide polymerase inhibitors. The acquisition also includes prodrug technologies that can be applied with the development of both protease inhibitors and nucleoside analogues in order to improve the pharmacokinetic properties. The acquisition strengthened Medivir's position in the field of hepatitis C research while simultaneously enhancing the company's technology platform. Under the terms of the agreement, Medivir made a non-recurrent payment in conjunction with the acquisition. Medivir will, in future, potentially make milestone payments, depending on project development.

The Group's results and financial position

Revenues

Net sales totalled SEK 555.0 (698.6) million, corresponding to a reduction of SEK 143.6 million. The Parallel imports segment reported an increase in product sales of SEK 198.5 million. Sales of pharmaceuticals increased by SEK 53.7 million. Non-

recurrent payments in respect of outlicensing and partnership agreements fell by SEK 396.8 million. Non-recurrent payments totalled SEK 4.4 million and were in respect of OTC approval for the cold sore pharmaceutical, Xerclear, in Russia. Non-recurrent payments in the sum of SEK 401.2 million were included in last year´s net sales.

Net sales breakdown[1] (SEK m)	2012	2011
Outlicensing and partnership agreements		
Non-recurrent payments	4.4	401.2
Pharmaceutical sales	164.9	111.2
Parallel imports	384.4	185.9
Other services	1.3	0.3
Total	**555.0**	**698.6**

1) The BioPhausia corporate group is included from 31 May 2011.

Costs and results

The cost of goods sold totalled SEK –402.7 (–240.6) million, corresponding to an increase of SEK 162.1 million resulting primarily from the acquisition of BioPhausia. The gross profit totalled SEK 152.3 (458.0) million, a decrease of SEK –305.7 million that was primarily due to lower nonrecurrent payments.

Selling expenses fell by SEK 25.5 million, primarily due to lower royalty costs. Administrative expenses increased by SEK 17.3 million, largely due to higher personnel costs after the acquisition of BioPhausia. Research and development costs increased by SEK 19.3 million, mainly due to activities as part of the internally run hepatitis C projects. Operating expenses totalled SEK –337.5 (–326.4) million, corresponding to an increase of SEK 11.1 million.

Other operating income/expenses improved by SEK 19.1 million, primarily as a result of transaction costs in conjunction with the acquisition of BioPhausia last year.

The operating profit/loss totalled SEK –185.8 (111.8) million, corresponding to a negative change of SEK –297.6 million. The change was primarily due to the lower gross profit. Net financial items totalled SEK –7.1 (–0.6) million. Net financial items included the impairment of shares in Epiphany Biosciences and Presidio Pharmaceuticals, which amounted to SEK 9.7 million.

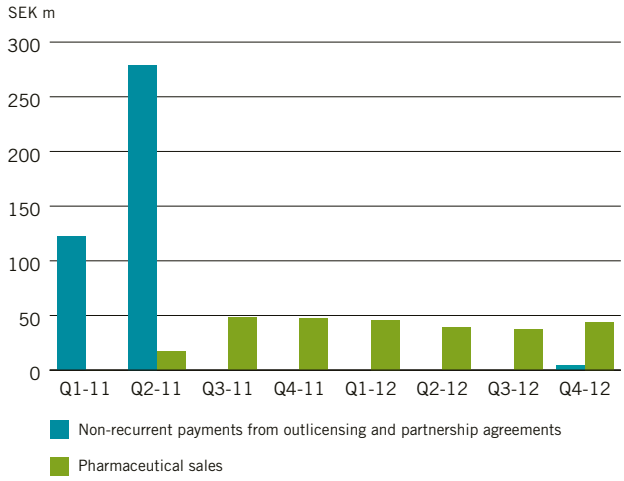
Tax expense amounted to SEK –26.2 (2.5) million. The Group utilised capitalised tax loss carry-forwards to a value of SEK 64.9 million, thereby reducing the deferred tax asset by SEK 17.1 million. The tax expense also includes non-recurrent effects arising from a reduction in the corporation tax rate, which reduced the value of the deferred tax asset by SEK 9.6 million. The net result for the period was SEK –219.1 (113.8)million.

Pharmaceuticals segment

Segment Pharmaceuticals[1] (SEK m)	2012	2011
Net sales	170.6	512.7
EBITDA	–165.3	137.6
EBITDA %	–96.9	26.8

1) The BioPhausia group is included from 31 May 2011.

Net sales totalled SEK 170.6 (512.7)million, a decrease of SEK 342.1 million primarily due to lower non-recurrent payments. 97 (22) per cent of net sales comprised pharmaceutical sales, while 3 (78) per cent comprised non-recurrent payments for



outlicensing and partnership agreements. Pharmaceutical sales rose by SEK 53.7 million, the most important products being Mollipect, Citodon and Lithionit, and EBITDA margins remained high. Non-recurrent payments during the period amounted to SEK 4.4 million. Non-recurrent payments in the sum of SEK 401.2 million were included in the last year´s net sales.

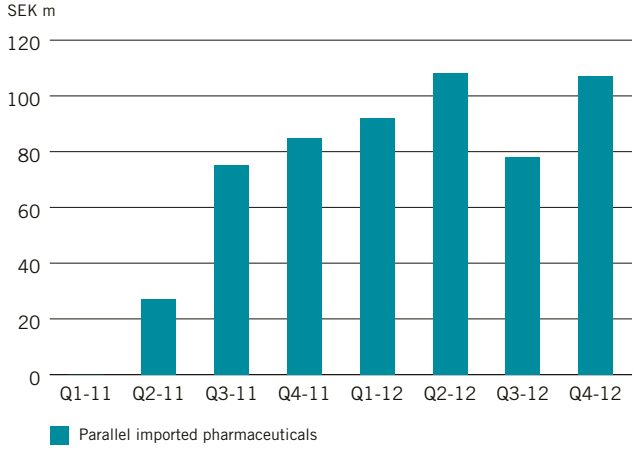
Operating profit/loss before depreciation and amortisation (EBITDA) totalled SEK –165.3 (137.6) million, a negative change of SEK –302.9 million primarily due to lower non-recurrent payments. EBITDA includes SEK –203.4 (–184.1) million in research and development costs, corresponding to an increase of SEK 19.3 million and arising principally from activities as part of the internally run hepatitis C projects.

Parallel imports segment

Parallel imports segment1) (SEK m)	2012	2011
Net sales	384.4	185.9
EBITDA	14.3	–2.3
EBITDA %	3.7	–1.2

1) The BioPhausia group is included from 31 May 2011.

Net sales for the period totalled SEK 384.4 (185.9) million, corresponding to an increase of SEK 198.5 million. The ambition is to ensure continued growth by offering pharmacy chains a greater range of pharmaceutical products by means of the



expansion of the product portfolio in the forthcoming periods. The operating profit/loss before depreciation and amortisation (EBITDA) for the period increased to SEK 14.3 (–2.3) million, corresponding to a margin of 3.7 (–1.2)per cent. EBITDA of last year was negatively affected by inventory adjustments.

Cash flow and financial position

Cash and cash equivalents, including short-term investments with a maximum term of 3 months, totalled SEK 536.3 (647.2) million at the beginning of 2012 and SEK 296.7 (536.3) million at year-end, corresponding to a change of SEK –239.6 (–110.9) million. Pledged assets at year-end totalled SEK 148.4 (162.2) million. Medivir's financial assets are, in accordance with its financial policy, invested in low-risk interest-bearing securities. The company's current financial assets are, in Medivir's opinion, sufficient to ensure operational funding.

Cash flow from operating activities totalled SEK –139.6 (57.3) million, with changes in working capital accounting for SEK 7.9 (–34.9) million of this total. Inventories increased by SEK 13.3 million during the period, primarily as a result of the growth within the parallel imports segment.

The cash flow used in investing activities was SEK –7.1 (–184.8 m) million. The acquisition of research programmes from Novadex Pharmaceuticals during the period has affected the cash flow from investing activities to the tune of SEK 5.0 million. Purchases of tangible fixed assets totalled SEK 10.6 million and related, primarily, to research equipment. The investing activities also included SEK 8.4 million in received considerations from the sale of BMM Pharma. The total consideration for the divestment was SEK 32.4 million, SEK 24.0 million of which was paid in 2011. The acquisition of BioPhausia took place during the corresponding period last year.

Cash flow from financing activities amounted to SEK –92.8 (16.5) million and comprised primarily the amortisation of debts and the redemption of a subordinated loan.

Investments, depreciation and amortisation

A total of SEK 10.0 (559.4) million was invested in intangible fixed assets during the period and comprised the antiviral research programme acquired from Novadex Pharmaceuticals. The investments during the corresponding period last year related to the acquisition of BioPhausia.

Amortisation of intangible fixed assets in the sum of SEK –24.6 (–15.9) million was charged to the result for the period.

Investments in tangible fixed assets during the period totalled SEK 10.6 (17.0) million and related primarily to research equipment. Depreciation of tangible fixed assets in the sum of SEK –10.2 (–7.5) million was charged to the result for the period.

Royalty undertakings

A significant percentage of Medivir's research and development project work has been carried out exclusively in-house and Medivir is consequently entitled to all revenues in respect of these inventions. A smaller percentage of Medivir's projects have their genesis at Swedish universities and Medivir is consequently entitled to revenues generated, in return for royalty payments. Some of Medivir's projects were previously outlicensed to third parties but have now reverted to Medivir, and Medivir has undertaken to pay royalties to the former licensees. The combined royalty costs during the period were SEK 2.2 (50.6) million. SEK 37.7 million of last year's royalty costs comprised royalties payable to AstraZeneca.

Transactions with related parties

Transactions with related parties are on an arm's length basis. There are agreements between companies owned by senior executives and Medivir conferring entitlement to royalties on products that the company may develop based on patented inventions that the company has purchased from the parties in question before and during their time as researchers at Medivir. Remuneration of SEK 0.0 (0.9) million occurred during the period. Other services were purchased from related parties for a total of SEK 0.4 (0.7) million. Intragroup sales totalled SEK 39.1 (37.1) million.

The Parent Company in brief

Medivir AB (publ), corporate ID no. 556238-4361, is the Parent Company of the group. Its operations primarily consist of research and development and administrative and company management functions.

The Parent Company's net sales totalled SEK 34.3 (432.3) million, a decrease of SEK 398.0 million due to lower non-recurrent payments. Non-recurrent payments during the period amounted to SEK 4.4 million. Non-recurrent payments in the sum of SEK 401.2 million were included in the turnover last year. The gross profit totalled SEK 34.1 (432.1) million, corresponding to a decrease of SEK 398.0 million.

Selling expenses fell by SEK 41.7 million, primarily as a result of lower royalty costs. Administrative expenses increased by SEK 19.6 million, largely due to higher personnel costs. Research and development costs increased by SEK 22.2 million. Other operating income/expenses improved by SEK 6.5 million. Operating expenses totalled SEK –266.2 (–266.1) million, corresponding to a decrease of SEK 6.3 million.

The operating profit/loss totalled SEK –224.8 (167.0) million, a decrease of SEK 391.8 million primarily due to lower non-recurrent payments. Net financial items totalled SEK –25.1 (–13.4) million. Net financial items include the impairment of shares in Epiphany Biosciences and Presidio Pharmaceuticals, which amounted to SEK 9.7 m. The net loss/profit for the period was SEK –249.9 (153.6) million.

Investments in tangible and intangible fixed assets amounted to SEK 20.6 (15.7) million. Investments in financial fixed assets fell to SEK 0.0 (235.8) million. The investment in financial fixed assets during the previous period related to the acquisition of BioPhausia.

Cash and cash equivalents, including short-term investments with a maximum term of 3 months, amounted to SEK 272.4 (516.3) million.

Please see the section entitled "Consolidated results and financial position" for further comments on the operations.

Employees

Medivir combines advanced research with commercial business activities. The company's operations impose stringent demands not only on its employees but also for an innovative, high-performing corporate culture. We work in accordance with a specific process of management by objectives and follow-up monitoring in which managers and personnel collectively set individual goals for the year based on the overall objectives of the company, and evaluate and appraise previous efforts. The level of commitment required demands that every employee understands both the company's missions and objectives and the ways in which their individual performances contribute to realising them.

Skill development and innovation

Medivir is a knowledge-intensive company with highly educated employees. Our employees' advanced skill sets are a decisive factor in determining whether Medivir will reach its ambitious objectives. Many employees are active participants in academic networks and consequently have access to new research findings and other know-how that contribute towards in the development of Medivir's operations.

Salaries, benefits and labour market regulation

Favourable conditions of employment are a prerequisite of Medivir's ability to recruit and retain skilled employees. Medivir endeavours to offer competitive salaries and benefits. The company conforms to the principle that salary levels should be set individually and should be differentiated, and that salaries should be set on the basis of locally agreed salary criteria. Medivir complies with and respects labour market regulations and the agreements reached between labour market parties. We have constructive partnerships and good relationships with trade unions and employers' organisations.

Working climate

A good working climate paves the way for job satisfaction, low sick leave levels, good relationships and low levels of staff turnover. Employee surveys are carried out on a rolling basis to ensure a positive working climate. Management and individual managers place great emphasis on the information provided by the employee surveys and work to implement changes in accordance with the results. Medivir endeavours to create a work environment that promotes health and well-being, offers its employees keep fit activities, and pays for regular health checks and influenza vaccinations.

Diversity and equal opportunities

The company had a total of 162 (168) employees at the period end, 66 (63) per cent of whom are female. Medivir regards it as self-evident that everyone shall be offered the same opportunities and treated in the same way irrespective of their age, gender, religion, sexual orientation, disability or ethnic origin. Medivir has employees from 16 different countries. Medivir's management team, including the CEO, comprised seven people (two women and five men) at the year end, while the Board of Directors, including the Chairman, comprised six people (one woman and five men). Medivir aims to be a company that offers its employees a good work-life balance.

Occupational health & safety and environmental work

Medivir conducts an active programme of environmental work and endeavours to comply fully with all occupational health & safety-related legislation and regulations and to minimise any harmful environmental impact of our research and production activities. Medivir's Occupational Health & Safety Policy, and our Environmental Policy, both emphasise the importance of maintaining a good working environment and of minimising our environmental impact. Medivir works continuously to reduce its use of environmentally hazardous substances and the company is not involved in any environmental dispute.

Our goal is to recycle everything that can be recycled. Any hazardous waste that cannot be recycled is stored, processed and disposed in accordance with best practice. Our research facility in Huddinge handles hazardous waste, primarily in the form of solvents and chemically contaminated materials, which are processed appropriately. We have established comprehensive routines for recycling paper, consumable plastic, glass packaging, and cardboard. The biggest health risks arise in connection with the handling of chemicals, but by carrying out risk assessments before the laboratory experiments begin and by ensuring that all chemicals are handled correctly, the health risks are minimised. Protective equipment and clothing are used. All work with chemicals is carried out in ventilated facilities. All fume cupboards and secure benches are fitted with alarms and are inspected regularly.

All of our production of pharmaceutical products is carried out by subcontractors with whom Medivir has contractual agreements. The production facilities are located in Switzerland, Germany, Portugal, Finland, Norway and Sweden. Our manufacturers are all certified in accordance with ISO 9001 and ISO 14001.

Medivir conducts a systematic programme of occupational health & safety work in order to ensure continuous improvement in our employees' safety and in their work environment. The company has documented safety routines and employees receive ongoing training in safety issues. The formal occupational health & safety responsibility is delegated down the management line. An occupational health & safety group comprising managers, health & safety representatives, etc. work continuously with these issues and carry out regular health & safety inspections. Incident reporting is an important tool in improving occupational health & safety and requires all incidents and accidents to be followed up. No workplace accidents were reported to the Swedish Work Environment Authority in 2012 or 2011.

IT security

The importance of protecting the company's information means that IT security is a high priority concern for Medivir. The company's IT policy contains guidelines on organisation, responsibilities, authorisation, permissions administration, anti-virus protection, traceability, classification of information, and operational and communications security.

All data is copied and handled in accordance with carefully defined security and backup routines. External communication is safeguarded by means of encrypted data traffic. Computers and software are secured with the aid of local hardware encryption. Medivir also works continuously to reinforce its employees' security awareness when handling both hardware and software.

Guidelines for remuneration to senior executives

The Board of Directors has proposed guidelines for remuneration to senior executives that broadly conform to the principles applied to date. The term, senior executives, refers to the CEO and other members of the Group management. The guidelines shall apply to contracts of employment entered into after the adoption of the guidelines by the AGM and in cases where amendments are made to existing terms after the AGM resolution. The guidelines essentially state that the company shall offer a competitive total compensation package that enables the recruitment and retention of qualified senior executives. Remuneration payable to the senior executives may comprise a fixed salary, performance-based pay, AGM-approved incentive schemes, pensions and other benefits. Variations in the remuneration principles are permissible if warranted by local conditions.

Fixed salary

The fixed salary should reflect the individual's areas of responsibility and experience.

Performance-based pay

Performance-based pay, which is disbursed in cash, may comprise a maximum of 50 per cent of the annual fixed salary. Performance-based pay shall be linked to predetermined and quantifiable criteria formulated in order to promote the company's long-term value creation.

Other benefits

Senior executives may receive other conventional benefits, such as company cars, corporate healthcare packages, etc.

Pensions

Pensions should be of the defined contribution type. The contribution payable by the CEO and other senior executives may comprise up to 35 per cent of the fixed salary. The Board of Directors shall be entitled, the above provision notwithstanding, to offer other solutions that are approximately equivalent in cost terms with the above.

Severance pay etc.

A maximum mutual notice period of six months shall apply. Severance pay or similar remuneration should not, as a basic principle, be paid but may – in a lump sum payment corresponding to no more than 100 per cent of the annual remuneration – be agreed in the event of a change of control.

An additional entitlement to severance pay corresponding to a maximum of 100 per cent of the annual remuneration may also apply for the CEO in the event of the company terminating the employment of the CEO or of the CEO resigning due to a significant breach of contract on the part of the company.

Share- and share price-related incentive schemes

Share- and share price-related incentive schemes shall, where applicable, be approved by the AGM of the company's shareholders. Allocation shall be carried out in accordance with the resolution by the AGM.

Non-compliance

The Board of Directors shall be entitled to deviate from the above guidelines if, in the opinion of the Board, there are specific circumstances justifying this in any individual case.

Previously agreed remuneration packages

There are no previously agreed remuneration packages that have matured. One option programme that encompasses all permanent employees (at the time of allocation), and which includes senior executives, is currently running. For additional information, see Note 5.

Remuneration paid in 2012

For details of remuneration disbursed to senior executives in 2012, please see Note 5 in the 2012 Annual Report

Details of deviations from the 2012 guidelines

The Board of Directors has not departed from the guidelines for remuneration to senior executives approved by the 2012 AGM of the company's shareholders.

Events after the end of the financial year

Collaboration agreement for phase II combination trials with Simeprevir, TMC647055 and IDX719

A non-exclusive collaboration agreement was reached between Janssen and Idenix in January 2013 for phase II combination trials of simeprevir, TMC647055/r (a non-nucleotide polymerase inhibitor developed by Janssen, reinforced with a low dose of ritonavir) and IDX719 (NS5A – a replication complex inhibitor developed by Idenix).

The clinical development plans include a drug-drug interaction trial scheduled to begin during the first quarter of 2013, followed by phase II trials as agreed between the companies and subject to the consent of regulatory authorities.

The phase II programme intends to start by evaluating a direct-acting antiviral combination of IDX719 and simeprevir plus ribavirin over a 12-week treatment period of treatment-naïve hepatitis C patients. The companies then plan to evaluate a triple direct-acting antiviral combination of IDX719, simeprevir and TMC647055/r, with or without supplementary ribavirin.

Registration application for Simeprevir submitted in Japan

Janssen has submitted a registration application to the Japanese Ministry of Health, Labour and Welfare requesting market approval for triple combination therapy using simeprevir in combination with pegylated interferon and ribavirin for

patients with chronic HCV genotype 1. The application refers to the treatment of treatment-naïve patients, null responders, or patients who have relapsed after treatment with pegylated interferon, with or without supplementary ribavirin.

Results of phase IIa trial with Simeprevir and Sofosbuvir

The interim results of the COSMOS trial (Combination Of SiMeprevir and sOfosbuvir in HCV genotype 1 infected patientsS) were presented at a scientific conference in Atlanta, USA. These data show that a majority of the patients treated with simeprevir and sofosbuvir (a nucleotide inhibitor developed by Gilead) achieve sustained virological response eight weeks after treatment was completed (SVR8). The data also show that treatment once daily with simeprevir and sofosbuvir, with and without supplementary ribavirin, is generally well tolerated.

Shared R&D organisation and strengthened leadership

The current R&D organisation will be divided into two parts, Discovery Research and Development. At the same time the company strengthens the R&D leadership to prepare for future strategic and operational opportunities. The research organisation will be led by Richard Bethell, who will assume the position as Executive Vice President Discovery Research. Charlotte Edenius will become responsible for the development organisation in a new role as Executive Vice President Development.

Summary of future development work

Medivir is a research-based pharmaceutical company whose focus is on infectious diseases. Its goal is to become a high-growth, profitable Nordic pharmaceutical company within the next three years. Medivir is working resolutely and strategically to generate the best possible prospects for developing the company quickly while also balancing risks. The company has a solid financial position.

Medivir has several attractive projects in the development phase, of which simeprevir is the most advanced, and intends to submit a registration application for simeprevir during the first half of 2013. These factors, coupled with Medivir's ambition to identify new business opportunities in the Nordic region, form the basis for our ongoing efforts to develop Medivir into a profitable company.

Significant risks and uncertainty factors

An effective risk assessment reconciles Medivir's business opportunities and results with the requirements of shareholders and other stakeholders for stable, long-term value growth and control. If competing products take market shares or competing research projects achieve better effect and reach the market more quickly, the future value of Medivir's product and project portfolio may be lower than originally expected. The process of research and pharmaceutical development, all the way up to approved registration, is both highly risky and capital-intensive. The majority of the projects begun never achieve market registration. Medivir's ability to produce new CDs (candidate drugs), to enter into partnerships for its projects, to successfully develop its projects to market launch and continued sale, and to secure funding for its operations, are decisive in terms of the company's future.

Competition

The competition in Medivir's business sector is intense and Medivir's competitors may develop, market and sell pharmaceuticals that are more effective, safer and cheaper than Medivir's. The pharmaceutical industry is a highly competitive one and there is a risk that the company will be unable to maintain its current profit margins. A number of Medivir's most significant competitors develop and market pharmaceuticals addressing the same diseases as those upon which Medivir is focusing. Competitors may also have both greater manufacturing and distribution capacity and superior pharmaceutical sales and manufacturing prospects than Medivir.

Commercial success and market acceptance

There is no guarantee, even if Medivir's project and product portfolio receives regulatory approval, that the pharmaceuticals will achieve commercial acceptance amongst physicians, patients or drug purchasing organisations. The degree of market acceptance depends on a number of different factors, including the incidence and degree of any side effects, the availability of alternative therapies, price and cost efficiency, and sales and marketing strategies.

Seasonal variations

Medivir's sales and operating profit/loss are, to some extent, dependent on external seasonal variations over which the company has no control. Sales of influenza and common cold medications are affected by the influenza and common cold season and the quarter in which it occurs. This risk is, however, limited by the fact that Medivir has a number of other products in other therapeutic spheres.

Regulatory approval

Medivir is exposed to regulatory decisions such as the permits required to commercialise pharmaceuticals and regulatory changes with regard to pricing and discounting of pharmaceuticals, or altered conditions for prescribing a particular pharmaceutical product.

Product liability and insurance cover

Medivir's operations entail product liability – something that is unavoidable in conjunction with research and development, preclinical trials, clinical trials, and the production, marketing and sale of pharmaceuticals. Even if Medivir adjudges its existing insurance cover to be sufficient, the scale and amount of indemnity provided by the insurance cover is limited and there is, therefore, no guarantee that Medivir will receive full recompense for any damage incurred under its existing insurance cover. There is, equally, no guarantee that suitable insurance cover can be obtained at an acceptable cost, that such insurance cover actually be arranged, or that product liability claims or other claims will not have a significantly negative effect on Medivir's operations and financial position.

Production
Medivir has no proprietary production and the company is consequently dependent on subcontractors for pharmaceutical production and for production for pre-clinical and clinical development. The relevant substance must be produced in a sufficient quantity and with sufficient quality. The risk exists that Medivir will not have the ability to satisfy its production needs at a reasonable cost at the appropriate time.

Patent protection
Medivir's future success is largely dependent on the company's ability to secure and retain protection for the intellectual property rights attributable to Medivir's products. Assessing the potential for achieving patent protection for inventions within the pharmaceutical and biotechnology sphere is generally difficult and entails addressing complex legal and scientific issues. There is no guarantee that Medivir will be able to secure and retain patents for either its products or its technologies. Even if patents are issued, they may be contested, invalidated or circumvented, which will limit Medivir's ability to prevent competitors from marketing similar products and reducing the time for which Medivir has patent protection for its products.

Collaboration risks
Entering into collaboration agreements with pharmaceutical and biotechnology companies for the development and sales of the company's potential products is one component of Medivir's strategy. The success of such partnerships may vary. Conflicts or differences of opinion may arise between Medivir's partners or counterparties with regard to interpretation of clinical data, achieving milestone payments, and interpretation of financial remuneration for or title to patents and similar rights developed within the frameworks of these partnerships. A few partnership collaborations are presently responsible for a large percentage of Medivir's current and future potential revenues and these partners are, in many cases, significantly larger than Medivir. Moreover several of Medivir's collaboration partners have interests in competing products and no guarantees can be given that they will not have interests that conflict with those of Medivir.

Safety and efficacy criteria in clinical trials
Medivir and/or its partner must, before launching any of Medivir's pharmaceutical compounds, demonstrate that the pharmaceutical complies with the stringent safety and efficacy norms set by the regulatory authorities in the countries in which Medivir plans to market the pharmaceutical. The process for obtaining regulatory authorisation usually demands extensive preclinical and clinical trials, which are extremely costly and take a very long time. The FDA, EMEA and other regulatory authorities may delay, restrict or refuse authorisation for a number of reasons, including the possibility that a pharmaceutical is unsafe or ineffective. If Medivir is unable to obtain authorisation for its existing or future candidate drugs, it will be unable to market or sell them. Any deficiencies or delays in the implementation of preclinical or clinical trials will reduce or delay Medivir's ability to generate revenues from the commercialisation of these candidate drugs and may have a significant negative effect on Medivir's ability to retain and complement its project portfolio.

Reliance on key employees
Medivir is very reliant on certain key employees. The ability to recruit and retain qualified employees is of the utmost importance in ensuring the requisite expertise within the company.

Financial risks
Medivir has, historically, posted losses and anticipates that it will continue to post losses in the next few years. There is no guarantee that Medivir will, in future, be able to report a profit, nor is there any guarantee that it will be possible for Medivir to obtain the capital it requires on terms that are acceptable to Medivir. New partnerships and those already entered into may have a significant impact on Medivir's future revenues and cash position. Historically, a large percentage of Medivir's revenues have comprised one-off payments from partners that are contingent on certain specified goals being achieved during the pharmaceutical development process, and this may continue to be the case. Medivir is entitled to receive such milestone payments under the terms of its existing partnership agreements, but there is no guarantee that the specified goals will be achieved or that the partners will be able to make the milestone payments. For a detailed presentation of financial risks, such as currency risk, interest rate risk, credit risk and liquidity risk please see Note 8 on page 71.

Corporate governance
As from 1 July 2008, Medivir applies the Swedish Code of Corporate Governance. See the Corporate Governance Report on page 34.

2013 Annual General Meeting
The AGM of the company's shareholders will be held on Monday, 6 May at 14.00 (CET) at the IVA Conference Centre, Grev Turegatan 16, Stockholm, Sweden. Shareholders wishing to participate shall, firstly, be listed in the register of shareholders maintained by Euroclear Sweden AB no later than Monday, 29 April, and secondly, shall notify the company in writing of their intention to attend using the following address: Medivir AB, Blasieholmsgatan 2, 111 48 Stockholm, Sweden, or by telephone on +46 (0)8 407 64 30. The company must receive the notification no later than Monday, 29 April. Updated information on the AGM is available from the company's website: www.medivir.se.

Proposed treatment of the unappropriated earnings
The Board of Directors and the CEO propose that the accumulated deficit:

Share premium reserve	1,100,757,860 SEK	
Loss for the year	–249,926,968 SEK	
Accumulated loss	–951,675,886 SEK	
Total	**–100,844,994** SEK	shall be carried forward

Dividend
The Board of Directors proposes that no dividends are paid for the 2012 financial year.

Income Statements

SEK k	Note	The Group 2012	The Group 2011	Parent Company 2012	Parent Company 2011
Net sales	1	555,026	698,566	34,327	432,322
Cost of goods sold		–402,671	–240,621	–269	–181
Gross profit		**152,355**	**457,945**	**34,058**	**432,141**
Selling expenses		–69,714	–95,179	–3,793	–45,482
Administrative expenses		–64,462	–47,159	–56,113	–36,536
Research and development costs		–203,352	–184,064	–206,264	–184,064
Other operating income		8,903	17,392	10,747	13,457
Other operating expenses		–9,522	–37,086	–3,469	–12,545
Operating profit/loss	2,3,4,5,6	**–185,792**	**111,849**	**–224,834**	**166,971**
Profit/loss from participations in Group companies	7	–	–526	–27,492	–23,353
Profit/loss from other securities and receivables	8	–9,659	–9,133	–9,659	–9,133
Other interest income and similar profit/loss items	8,9	15,637	21,134	12,114	19,750
Interest expenses and similar profit/loss items	8,10	–13,098	–12,118	–56	–642
Profit/loss after financial items		**–192,912**	**111,206**	**–249,927**	**153,593**
Tax	11	–26,168	2,545	–	–
Net profit/loss for the year		**–219,080**	**113,751**	**–249,927**	**153,593**
Net profit/loss attributable to:					
Parent Company shareholders		–219,080	113,751	–	–
Basic and diluted earnings per share	12	–7,01	3,80	–	–
Average number of shares, ‘000		31,257	29,924	–	–
Number of shares at year-end, ‘000		31,260	31,254	–	–
Proposed dividend per share, SEK		0	0	–	–

– = not applicable

Statement of comprehensive income

SEK k	The Group 2012	The Group 2011	Parent Company 2012	Parent Company 2011
Net profit/loss for the year	**–219,080**	**113,751**	**–249,927**	**153,593**
Other comprehensive income – items to be recycled to the profit/loss				
Exchange rate differences	–2,244	–26	–	–
Other comprehensive income for the period, net after tax	**–221,324**	**113,725**	**–249,927**	**153,593**
Total comprehensive income for the period	**–221,324**	**113,725**	**–249,927**	**153,593**
Total comprehensive income attributable to:				
Parent Company shareholders	**–221,324**	**113,725**	–	–

Balance Sheets

SEK k	Note	The Group 2012 31 dec	The Group 2011 31 dec	Parent Company 2012 31 dec	Parent Company 2011 31 dec
ASSETS					
Fixed assets					
Intangible fixed assets					
Capitalised expenditure for research and development work		13,102	3,489	13,102	3,489
Trademarks and brands		16,189	18,112	–	–
Product rights		296,843	318,968	–	–
Goodwill		188,092	188,153	–	–
Other intangible assets		163	272	163	272
Total intangible fixed assets	13	**514,389**	**528,994**	**13,265**	**3,761**
Tangible fixed assets					
Buildings and land		1,499	1,712	1,499	1,712
Equipment, tools, fixtures and fittings		34,571	33,909	31,500	31,477
Total tangible fixed assets	14	**36,070**	**35,621**	**32,999**	**33,189**
Financial fixed assets					
Participations in Group companies	15	–	–	604,312	604,312
Financial assets held for sale	16	–	9,659	–	9,659
Deferred tax asset	11	49,238	78,385	–	–
Total financial fixed assets		**49,238**	**88,044**	**604,312**	**613,971**
Total fixed assets		**599,697**	**652,659**	**650,576**	**650,921**
Current assets					
Inventories	17	**87,321**	**73,990**	**16**	**261**
Current receivables					
Accounts receivable	8	70,203	67,216	247	249
Receivables from Group companies		–	–	7,396	3,994
Tax receivables		1,516	3,654	–	–
Other receivables		3,889	12,935	3,676	3,987
Prepaid expenses and accrued income	18	16,842	10,039	13,505	5,580
Total current receivables		**92,450**	**93,844**	**24,824**	**13,810**
Cash and cash equivalents					
Other short-term investments	19	257,514	425,334	257,514	425,334
Cash and bank balances	19	39,213	110,945	14,932	90,963
Total cash and cash equivalents		**296,727**	**536,279**	**272,446**	**516,297**
Total current assets		**476,498**	**704,113**	**297,286**	**530,368**
TOTAL ASSETS		**1,076,195**	**1,356,772**	**947,862**	**1,181,289**

– = not applicable

Balance Sheets

SEK k	Note	The Group 2012 31 dec	The Group 2011 31 dec	Parent Company 2012 31 dec	Parent Company 2011 31 dec
EQUITY AND LIABILITIES					
Equity, the Group					
Share capital		156,300	156,269	–	–
Other capital contributed		1,757,852	1,757,255	–	–
Translation reserve		3,522	5,766	–	–
Accumulated loss		–1,042,794	–823,714	–	–
Total equity, the Group		**874,880**	**1,095,576**	**–**	**–**
Equity, Parent Company					
Restricted equity					
Share capital		–	–	156,300	156,269
Statutory reserve		–	–	827,971	827,971
Total restricted equity		**–**	**–**	**984,271**	**984,240**
Non-restricted equity					
Share premium reserve		–	–	1,100,758	1,100,161
Accumulated loss		–	–	–951,676	–1,105,269
Net profit/loss for the year		–	–	–249,927	153,593
Total non-restricted equity		**–**	**–**	**–100,845**	**148,485**
Total equity, Parent Company		**–**	**–**	**883,426**	**1,132,725**
Non-current liabilities					
Liabilities to credit institutions	20	40,000	70,041	–	41
Other liabilities		448	610	–	–
Total non-current liabilities		**40,448**	**70,651**	**–**	**41**
Current liabilities					
Subordinated loans	20	–	62,572	–	–
Liabilities to credit institutions	20	48,657	32,790	41	75
Accounts payable		37,636	26,012	17,226	10,522
Liabilities to Group companies		–	–	1,016	61
Other liabilities		16,631	12,521	8,137	4,118
Accrued expenses and deferred income	21	57,943	56,650	38,016	33,747
Total current liabilities		**160,867**	**190,545**	**64,436**	**48,523**
Total equity and liabilities		**1,076,195**	**1,356,772**	**947,862**	**1,181,289**
Pledged assets	22	148,355	162,168	–	1,153

– = not applicable

Statement of changes in equity

The Group, SEK k	Share capital	Other capital contributed	Translation reserve	Accumulated loss	Total equity	Number of shares
Opening balance, 1 January 2011	**142,966**	**1,396,074**	**5,792**	**–937,578**	**607,254**	**28,593,229**[1]
Total comprehensive income for the period	–	–	–26	113,751	113,725	–
New share issue	12,806	354,734	–	–	367,540	2,561,257
Conversion of options	497	5,830	–	–	6,327	99,341
Issue costs	–	–376	–	–	–376	–
Staff stock option programmes: value of employees' service	–	993	–	–	993	–
Other adjustments	–	–	–	113	113	–
Closing balance, 31 December 2011	**156,269**	**1,757,255**	**5,766**	**–823,714**	**1,095,576**	**31,253,827**[2]
Opening balance, 1 January 2012	**156,269**	**1,757,255**	**5,766**	**–823,714**	**1,095,576**	**31,253,827**[3]
Total comprehensive income for the period	–	–	–2,244	–219,080	–221,324	–
Conversion of options	31	348	–	–	379	6,200
Staff stock option programmes: value of employees' service	–	249	–	–	249	–
Closing balance, 31 December 2012	**156,300**	**1,757,852**	**3,522**	**–1,042,794**	**874,880**	**31,260,027**[4]

1) Opening number of shares in 2011: 660,000 class A shares and 27,933,229 class B shares, nominal value: SEK 5
2) Closing number of shares in 2011: 660,000 class A shares and 30,593,827 class B shares, nominal value: SEK 5
3) Opening number of shares in 2012: 660,000 class A shares and 30,593,827 class B shares, nominal value: SEK 5
4) Closing number of shares in 2012: 660,000 class A shares and 30,600,027 class B shares, nominal value: SEK 5

The nominal value has been calculated as the share capital divided by the total number of shares.
Proposed dividend payment for 2012: SEK 0 per share

Parent Company, SEK k	Share capital	Statutory reserve	Share premium reserve	Accumulated loss	Net profit/ loss for the year	Total equity	Number of shares
Opening balance, 1 January 2011	**142 966**	**827 971**	**738 980**	**–969 538**	**–135 731**	**604 648**	**28 593 229**[1]
Appropriation of profits: Profit/loss for the previous year brought forward	–	–	–	–135 731	135 731	–	–
Total comprehensive income for the period	–	–	–	–	153 593	153 593	–
New share issue	12 806	–	354 734	–	–	367 540	2 561 257
Conversion of options	497	–	5 830	–	–	6 327	99 341
Issue costs	–	–	–376	–	–	–376	–
Staff stock option programmes: value of employees' service, Medivir AB	–	–	993	–	–	993	–
Closing balance, 31 December 2011	**156 269**	**827 971**	**1 100 161**	**–1 105 269**	**153 593**	**1 132 725**	**31 253 827**[2]
Opening balance, 1 January 2012	**156 269**	**827 971**	**1 100 161**	**–1 105 269**	**153 593**	**1 132 725**	**31 253 827**[3]
Appropriation of profits: Profit/loss for the previous year brought forward	–	–	–	153 593	–153 593	–	–
Total comprehensive income for the period	–	–	–	–	–249 927	–249 927	–
Conversion of options	31	–	348	–	–	379	6 200
Staff stock option programmes: value of employees' service, Medivir AB	–	–	249	–	–	249	–
Closing balance, 31 December 2012	**156 300**	**827 971**	**1 100 758**	**–951 676**	**–249 927**	**883 426**	**31 260 027**[4]

1) Opening number of shares in 2011: 660,000 class A shares and 27,933,229 class B shares, nominal value: SEK 5
2) Closing number of shares in 2011: 660,000 class A shares and 30,593,827 class B shares, nominal value: SEK 5
3) Opening number of shares in 2012: 660,000 class A shares and 30,593,827 class B shares, nominal value: SEK 5
4) Closing number of shares in 2012: 660,000 class A shares and 30,600,027 class B shares, nominal value: SEK 5

The nominal value has been calculated as the share capital divided by the total number of shares.
Proposed dividend payment for 2012: SEK 0 per share.

Statement of cash flows

SEK k	Note	The Group 2012	The Group 2011	Parent Company 2012	Parent Company 2011
Operating activities					
Operating profit/loss		–185 792	111 849	–224 834	166 971
Reversal of non-cash items					
Depreciation and amortisation		34 817	23 434	10 205	7 938
Other reversals [1]		7 585	–34 678	8 230	–35 291
		–143 390	**100 605**	**–206 399**	**139 618**
Interest received	9	3 893	1 318	807	2 091
Dividends received	9	3 309	1 996	3 309	1 996
Interest paid	10	–10 892	–11 806	–43	–535
Tax paid	11	–354	–	–	–
Cash flow from operating activities before changes in working capital		**–147 434**	**92 113**	**–202 326**	**143 170**
Increase(–)/decrease(+)in inventories		–13 331	32 360	245	–166
Increase(–)/decrease(+)in current receivables		–7 029	14 494	–38 507	–9 771
Increase(+)/decrease(–)in current liabilities		28 230	–81 705	10 852	–15 918
Cash flow from operating activities		**–139 564**	**57 262**	**–229 736**	**117 315**
Investing activities					
Purchase of intangible fixed assets		–5 023	–152	–5 023	–152
Purchase of tangible fixed assets		–10 630	–17 190	–9 473	–15 577
Acquisition of business operations		–	–191 652	–	–235 793
Sale of operations	23	8 421	24 048	–	–
Sale of tangible fixed assets		83	162	–	–
Cash used in investing activities		**–7 149**	**–184 784**	**–14 496**	**–251 522**
Financing activities					
Conversion of options		379	6 080	379	6 080
Subscription for options		–	247	–	247
Issue costs		–	–376	–	–376
Borrowings		–	100 000	–	–
Amortisation of loans		–93 174	–90 000	–	–
Increase(+)/decrease(–)in non-current liabilities		–	535	–	–
Cash flow from financing activities		**–92 795**	**16 486**	**379**	**5 951**
Cash flow for the year		**–239 508**	**–111 036**	**–243 853**	**–128 256**
Cash and cash equivalents at beginning of the year		536 279	647 240	516 297	644 554
Exchange rate differences, cash and cash equivalents		–44	75	–	–
Cash and cash equivalents at year-end	19	**296 727**	**536 279**	**272 446**	**516 297**

– = not applicable

1) Reversals mainly consist of valuation of financial instruments totalling SEK 7,998 (15,574) k.

Accounting principles

The Group

Medivir prepares its Consolidated Accounts in accordance with IFRS, International Financial Reporting Standards, as endorsed by the EU. In addition to the stated IFRS, the Group also observes the Swedish Financial Reporting Board's recommendation RFR 1 Supplementary Accounting Rules for Groups and applicable pronouncements from the Swedish Financial Reporting Board.

The Medivir Group presents an Income Statement classified by function, which means that the operation's expenses are broken down into Cost of goods sold, selling expenses, research costs and administrative expenses. The Group utilises the acquisition value for Balance Sheet items, unless otherwise indicated.

IFRS are under constant development. A number of standards and interpretations were published during the preparation of the consolidated accounts as of 31 December 2012, only some of which have come into effect. An assessment of the impact that the introduction of these standards and statements has had, and may have, on Medivir's financial statements follows. Comments are restricted to those changes that have had or could have a significant effect on Medivir's accounting.

New and revised standards applied by the Group from 1 January 2012

IAS 1 Presentation of financial reports. The revision requires the division of items under other comprehensive income into two categories: items that will be reversed to the net profit/loss for the year shall be reported in a separate category and items that will not be reversed shall be reported separately. The revised standard has been adopted by the EU and shall be applied to financial years beginning on or after 1 July 2012 with retroactive effect.

New and revised standards that have not come into force and not applied proactively by the Group

IFRS 9 is the first standard issued in the large-scale project to replace IAS 39. IFRS 9 retains but simplifies the model of several bases of valuation and establishes two primary measurement categories: the amortised cost and fair value. Classification is on the basis of the company's business model and characteristic qualities of the contracted cash flows. The guidance of IAS 39 regarding impairment testing of financial assets and hedge accounting continue to apply. Previous periods do not need to be restated when a company applies the standard. The standard is not yet endorsed by the EU. The IASB's stated enactment date is from 1 January 2015 onwards.

IFRS 10 Consolidated Financial Statements. This standard replaces IAS 27 Consolidated and Separate Financial Statements regarding the rules for consolidated financial statements. The standard contains no changes relative to the current IAS 27 on when consolidated financial statements should be prepared and the rules for consolidation on acquisition and divestment, but offers further guidance on determining control when this is hard to judge. The standard has been adopted by the EU and shall be applied to financial years beginning on or after 1 January 2014. Proactive application is permitted. Medivir does not anticipate that the standard will have any significant impact on its reported values.

IFRS 11 Joint arrangements. The Proportional Method is no longer allowed under the new standard. The standard has been adopted by the EU and shall be applied to financial years beginning on or after 1 January 2014. Proactive application is permitted. Medivir does not apply the Proportional Method.

IFRS 12 Disclosure of interests in other entities covers disclosure requirements for subsidiaries, joint arrangements, associated companies and non-consolidated structured entities. The standard has been adopted by the EU and shall be applied to financial years beginning on or after 1 January 2014. Proactive application is allowed. Medivir does not anticipate that the standard will have any significant impact on its reported values.

Medivir does not intend to apply the three new standards, IFRS 10, 11 and 12, proactively.

The revisions to IAS 19 do not affect Medivir because the company has no defined benefit pension plans.

The revisions to IFRS 7 Financial instruments regarding net reporting of assets/liabilities. Medivir does not anticipate that the standard will have any significant impact on its reported values.

IFRS 13 Fair value measurement is intended to ensure that valuations at fair value are rendered more consistent and less complex by including an exact definition in the standard and a joint source in IFRS for fair value and associated information. The standard does not entail any extension of the requirements that state when fair value shall be applied but does contain guidelines on the way in which it shall be applied when other IFRS already require or permit valuation at fair value. The standard has been adopted by the EU and shall be applied to financial years beginning on or after 1 January 2013. Proactive application is allowed. Medivir does not anticipate that the standard will have any significant impact on its reported values.

A number of interpretations and revisions of standards have been issued in addition to the above-mentioned standards, but Medivir has made no comment on the same as they are not

expected to have any impact on the Group's accounting or the presentation of the financial reports and are accordingly not relevant to the Group.

The essential implication for Medivir's financial statements of currently applicable IFRS is stated under the following headings, where the principles of the Annual Report are reviewed in more detail.

The Parent Company

Medivir AB continues, as in previous years, to apply those accounting principles relevant to legal entities that prepare Consolidated Accounts and which are listed on a stock exchange. Medivir AB complies with the Swedish Financial Reporting Board's recommendation RFR 2 Accounting principles for legal entities.

The Parent Company shall, in accordance with RFR 2, structure its reports in accordance with all applicable IFRS unless the recommendation permits an exemption from application. The Parent Company's principles are consequently consistent with those of the Group, unless otherwise indicated below.

Consolidated Accounts

The Consolidated Accounts have been prepared using acquisition accounting, whereby the subsidiary company's equity at the time of acquisition is eliminated. The equity of the acquired subsidiary is measured on the acquisition date on the basis of the fair value of identifiable assets and liabilities assumed. The acquisition value consists of the fair value of assets submitted as payment, issued equity instruments and liabilities arising or taken over as of the transfer date.

In cases where the acquisition value of shares in the subsidiary exceeds the fair value of the assets and liabilities acquired, the difference is recognised as goodwill.

Costs directly attributable to the acquisition are reported in the Group under other operating expenses in the Income Statement as they arise. In the Parent Company, transaction costs are included in the acquisition value of equity in subsidiary companies.

Subsidiary companies comprise all companies in which Medivir is entitled to formulate financial and operational strategies in a manner usually ensuing from a shareholding comprising more than half of the votes. Subsidiaries are consolidated from the day when controlling influence is transferred to the Group. They are deconsolidated from the date when the controlling influence ceases. For each acquisition, the Group determines whether potential non-controlling interests in the acquired company are recognised at fair value or at the holding's proportional share of the carrying amount of the acquired company's identifiable net assets.

The preparation of Medivir's Consolidated Accounts also complies with the instructions stipulated in IAS 27 and IFRS 3, such as eliminations of intragroup receivables and liabilities and of intragroup income and expenses between the Group companies, and the Consolidated Income Statement and the Consolidated Balance Sheet are consequently reported without intragroup transactions.

Translation of foreign currencies

Functional currency and reporting currency

Items included in the financial statements for the various entities within the Group are valued in the currency used in the economic environment in which the respective company is primarily active (functional currency).

Swedish krona, which is the Parent Company's functional currency and reporting currency, is the currency utilised in the Consolidated Accounts.

Transactions and Balance Sheet items

Transactions in foreign currencies are translated to the functional currency at the exchange rates applicable on the transaction date. Exchange rate profits and losses arising when paying for such transactions and when translating monetary assets and liabilities in foreign currencies at the closing day rate are reported in the Income Statement. Profits and losses on trading receivables and liabilities are reported net under other operating income or other operating expenses.

Group companies

The profit/loss and financial position of all Group companies whose functional currency differs from the reporting currency are translated to the Group's reporting currency as follows:

- Assets and liabilities for each Balance Sheet are translated at the closing day rate.
- Revenues and expenses for each Income Statement are translated at the average exchange rate. If the average exchange rate is not a reasonable estimate of the total exchange rate effects for the year from each transaction date, income and expenses are translated at the closing day rate instead.
- All exchange rate differences arising are reported under other comprehensive income and accumulated as a separate portion of the equity.

The Income Statement

From 1 January 2011, Medivir amended the presentation of its Income Statement from classification by cost to classification by function, in accordance with the description in IAS 1 Presentation of Financial Statements. An income statement classified by function will, in the opinion of Medivir's management, better reflect the company's financial results and will increase comparability with other companies in the same business segment. The Group's operating results and financial position are not affected by the amended presentation format.

The amended Income Statement presentation principle has had no effect on the Group's Balance Sheet items and a third Balance Sheet (opening balance for 2010) is therefore not

reported in accordance with IAS 1. Medivir's operating expenses are broken down into Cost of goods sold, Marketing & Sales, Administration, and Research & Development.

Cost of goods sold
Cost of goods sold comprises purchasing and manufacturing costs for goods sold during the period.

Sales & Marketing
This function is responsible for the commercialisation of research projects, product launches, and sales of pharmaceuticals on a proprietary basis and via partners.

Administration
This function comprises the company's administrative functions such as the company management, business development, IR, and the finance department.

Research & Development
This function comprises Medivir's research and pharmaceutical development in preclinical and clinical trials, and regulatory activities.

Financial instruments, reporting, disclosure and classification
For information on financial risks and investments, see Note 8, Financial Risks, on page 71.

Financial assets reported at fair value in the Income Statement
Medivir's short-term investments are managed as a group of financial assets and the profit or loss is evaluated based on fair value, in accordance with the documented risk management and investment strategy. Medivir has, therefore, chosen to report the changes in fair value of its short-term investments in the Income Statement.

Financial assets held for sale
Shareholdings in Medivir's licensing partners, Epiphany Biosciences and Presidio Pharmaceuticals Inc., have been classified as financial assets held for sale.

None of these shares are listed and are hence not registered on an active marketplace, and other non-observable data is consequently used as a valuation basis for the shares. An estimation of the value is carried out based on the companies' posted financial results and position, the development of the companies' project portfolios, the share price performance of the Nasdaq OMX biotech index, and, where relevant, independent valuations by third parties. If the valuation results in an estimated change in value, this change in value is reported in the statement of other comprehensive income for the period.

If a negative change in value is adjudged to be significant, or to have occurred over an extended period of time, the accumulated loss is reported in the profit or loss for the period. A subsequent positive revaluation of any such impairment is reported under other comprehensive income and not in the Income Statement.

Accounts receivable and other receivables
Accounts receivable comprise non-derivative financial assets with measured or measurable payments not listed on an active marketplace. They are distinguished by the fact that they arise when the Group supplies money, goods or services directly to a customer without any intention to trade in the receivable arising. They are included in current assets, with the exception of items with due dates that fall more than 12 months after the reporting date, which are classified as fixed assets. Accounts receivable are initially reported at fair value and then at amortised cost by applying the effective interest method, less potential provisioning for impairment. Other receivables and, where applicable, interim receivables, are reported in the same manner.

Provisioning for the impairment of accounts receivable is effected when there is objective evidence that the Group will not be able to collect all amounts due in accordance with the original terms of such receivables. The amount of the provision comprises the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted by effective interest. The provisioned amount is reported in the Income Statement. Other receivables are reported in the same way.

Purchases and sales of financial instruments
Purchases and sales of financial instruments are reported on the transaction date – the date when Medivir undertakes to buy or sell the asset. Financial instruments are derecognised from the Balance Sheet when the right to receive cash flows from the instrument has expired or been transferred and the Group has transferred essentially all risks and benefits associated with title to the asset.

Accounts payable and loan liabilities
Accounts payable and loan liabilities are classified in the other financial liabilities category and are reported initially at fair value and subsequently at amortised cost, applying the effective interest method.

Subordinated loan with detachable warrants
The Group's subordinated loan is a composite financial instrument separated into a debt portion and an equity component. The equity component refers to the detachable warrants. Upon issuance of the subordinated loan, the fair value of the debt portion is determined by measuring the fair value of a similar debt with no conversion right. The liability is classified as another financial liability measured at amortised cost. The value of warrants is measured as the difference between

the amount the Group received for the subordinated loan and the fair value of the liability at the issue date. The carrying amount of warrants will not be restated in forthcoming periods. Where applicable, transaction costs are allocated between the debt portion and equity component on the basis of the value division at the issue date.

Staff stock option programme

As of the reporting date, Medivir has one outstanding staff stock option programme. Upon conversion/exercise, cash and cash equivalents will increase by the exercise/conversion price and the share capital by a nominal SEK 5 per share, with the remaining deposited amount increasing equity. For more detail on the various effects of each programme and the number of outstanding stock options, see page 32 under Share warrants and staff stock options, and Note 5 on pages 69-70.

Medivir reports its staff stock option programmes in accordance with IFRS 2. Medivir values current programmes on the grant date at fair value and then allocates the value over the vesting period as a personnel cost. This remuneration to personnel requires Medivir to issue equity instruments (warrants to which the personnel are entitled under the terms of the programme agreements) and thereby, for each period's cost, achieves the corresponding increase in other capital contributed (share premium reserve in the Parent Company).

Social security contributions on staff stock option programmes

Medivir makes provisions for social security contributions for each outstanding programme at each year-end. The provision for social security contributions is calculated according to UFR 7, applying the same valuation model that was used when the options were granted. The provision is revalued on each reporting date on the basis of a calculation of the contributions that may be payable when the instruments are exercised.

Medivir uses the Black & Scholes model for valuation that takes into account factors such as the share price, remaining time until exercise, volatility and risk-free interest rate. See pages 69-70.

Payments of social security contributions in conjunction with employees' exercise of their options are offset against the provision made as described above.

The payroll overhead of the employees' taxable benefit (the difference between the redemption/exercise value and the market value of the share) arising in conjunction with the exercise of staff stock options can be covered in terms of cash flow within the Group. This is achieved by Medivir converting part of the options held by the Group to shares and selling them. The payroll overhead arising in the Income Statement, and for which provision is made continuously throughout the vesting period in accordance with UFR 7, will not be offset, however, by a cost reduction (income) and the effect will arise in cash flow terms only.

Warrants

The warrants issued do not entail any payroll overheads in accordance with IFRS 2 or any provision for social security contributions in that the options have been acquired on market terms. Premiums received have been added to the share premium reserve in equity.

Intangible fixed assets

Goodwill

Goodwill arises in conjunction with the acquisition of subsidiary companies and comprises the amount by which the acquisition value exceeds the fair value of the Group's share of the acquired company's net assets upon acquisition. Goodwill is subject to annual impairment tests and is reported at acquisition value less accumulated impairment losses. Impairment of goodwill is not reversed. Goodwill is allocated to the cash-generating units expected to benefit in conjunction with the business acquisition that gave rise to the goodwill item.

Trademarks and brands, product rights

Trademarks and brands, and product rights acquired separately are recognised at cost in the Group. Trademarks and brands, and product rights acquired through a business combination are recognised at fair value on the acquisition date. Trademarks and brands, and product rights have a defined useful life and are recognised at cost less accumulated impairment. Amortisation is effected linearly over their estimated useful life of 10-15 years.

Research & Development costs – in-house development

Pharmaceutical development expenses are capitalised in accordance with IAS 38 Intangible assets, when the following criteria are fulfilled:

- it is technically possible to complete the pharmaceutical;
- the company's management intends to complete the pharmaceutical and the conditions for sale are in place;
- the asset is expected to provide future economic benefits;
- Medivir adjudges that the resources required to complete the development of the asset are available;
- developmental expenses can be reliably calculated.

Medivir's judgement of this principle with regard to ongoing development projects is presented on page 66 (Significant estimates and judgements).

In 2009, Medivir demonstrated that the above criteria had been fulfilled for Xerclear as approval had been obtained from the registration authorities in the USA and Europe. Development costs for the product are reported, as of the registration date, as intangible fixed assets at historical cost. Expenses arising before this date will continue to be reported as costs. Historical costs include direct costs for the completion of the pharmaceutical, including patents, registration application costs, and product tests including remuneration to employees.

Amortisation is conducted linearly in order to distribute the development costs on the basis of the estimated useful life. Amortisation begins when the pharmaceutical begins to generate income. Useful life is based on the underlying patent term and is ten years.

The amortisation term for capitalised development costs for Xerclear consequently exceeds the 5 years which, under the provisions of the Swedish Annual Accounts Act, should be the Parent Company's amortisation period under normal circumstances. The longer amortisation period is due to the fact that Xerclear is expected to generate income throughout its patent term.

Medivir's other research and development costs are reported as they arise as costs for patent and technology rights, and other similar assets, developed in-house. Against the background of the contents of the 'significant estimates and forecasts' section on page 66, other research work performed by Medivir is judged to be associated with such uncertainty that IAS 38's capitalisation criteria cannot be considered satisfied, primarily because of difficulties in judging whether it is technically possible to complete the pharmaceutical

Development projects acquired

Amortisation of intangible assets acquired, e.g. customer relationships or trademarks and brands, is effected linearly over the useful life. Amortisation of other intangible assets acquired, such as development projects, is effected linearly over the useful life – linked to the term of patents obtained.

Other intangible fixed assets

Expenses incurred in connection with the development of Medivir's ERP systems such that the software's performance is improved or its useful life extended, are reported at historical cost. These expenses are amortised over the estimated useful life. The useful life is estimated at five years, whereupon the reported asset will be amortised linearly in accordance with this estimate.

Tangible fixed assets

Tangible fixed assets are reported at historical cost less depreciation. Historical costs include expenditure that can be directly attributed to the acquisition of the asset.

Depreciation according to plan has, in accordance with IAS 16, been calculated for tangible fixed assets on the basis of the original historical cost with depreciation rates based on estimates of the assets' economic useful lives.

The Group applies the following depreciation periods: buildings, 20 years; equipment, tools, fixtures and fittings, 5-10 years; and IT hardware, three years.

Impairment

Goodwill, which has an indefinite useful life, is subject to annual impairment tests. Tangible and intangible fixed assets are subject to impairment testing and impairment losses are recognised whenever internal or external indications of potential impairment are identified, in accordance with IAS 36. An impairment is effected in the amount by which the asset's carrying value exceeds the recoverable amount. The recoverable amount is whichever is the higher of the asset's fair value less selling expenses and its value in use. The term, value in use, refers to the sum of the present value of expected future cash flows and the estimated residual value at the end of the useful life. When calculating the value in use, future cash flows are discounted at an interest rate that takes into account the market's assessment of risk-free interest and risk. In the Group, the calculation is based on results achieved, forecasts and business plans. When conducting impairment testing, assets are grouped together at the lowest levels at which there are separate, identifiable cash flows (cash-generating units).

Intangible assets that are not in use are not amortised but subject to annual impairment testing. If the recoverable amount is less than the carrying amount, an impairment loss is recognised. The recoverable amount comprises whichever is the higher of the fair value and the value in use. The value in use is calculated on the basis of estimated future cash flows, based on the competitive situation and estimated market shares.

Investments in subsidiary companies are valued in the Parent Company at historical cost and impairment testing is carried out at each year-end. The subsidiary company's equity forms a key criterion for assessment in this context. Supplementary investments may be made in the form of new share issues or shareholders' contributions.

Inventories

Inventories are reported at whichever is the lower of the historical cost and the net realisable value. The historical cost is determined using the first in, first out (FIFO) method. The historical cost includes purchasing costs, customs and transportation costs, and other direct costs associated with goods purchases. The net realisable value is the expected sale price in operating activities less selling costs. Obsolescence risk and confirmed obsolescence are taken into account in the valuation. As goods in inventory are sold, their carrying amount is carried as an expense in the period in which the corresponding revenue is recognised. Losses on goods in inventory are recognised in the Income Statement in the period to which the loss relates.

Equity

Transaction costs directly attributable to the issuance of new shares or options are reported in equity as a deduction from issue proceeds in the capital component of other capital contributed.

Revenues

Revenues include the fair value of what is received or will be received for goods or services sold. Revenues are recognised excluding VAT, returns and discounts, and after eliminating intragroup sales. Revenues are recognised when amounts can be measured reliably and it is likely that the future economic benefits will flow to the Group.

Sales of pharmaceuticals

To recognise revenues from the sale of pharmaceuticals, the following criteria of IAS 18:14 must be satisfied:

- The company has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The revenue amount can be measured reliably.
- It is probable that the economic benefits associated with the transaction will flow to the company.
- The costs incurred or which can be expected to be incurred in respect of the transaction can be measured reliably.

For Medivir, the applied principle means the revenues from sales of pharmaceuticals are recognised at the time of delivery to the customer in that the customer takes over the economic risks and rewards at that time. This presupposes that the other above-mentioned criteria are also adjudged to have been satisfied at that time.

Outlicensing and collaboration agreements

Revenues from agreements made with Medivir's partners on research projects are recognised on the basis of their economic substance. Remuneration can, under the terms of these agreements, be payable in the form of upfront fees when the agreement is entered into, milestone payments, remunerations paid during the term of the agreement for a set number of full-time equivalent research positions (FTEs), and/or royalties. Medivir may also be entitled, under the terms of the agreements, to receive remuneration for costs incurred. This remuneration is recognised as revenue for invoiced costs in the same period as the cost.

Revenue recognition is initially conducted on the basis of a judgement of whether the agreement with the counterparty in relation to one of Medivir's intangible assets (one or more research projects) means that the collaboration shall take the form of a research project with the partner or whether the licence that the counterparty is granted under the terms of the agreement means that the intangible asset has, from an accounting perspective, been divested (i.e. a sold licence to dispose over the asset).

This judgement is made on the basis of the criteria laid down in IAS 18 for goods sales (see above under Sales of pharmaceuticals). If these criteria are satisfied, the judgement is that the economic substance of the agreement entails a divestment of the underlying asset. If the criteria are not satisfied, no divestment of the asset has occurred.

Reporting in cases where the economic substance of an agreement is that a sale of a research project has occurred

Payments received when a licensing agreement is entered into (upfront fees) are recognised as revenues when the agreement is entered into if there is no restriction in the agreement with the counterparty. If any criterion in accordance with IAS 18:14 (see above) is not satisfied, the revenue recognition is postponed until such time as all criteria are satisfied. Any additional remuneration in the form of milestone payments is recognised as revenue when it can be reliably measured, i.e. when the criteria in the relevant outlicensing agreement regarding remuneration to Medivir have been satisfied and verified with the counterparty. Revenues are regarded as remuneration for a sold licence that entitles the counterparty to utilise Medivir's intangible asset. Royalties are recognised in the period in which they accrued under the terms of the agreement.

Reporting in cases where the economic substance of an agreement is that a collaboration shall occur

Medivir retains undertakings in the agreement in these cases, often for future development work that will be conducted either separately or jointly with the counterparty. A reporting method is chosen to determine when and at what value revenue is recognised on the basis of the contents of the specific agreement. Factors affecting revenue recognition in collaboration agreements include:

- whether the remuneration is only received once goals have been achieved;
- whether remuneration is payable for work done directly (e.g. for a number of FTEs);
- whether remuneration is received in advance or in arrears in relation to services rendered under the agreement.

Remuneration received in the form of upfront fees and which refer to undertakings in the agreement not yet rendered by Medivir is allocated over the term of the agreement during which Medivir fulfils its undertakings. If the remuneration refers to research services (such as FTEs), revenue is recognised as the work is carried out. Remuneration received when development goals are achieved (often in the form of milestones) in a collaboration agreement is recognised as revenue when it is clear, under the terms of the agreement, that Medivir shall receive the remuneration. This is then considered as remuneration for services rendered during the period up to and including that date. This revenue recognition model is often referred to as the milestone method in that successive revenue recognition cannot be applied to those research projects that have potential future milestones from a collaboration partner as it is not possible to measure a degree of completion in

a sufficiently reliable manner as stipulated by IAS 18 as a requirement for successive revenue recognition of a project, nor is it possible to measure with sufficient accuracy the precise expenses that will be incurred in order to receive the corresponding milestone (the number of researchers and other direct expenses may vary over time), nor is any remuneration payable if the criteria agreed with the collaboration partner are not satisfied.

Central government support (EU grants and other subsidies)
Central government support is reported in accordance with IAS 20 under other income. Support received is recognised as revenue when the company satisfies the conditions associated with the support, and it can be reliably determined that the support will be received. Support received is reported in the Balance Sheet under prepaid income and is recognised as revenue as the terms for receiving the funds are satisfied. Medivir receives central government support mainly in the form of research grants from the EU. An insignificant percentage of Medivir's projects are financed with central government support.

Operating segments
IFRS 8 requires segment information to be presented from management's perspective, which means it is presented in the way used in internal reporting. The basis for identifying reportable segments is internal reporting as it is reported to and followed up on by the chief operating decision maker. The Group has, in this context, identified the Group President/CEO as the chief operating decision maker. The President/CEO evaluates the operating segments' results on the basis of the EBITDA metric, which comprises the operating profit/loss before depreciation and amortisation. Prior to the acquisition of BioPhausia, Medivir was organised into a single, integrated operating segment. Since the acquisition of BioPhausia on 31 May 2011, Medivir's business operations have been organised into two operating segments. The core of the business operations is the Pharmaceuticals business segment, which comprises research and development of new products and manufacture, marketing and sales. The Pharmaceuticals segment includes the Group's research portfolio and the original pharmaceuticals to which BioPhausia has unrestricted title, including the generic products to which BioPhausia has restricted title. In the third quarter of 2011, BioPhausia divested the company's generic operations (which until the divestment, was part of the Pharmaceuticals segment). The other operating segment comprises the Parallel Imports business operations of BioPhausia's subsidiary company, Cross Pharma, which imports original pharmaceuticals from EU member states where the pricing level is lower than in Sweden. When the pharmaceuticals are sold on the market, pharmacies are offered a price that is lower than that charged by the original producer.

Leasing
Leasing agreements are classified either as operational or financial leasing agreements.

Leasing agreements for fixed assets under which the Group has, in every significant way, assumed the economic risks and benefits associated with ownership are classified as financial leasing agreements. The leased object is reported as a fixed asset in the Balance Sheet and the obligation to pay leasing charges is reported as a liability. Financial leasing is reported in the Balance Sheet at the beginning of the lease term at whichever is the lower of the lease object's fair value and the present value of the minimum leasing charges. Leasing charges paid are allocated between amortisation and interest. The leased fixed asset is depreciated over the asset's useful life.

Leasing agreements where Medivir incurs no significant risk or benefit from an object are reported as operational leasing agreements. Payments made during the lease term are booked as expenses in the Income Statement linearly over the lease period. See also Note 21 on page 79.

Pension liability and pension costs
Medivir AB's ITP (supplementary pensions for salaried employees) scheme is insured with Alecta and should be regarded as a defined benefit pension scheme in accordance with the UFR 3 statement from the Swedish Financial Reporting Board.

In accordance with UFR 3, the company shall report its proportional share of the defined benefit undertakings and the plan assets and costs associated with the scheme. Alecta is unable to provide sufficient information and the scheme is consequently reported, until further notice, as if it were a defined contribution plan.

Alecta's surplus can be distributed among the policyholders and/or the beneficiaries. At the end of 2012, Alecta's surplus in the form of the collective consolidation ratio was preliminarily calculated by Alecta at 130 (113) per cent. The Group is of the opinion that current premiums should cover existing undertakings. Other pension schemes within the Group are defined contribution schemes. The premiums paid are reported as personnel costs when they fall due for payment.

Severance pay
Severance pay is booked as an expense when the obligation to pay the remuneration arises.

Income tax
The tax expense for the period consists of current tax and deferred tax. Tax is recognised in the Income Statement apart from when tax relates to items recognised in other comprehensive income or directly in equity. In such cases, tax is also recognised in other comprehensive income and equity respectively. Current tax is tax to be paid or received for the current year and restatements of current tax relating to previous years. Deferred tax is recognised in accordance with the balance sheet method on temporary differences that arise between

the taxable values of assets and liabilities and their carrying amounts in the consolidated accounts.

Deferred tax receivables are recognised to the extent it is likely that future taxable profits will be available.

Note 11 lists items that include the estimated deductible deficits accumulated in the Group. The Group's taxable deficits have no expiry date.

The treatment of deferred tax on temporary differences is reported and explained in Note 11 on page 75. The various components of consolidated total tax are also explained in this note.

Statement of Cash Flows

The Statement of Cash Flows has been reported by applying the indirect method. Reported cash flow only includes those transactions involving payments made or received. Cash and bank balances and short-term investments such as commercial papers and fixed income and bond funds with a maximum term of three months, are reported as cash and cash equivalents in the Statement of Cash Flows.

Significant estimates and judgements

The company management and Board of Directors must, in order to be able to prepare the accounts in accordance with generally accepted accounting practices and in compliance with IFRS, make estimates and assumptions regarding the future. These estimates and assumptions affect both recognised revenue and cost items and asset and liability items, as well as other disclosures. Estimates and judgements are evaluated continuously and are based on historical experience and other factors, including expectations of future events regarded as reasonable under the prevailing circumstances. Segments that include such estimates and assumptions that may have a material impact on the Group's operating results and financial position are presented below.

Revenues

Medivir does not apply successive revenue recognition for impending potential milestone payments within the research projects due to the constant uncertainty regarding the extent of the progress made by the project and the likelihood that the next goal/milestone will be achieved. The income side consequently only shows confirmed and non-refundable income that can be considered to have accrued.

Allocation to particular periods could show how Medivir successively receives revenues from the counterparty's utilisation of incorporeal rights, but if successive revenue recognition were to be applied, there is a risk that income would be reported that is uncertain in terms of whether Medivir would ever receive any payment. An announcement by the counterparty that the project was to be discontinued, for example, could, under such circumstances, mean that Medivir had reported its profit or loss inaccurately.

Research & development costs

Research costs, including registration costs, are reported on an ongoing basis as costs as long as it remains uncertain what the future economic benefits arising from these costs will be. Pharmaceutical development is generally a complex and risky activity and the majority of research projects will never result in a pharmaceutical on the market.

Product development costs shall be capitalised when it is likely that the project will succeed. Every research project is unique and must be judged individually on the basis of its own preconditions. The earliest date for capitalisation to occur is adjudged to be upon completion of phase III trials, but a number of uncertainty factors may still remain, even after completion of phase III trials, such that the criteria for capitalisation cannot be considered to be satisfied. Where this is the case, capitalisation does not occur until the pharmaceutical is approved by the relevant regulatory authority.

Premature capitalisation entails a risk of a project failing and of it being impossible to justify offset costs which must, instead, be carried directly as an expense. This would, in turn, mean that previous year's results, and those for the year in question, would be misleading due to overly optimistic probability assessments.

Intangible fixed assets

The Group conducts impairment testing every year with regard to goodwill, other intangible assets with an undefined useful life, and as yet uncompleted development projects. Other intangible assets are subject to impairment testing when events or changes indicate that the carrying amounts are not recoverable. When calculating the value in use, future cash flows are discounted at an interest rate that takes into account the market's assessment of risk-free interest and risk (WACC). In the Group, the calculation is based on results achieved, forecasts and business plans. When conducting impairment testing, assets are grouped together at the lowest levels at which there are separate, identifiable cash flows (cash-generating units). The estimations and assumptions made by the management in conjunction with impairment testing can have a significant impact on the Group's reported profit or loss. Impairment is effected if the estimated value in use is less than the carrying amount and is charged to the profit or loss for the year. See also Note 13 for significant assumptions and a description of the effect of reasonable possible changes in the assumptions that form the basis for the calculations.

Tax

The deferred tax receivable has been calculated on the basis of the management's and Board of Directors' judgement of the future utilisation of the consolidated accumulated deficits within the foreseeable future. A revised judgement of the way in which the deductible loss carry-forward can be recovered through future taxable surpluses may affect reported tax in the results of the operations and the balance in forthcoming periods. See also Note 11 on page 75.

Notes

Note 01 Segment reporting

Operating segments are reported in a manner that is consistent with internal reporting presented to the chief operating decision maker. The chief operating decision maker is the function responsible for allocating resources and judging the results of operating segments. In the Group, this function has been identified as the CEO.

Medivir is organised into two operating segments. The Pharmaceuticals segment comprises research and development, and the marketing and sale of pharmaceuticals.

The Pharmaceuticals segment includes the Group's research portfolio, the in-house developed cold sore pharmaceutical, Xerclear, and the original pharmaceuticals owned by the wholly owned subsidiary company, BioPhausia. The other operating segment comprises parallel imports of pharmaceuticals, which are conducted via BioPhausia's subsidiary, Cross Pharma.

The Group management assesses the operating segments on the basis of the EBITDA metric, which comprises the operating profit/loss before depreciation and amortisation.

	2012			2011		
	Pharmaceuticals	Parallel imports	Total	Pharmaceuticals	Parallel imports	Total
Net sales	170,647	384,379	555,026	512,621	185,945	698,566
EBITDA	–165,254	14,279	–150,975	137,633	–2,285	135,348
EBITDA, %	–97	4	–27	27	–1	19
Depreciation and amortisation	–32,611	–2,206	–34,817	–22,242	–1,192	–23,434
Net financial items	–6,415	–705	–7,120	–210	–498	–708
Profit/loss after net financial items	–204,280	11,368	–192,912	115,181	–3,975	111,206

Information has not been provided for assets and liabilities per operating segment as the Group management does not use this information in its control work.

	The Group		Parent Company	
Breakdown of net sales (SEK k)	2012	2011	2012	2011
Outlicensing and collaboration agreements				
Non-recurrent payments	4,353	401,222	4,353	401,222
Research collaborations	–	0	26,916	25,495
Pharmaceutical sales	164,994	111,234	300	3,335
Parallel imports	384,379	185,945	–	–
Other services	1,300	165	2,758	2,270
Total	**555,026**	**698,566**	**34,327**	**432,322**

	The Group		Parent Company	
Geographic breakdown of net sales (SEK k)	2012	2011	2012	2011
Sweden	517,548	278,126	1,837	5,584
Nordic region, other	17,132	15,299	–	4
Europe, other, and USA	20,346	405,134	32,490	426,734
Rest of the world	–	7	–	–
Total	**555,026**	**698,566**	**34,327**	**432,322**

Large customers

The Group's three largest customers collectively account for 77 per cent of the Group's total net sales. The three largest customers within the Parallel imports segment account for 87 per cent of net sales, while in the Pharmaceuticals segment, the three largest customers account for 58 per cent of net sales.

Note 02 Costs by type of cost (SEK k)

	The Group		Parent Company	
	2012	2011	2012	2011
Cost of raw materials and consumables	402,671	240,621	269	181
Other external costs	179,376	214,222	142,645	172,461
Personnel costs	136,982	109,466	112,857	85,997
Amortisation of intangible fixed assets	24,589	15,923	541	562
Depreciation of tangible fixed assets	10,228	7,511	9,664	7,195
Total cost of goods sold, sales, administration, and research and development	**753,846**	**587,743**	**265,976**	**266,396**

Note 03 Intra-group transactions

The Parent Company

Intra-group sales totalled SEK 36,404 (37,118) thousand. Intra-group purchases totalled SEK 2,673 (36,483) thousand.

Note 04 Audit costs and audit consulting fees (SEK k)[1)]

	The Group		Parent Company	
	2012	2011	2012	2011
PWC				
Audit engagement	1,003	556	871	470
Auditing activities over and above audit engagement	116	50	116	50
Tax advice	196	336	196	336
Other services	1,087	1,584	980	1,502
Ernst & Young				
Audit engagement	129	553	–	–
Auditing activities over and above audit engagement	–	27	–	–
Other services	88	–	–	–
Total	**2,619**	**3,106**	**2,163**	**2,358**

1) The Group's auditors are PricewaterhouseCoopers.

The term, audit engagement, refers to fees payable for the statutory audit, i.e. work that was needed to submit the audit report, and so-called audit advisory services provided in conjunction with the audit engagement.

Note 05 Average number of employees, salaries, other remuneration, social security contributions, and pension costs

	The Group 2012		The Group 2011		Parent Company 2012		Parent Company 2011	
Average number of employees	**Women**	**Men**	**Women**	**Men**	**Women**	**Men**	**Women**	**Men**
Sweden	68	52	65	48	53	44	45	39
Finland	–	–	2	–	–	–	–	–
Poland	31	13	43	12	–	–	–	–
Total	**99**	**65**	**110**	**60**	**53**	**44**	**45**	**39**

	The Group	The Group	Parent Company	Parent Company
Salaries, remuneration, social security contributions, and pension costs, SEK k	**2012**	**2011**	**2012**	**2011**
Salaries and remuneration				
Ron Long (CEO until 25 Sept. 2011)	–	4,322	–	4,322
Maris Hartmanis (CEO from 26 Sept. 2011)	4,334	1,062	4,375	1,062
Anna Malm Bernsten (Member of the Board)	340	260	340	260
Björn C. Andersson (Member of the Board)	290	275	290	275
Ingemar Kihlström (Member of the Board)	340	310	340	310
Rolf Classon (Member of the Board from 10 May 2012)	275	–	275	–
Anders Hallberg (Member of the Board from 10 May 2012)	275	–	275	–
Göran Pettersson (Member of the Board)	535	495	535	495
Total, Board of Directors and CEO	**6,389**	**6,724**	**6,430**	**6,724**
Other senior executives	12,197	8,818	12,304	8,818
Other employees	73,125	56,629	57,510	41,309
Salaries and remuneration, total	**91,711**	**72,171**	**76,244**	**56,851**
Statutory and contractual social security contributions	**27,286**	**24,168**	**22,493**	**19,835**
Pension costs (of which SEK 1,184 thousand (SEK 356 k) for the Parent Company CEO	**14,548**	**12,499**	**11,790**	**9,096**
Total salaries, remuneration, social security contributions and pension costs	**133,545**	**108,838**	**110,527**	**85,782**

Remuneration during the financial year
The Board of Directors
Fees are payable to the Chairman of the Board and members of the Board in accordance with the resolution by the Annual General Meeting.

No fees are payable for the work of the Nomination Committee. SEK 2,055 (1,340) thousand was paid in director's fees to the Board of Directors of Medivir AB during the financial year, SEK 535 (495) thousand of which was paid to the Chairman of the Board.

Members of the Board are also reimbursed for travel expenses in connection with Board meetings, etc. There is no pension plan for the Board of Directors. Consultancy fees of SEK 414 (0) thousand have been paid to Bernsten Konsult AB.

Guidelines for remuneration to senior executives
The proposal by the Nomination Committee that the company should offer a competitive total remuneration package that enables the recruitment and retention of qualified senior executives was adopted at the 2012 Annual General Meeting.

Remuneration payable to the senior executives shall comprise a fixed salary, any performance-related pay, options in accordance with the stock option programme approved by the AGM, pensions and other benefits. Performance-related pay paid in cash shall total a maximum of 50 per cent of the annual fixed salary.

Performance-related pay shall be linked to predetermined and quantifiable criteria formulated in order to promote the company's long-term value creation.

No severance pay or similar remuneration shall, as a basic principle, be payable in addition to that stated above but may – up to an amount corresponding to a maximum of 100 per cent of the annual fixed salary – be agreed with reference to any change of control. The senior executives may be granted other customary benefits, such as a company car, company health care schemes, etc. The Board of Directors shall be entitled to adjudge on the basis of the above guidelines and on a case-to-case basis whether there are special reasons justifying the granting of such benefits.

Pensions
Pension plans for other senior executives in Sweden conform to the ITP (supplementary pensions for salaried employees) plan. Individual pension plans corresponding to statutory charges plus 6 per cent of the fixed salary excluding bonuses and benefits are applied in the UK. The Board of Directors shall be entitled, the above provisions notwithstanding, to offer instead other solutions that are, in cost terms, approximately equivalent to the above.

Severance pay, etc.
A maximum mutual notice period of six months shall apply for the CEO and other senior executives. No severance pay or similar remuneration shall, as a basic principle, be payable in addition to that stated above but may – up to an amount corresponding to a maximum of 100 per cent of the annual fixed salary – be agreed with reference to any change of control.

The Chief Executive Officer
Remuneration payable to the CEO shall comprise a fixed salary, any performance-related pay, options in accordance with the AGM-approved stock option programme, pension, and other benefits. Performance-related pay payable in cash may not exceed 50 per cent of the fixed annual salary.

Maris Hartmanis was appointed as Deputy CEO on 1 September 2011 and as CEO on 26 September 2011.

Salaries and remuneration paid to Maris Hartmanis during the year totalled SEK 3,344 (1,062) thousand, together with bonuses totalling SEK 990 (–) thousand and other benefits totalling SEK 85 (44) thousand.

The pension plan for the CEO conforms to the individual pension plan of 35 per cent of the fixed monthly salary excluding bonuses and benefits. Pension provision made during the year totalled SEK 1,184 (356) thousand. Any bonuses are maximised to a value of 50 per cent of the fixed salary. A mutual notice period of six months applies for Maris Hartmanis. Maris Hartmanis is entitled to severance pay corresponding to twelve times the value of the fixed monthly salary at the time when notice is given plus the average of any bonuses paid in the last three full financial years if notice of the termination of Maris Hartmanis' employment is given by the company or if Maris Hartmanis gives notice due to significant breach of contract on the part of the company.

Salaries and remunerations paid in 2011 to Ron Long, who resigned his position as CEO on 25 September 2011, totalled SEK 2,628 thousand, with SEK 0 thousand in bonuses, SEK 0 thousand in other benefits, and severance pay provision of SEK 1,694 thousand. The total remuneration paid was SEK 4,322 thousand. Pension provisions in 2011 totalled SEK 0 thousand. A mutual notice period of six months applied to Ron Long.

Other senior executives
The term, other senior executives, refers, in addition to the CEO, to the seven people who, together with the CEO, have comprised the management group during the year. The management group comprised two women and four men at the year-end.

Salaries totalling SEK 9,080 (8,818) thousand have been paid to other senior executives, together with SEK 1,257 (0) thousand in performance-related pay, SEK 1,860 (0) thousand in severance pay, and SEK 530 (4,906) thousand in benefits, comprising a total of SEK 12,727 (13,724) thousand in total remuneration paid. Pension provisions have been made in the sum of SEK 2,313 (1,940) thousand. For details of stock option holdings, see page 45.

A mutual notice period of six months applies to other senior executives.

Share warrants and staff stock option programmes
Medivir has adopted long-term, share-related incentive programmes designed to promote the company's long-term interests by motivating and rewarding the company's senior executives and other employees. The performance of these programmes is monitored to the extent deemed necessary.

Medivir had one outstanding long-term, share-related incentive programme at the end of 2012, namely the 2010-2013 option programme, which comprised both share warrants and staff stock options.

A presentation of the share-related remuneration payable within the company follows.

Valuation model for options
Medivir has chosen Black & Scholes as its option valuation model. When choosing the model, the company has taken into account the same factors as those that would be taken into account by knowledgeable and interested, mutually independent parties.

The key factors in the underlying model are as follows:
- the exercise price
- the lifetime of the options
- the current price of the underlying shares
- the shares' expected volatility
- anticipated dividend payments, and
- the risk-free interest rate over the lifetime of the options

The expected volatility is a measurement of the scope of price fluctuations during a period.

Medivir has taken the following factors into account when estimating the expected volatility:
- Implicit volatility of other corporate instruments that are subject to trading and that entail terms and conditions of an option nature.
- The historic volatility of the share price and, because the company was recently floated on the stock exchange, the historic share price performance for similar companies. The historic period is the same length as the lifetime of the options.
- The long-term average volatility level.

Valuation parameters as of the grant date:

	Grant date per programme		
	2010–2013		2007–2012
Valuation parameters	Share warrant	Staff stock option	Staff stock option
Share price, SEK	114,93	104,06	57,95
Exercise price, SEK	144	144	66,64
Volatility, %	31	31	27
Anticipated dividend payment	None	None	None
Risk-free interest rate, %	1,5	1,5	4,1
Fair value per option, SEK	12,00	12,44	14,40

Staff stock option programme costs
Medivir reports its staff stock option programmes in accordance with IFRS 2. Medivir values the relevant programmes on the grant date at fair value and then allocates the value over the vesting period as a personnel cost. Staff stock options are carried as expenses over three years and a proportionally larger share of the cost is reported in the first year. SEK 0.2 (1.0) million was reported as a personnel cost for staff stock options in the profit/loss for the year.

A taxable benefit arises between the conversion price and the market value of the share in conjunction with any future exercise of staff stock options, on which social security contributions are payable. The Group disposes over a number of options to subscribe for shares in Medivir AB (known as a hedge) in order to cover any future social security contributions.

The hedge options are used to subscribe for shares sold on the market in order to generate a cash flow for the Group that covers the payment of social security contributions. The personnel cost of social security contributions that arise in the Consolidated Income Statement will not, however, be matched by a cost reduction and the effect arises in cash flow terms only in that proceeds from the sale of shares are, from a Group perspective, treated as an equity issue. The market value of the option is calculated in accordance with UFR 7 every quarter and is used to determine the provision for social security contributions.

Provision of SEK –0.1 (–7.5) million has been made in the net profit/loss for the year for accrued social security contributions that would be payable on the taxable benefit arising in conjunction with the exercise of staff stock options.

Cash settlement
Medivir could, under certain circumstances and in accordance with an addendum to the terms of the 2007-2012 staff stock option programme, offer cash settlement to those option holders who so wish.

The option holder was not required, in conjunction with cash settlement, to deposit the exercise price of the option and received a cash sum instead of a share. Cash settlement could be effected if it was possible to temporarily borrow a relevant number of shares via the equity repo market and then sell them. The option holder would then receive the difference between the proceeds from the sale of the shares, less brokerage, and the predetermined exercise price in the relevant staff stock option programme.

Note 05 Continued

The option programmes are, therefore, what are referred to as equity-settled programmes, rather than cash-settled ones.

Cash settlement was offered purely as a service to Medivir's personnel, offering them assistance in selling the shares to which they are entitled under their option agreement, provided that it could be achieved smoothly with the aid of a commercial bank external to Medivir. Employees could not, therefore, request cash settlement instead of an equity instrument, but could, if the situation permitted, obtain assistance in selling their instruments via this service.

Employees would, therefore, be obliged to pay the brokerage charged by the external party for assisting the employees with their own transactions.

Staff stock option programme, 2007-2012

The 2007 Annual General Meeting resolved to adopt a staff stock option programme comprising 480,000 staff stock options and an equal number of underlying share warrants. A total of 360,000 staff stock options were granted to staff, with the remaining options being held by Medivir Personal AB to cover social security contributions. Subscription for class B shares was permitted in the period 18 June 2007 – 30 April 2012. The subsidiary Medivir Personal AB disposed over these share warrants to satisfy the commitments ensuing from the staff stock options issued within the auspices of the staff stock option programme 2007-2012. Each staff stock option could be exercised to acquire one share of Medivir AB through the agency of the subsidiary against payment of an exercise price corresponding to at least 115 per cent of the closing price for Medivir's class B share as quoted on Nasdaq OMX Stockholm's Small-cap List at the grant date (albeit subject to a minimum of SEK 66.64) for each share. The staff stock options have been granted to employees of the Medivir group free of charge.

The 2007-2012 programme granted the right to acquire new shares up to 30 per cent of the total number of staff stock options granted from the date falling one year after the granting date and up to a further 30 per cent on the second anniversary of the granting date and 40 per cent from the third anniversary. All of the above was conditional upon the holder still being an employee of the company on the dates mentioned and not having been dismissed from or given notice of the termination of their employment with the company.

Options	2012	2011
Outstanding on 1 January	**318,107**	**409,247**
Granted	–	–
Redeemed	–5,688	–91,140
Forfeited	–312,419	–
Outstanding on 31 December	**0**	**318,107**
Exercisable on 31 December	**0**	**318,107**

The theoretical market value calculated according to the Black & Scholes model was SEK 14.40 per option as of the grant date. After the rights issue of 2010, the conversion terms of the programme were restated, and subsequently entitled conversion to 1.09 shares per option, with the exercise price being restated as SEK 61.20. The market value per option on the reporting date of 31 December 2011 was SEK 8.46.

In 2012, the weighted average exercise price was SEK 64.40 and the weighted average share price at the exercise date was SEK 61.20 (130).

5,688 options were exercised in 2012 and the remaining 312,419 options in the programme have been forfeited with the expiry of the programme on 30 April 2012. Options acquired during the period have increased the share capital by SEK 31 thousand and the other capital contributed by SEK 348 thousand.

Staff stock option programme, 2010-2013

The AGM 2010 approved a staff stock option programme consisting of 394,400 options, of which some 343,000 have been granted to employees of the Group and the remaining 51,400 have been retained to cover expenditure for social security contributions. The programme means that all employees are offered the opportunity to acquire 171,500 share warrants on market terms.

For each share warrant an employee acquires, they also receive a staff stock option free of charge.

The term of this programme is 30 April 2010 to 31 May 2013, and after vesting, each option shall be exercisable to subscribe for class B shares against the payment of an exercise price.

The subsidiary Medivir Personal AB disposes over these share warrants to satisfy the commitments ensuing from the staff stock options issued within the framework of the stock option programme. Each option can be exercised to acquire one share of Medivir AB through the agency of the subsidiary against payment of an exercise price corresponding to at least 125 per cent of the closing price of Medivir's class B share as quoted on Nasdaq OMX Stockholm's Small-cap List at the grant date (albeit subject to a minimum of SEK 144.00) for each share. The staff stock options have been granted to employees of the Medivir group free of charge.

The 2010-2013 programme grants the right to acquire new shares up to 100 per cent of the total number of share warrants purchased and staff stock options consequently granted from the second anniversary of the granting date onwards. Entitlement to exercise the staff stock options is conditional upon the holder still being an employee of the company on the date mentioned and not having been dismissed from or given notice of the termination of their employment with the company.

Options	2012	2011
Outstanding on 1 January	**408,000**	**394,400**
Granted	–	13,600
Exercised	–13,600	–
Outstanding on 31 December	**394,400**	**408,000**
Exercisable on 31 December	**394,400**	**0**

The theoretical market value calculated according to the Black & Scholes model was SEK 12.00 per staff stock option and SEK 12.44 per share warrant as of the grant date in 2010. The theoretically calculated market value according to the Black & Scholes model was SEK 33.95 per staff stock option and SEK 36.33 per share warrant at the grant date in 2011.

The market value per option on the reporting date of 31 December 2012 was SEK 0.62. After the rights issue of 2010, the conversion terms of the programme were restated, and entitle conversion to 1.09 shares per option, and the exercise price has been restated to SEK 132.30.

Transactions with related parties

Transactions with related parties are conducted on an arm's length basis. There are agreements between companies owned by senior executives and Medivir conferring entitlement to royalties on products that the company may develop based on patented inventions that the company has acquired from the relevant parties before and during their time as researchers at Medivir. Remuneration totalling SEK 0.0 (0.9) million has been disbursed during the period. Other services purchased from related parties total SEK 0.4 (0.7) million. Intra-group sales have totalled SEK 39,076 (37,118) thousand.

Note 06 Leasing agreements including property rent (SEK k)

	The Group		Parent Company	
	2012	2011	2012	2011
Cost of the year[1)]	15,392	14,522	9,166	5,292
Nominal value of future minimum lease payments for irrevocable leasing agreements including property rent				
Within one year[2)]	14,947	14,433	8,765	4,755
Between one and five years[3)]	60,517	51,456	30,222	7,777
Total	**75,464**	**65,889**	**38,987**	**12,532**

1) The costs refer mainly to premises rent for Medivir UK, Medivir AB and BioPhausia AB. Rent costs within the Group total SEK 14,080 (12,857) thousand of which rent costs in Medivir AB total SEK 8,062 (4,283) thousand, and SEK 6,018 (5,263) thousand in Medivir UK. SEK 7,014 (6,752) thousand of the rent costs for the year are recognised as revenue due to the subletting of research facilities in Chesterford Park. The net profit/loss for the subletting of SEK –996 (–19) thousand has been reported under other revenue in the Income Statement. The lease agreements for Medivir AB expire between 2013 and 2016, while the lease agreement for Medivir UK in Chesterford Park expires in 2025. Medivir UK's lease agreement is index-linked every five years. The research facilities in Chesterford Park have been sublet up to and including 2015 after which the contract may be extended. No provision has been made for rent costs after 2015 as the company calculates that the costs will continue to be covered by rental income for the remaining period.

2) Of which SEK 7,014 thousand will be recognised as revenue due to the subletting of the research facilities in Chesterford Park.

3) Of which SEK 35,069 thousand will be recognised as revenue due to the subletting of the research facilities in Chesterford Park.

Note 07 Profit/loss from participations in Group companies (SEK k)

	The Group		Parent Company	
	2012	2011	2012	2011
Capital gain/loss from the sale of BMM AB	–	–526	–	–
Dividend from Medivir Personal AB	–	–	–	2,500
Impairment losses on shares in the Medivir UK Ltd. subsidiary (see also Note 15, Participations in Group companies)	–	–	–27,492	–25,853
Total	**–**	**–526**	**–27,492**	**–23,353**

Note 08 Financial risks

The main financial risks that arise as a result of the management of financial instruments comprise market risk (interest risk, currency risk and share price risk), credit risk, and liquidity and cash flow risk.

The financial risks are managed in accordance with a policy adopted by the Board of Directors whereby cash and cash equivalent investments shall be conducted in such a way that the capital invested generates a secure and stable return.

The goal is to achieve the best possible return at the lowest possible risk level. Underlying instruments shall have a low risk level and a risk spread shall be sought when investing cash and cash equivalents. The company shall invest these cash and cash equivalents with recognised institutions, such as the major Swedish banks.

The connection between IAS 39 categories and Medivir's Balance Sheet items

The Group, 2012 (SEK k)	Financial assets recognised at fair value in the Income Statement	Cash and cash equivalents	Accounts receivable	Financial assets held for sale	Loans and accounts receivable	Total
Financial assets held for sale						–
Accounts receivable			70,203			**70,203**
Prepaid costs and accrued income						–
Other short-term investments	257,514					**257,514**
Cash and bank balances		39,213				**39,213**
Accounts payable					37,636	**37,636**
Borrowings					88,616	**88,616**
Financial leasing liabilities					41	**41**
Total	**257,514**	**39,213**	**70,203**	**–**	**126,293**	**493,223**

The Group, 2011 (SEK k)	Financial assets recognised at fair value in the Income Statement	Cash and cash equivalents	Accounts receivable	Financial assets held for sale	Loans and accounts receivable	Total
Financial assets held for sale				9,659		**9,659**
Accounts receivable			67,216			**67,216**
Prepaid costs and accrued income						–
Other short-term investments	425,334					**425,334**
Cash and bank balances		110,945				**110,945**
Accounts payable					26,012	**26,012**
Borrowings					165,287	**165,287**
Financial leasing liabilities					191	**191**
Total	**425,334**	**110,945**	**67,216**	**9,659**	**191,490**	**804,644**

Note 08 Continued

Financial assets recognised at fair value

The Group, 2012 (SEK k)	Carrying amount	Recognition at fair value at the end of the period based on: Level 1	Level 2	Level 3
Financial assets recognised at fair value in the Income Statement	–	–	–	–
Other short-term investments	257,514	257,514	–	–
Financial assets held for sale	–	–	–	–
Total	**257,514**	**257,514**	**–**	**–**

The Group, 2011 (SEK k)	Carrying amount	Recognition at fair value at the end of the period based on: Level 1	Level 2	Level 3
Financial assets recognised at fair value in the Income Statement	–	–	–	–
Other short-term investments	425,334	425,334	–	–
Financial assets held for sale	9,659	–	–	9,659
Total	**434,993**	**425,334**	**–**	**9,659**

The following table shows the changes for level 3 instruments

	2012	2011
Opening balance	**9,659**	**18,793**
Losses recognised in the Income Statement	–9,659	–9 134
Closing balance	**–**	**9,659**

Market risks

Interest risk

Interest risk is the risk of a negative impact on cash flow or financial assets and liabilities resulting from changes in market rates of interest. Interest risk arises in two ways; the Group's investments in interest-bearing assets whose value changes when interest rates change and the cost of the Group's borrowings when interest rates change.

Medivir's investment policy states that the company shall invest its cash and cash equivalents in instruments such as bank and corporate commercial papers, fixed income and bond funds, fixed bank investments and special deposits. Changes in market rates of interest consequently affect Medivir's profit/loss by reducing or increasing returns on financial assets.

The Group's cash and cash equivalents, including short-term investments with a maximum term of three months, totalled SEK 296,727 (536,279) thousand on 31 December 2012. SEK 257,514 (425,334) thousand of this sum was invested in fixed income funds with discretionary management. An average return on cash and cash equivalents of 3.0 (3.1) per cent was achieved in 2012. The return on the year has fluctuated between 0.5 and 5.6 (0.5 and 3.1) per cent. Assuming an average of existing short-term investments during the year, if the average return had been 1 percentage point higher or lower, the annualised positive or negative effect on the profit/loss would have been approximately SEK 2,860 thousand.

Falling interest rates result in a reduction in the return on the Group's cash or cash equivalents. If the return falls to 0 per cent in 2013, the effect on the profit/loss would be SEK –8,600 thousand, given unchanged holdings of cash and cash equivalents.

The Group's credit facilities on 31 December 2012 comprised bank loans and an overdraft facility with a three-month fixed interest period. The subordinated loan was amortised in its entirety during the year. The Group's interest exposure is shown in the table below.

The Group's interest risk is attributable to the change in market interest rates and their effect on the debt portfolio. At the period end, the Group had both fixed interest and variable interest. The Group does not make use of interest hedging instruments. The choice of fixed interest term is based on a cost-benefit analysis on a case-by-case basis when raising loans. The Group's estimated cash flow is taken into account when assessing the fixed interest period.

Borrowing, 31 December 2012	Amounts, SEK k	Interest expense, 2013, given unchanged interest levels	Average interest rate level, %	Average fixed interest term, months	Change in interest expense, 2012, given a +1% change in interest rates, SEK k
Bank loans	70,000	2,761	5,56%	3	924
Overdraft facility	18,616	608	3,47%	3	149

The profit/loss would be negatively affected by SEK 1,073 k, given a 1 percentage point increase in interest rates in accordance with the above.

Currency risk

Currency risk is the risk that the fair value or future cash flows associated with financial instruments vary due to changes in foreign exchange rates.

– The profit/loss is affected when costs and revenues in foreign currencies are translated into Swedish kronor (transaction risk).
– The Balance Sheet is affected when assets and liabilities in a foreign currencies are translated into Swedish kronor (translation risk).

In accordance with Medivir's financial policy, the Group has not made use of currency hedging in 2012. Income and expenses have consequently been affected by fluctuations in foreign currency exchange rates. The company's operating profit/loss was affected during the financial year by a net of SEK –5,711 (–170) thousand in exchange rate profits/losses and the exchange rate items component of net financial items totals SEK –455 (–675) thousand.

All trading in foreign currency was conducted at the best rate of exchange attainable at the point of exchange. Many of Medivir's contracts involve payments in EUR and USD, and accounts payable and accounts receivable consequently have currency exposure.

The Group's transactions in foreign currency consist of revenues from partners on research projects, pharmaceutical sales, purchases of goods and other operating costs.

The Group's transactions in its most common currencies and the theoretical effect on profit or loss arising if the average rates of exchange for each currency change by 5 per cent are shown below.

2012	Net sales	Costs	Operating profit/loss	Change +/– 5%
EUR	4,642	–218,248	–213,606	+/– 10 680
USD	–	–29,878	–29,878	+/– 1 494
GBP	653	–162,022	–161,369	+/– 8 068
DKK	1,167	–2,946	–1,779	+/– 89
NOK	15,906	–7,956	7,950	+/– 399
PLN	5,568	–45,172	–39,604	+/– 1 980
Total	**27,936**	**–466,222**	**–438,286**	**+/– 21 914**

2011	Net sales	Costs	Operating profit/loss	Change +/– 5%
EUR	60,202	–85,960	–25,758	+/– 1 288
USD	375,695	–33,526	342,169	+/– 17 108
GBP	–	–104,158	–104,158	+/– 5 208
DKK	718	–11,651	–10,933	+/– 547
NOK	8,849	–3,452	5,397	+/– 270
PLN	3,270	–7,756	–4,486	+/– 224
Total	**448,734**	**–246,503**	**202,231**	**+/– 10 112**

The table shows the currency exposed operating income and operating expenses as net amounts per currency in SEK k.

A sensitivity analysis shows that a strengthening of the Swedish krona by 5 per cent against the above currencies' annualised average exchange rates would have entailed an improvement in the Group's net profit/loss of SEK 21,914 thousand in 2012 and a deterioration in the Group's net profit/loss of SEK 10,112 thousand in 2011. A corresponding weakening of the Swedish krona would have yielded a deterioration in the net profit/loss of SEK 21,914 thousand in 2012 and an improvement of SEK 10,112 thousand in 2011.

Share price risk of unlisted shares

Medivir received 2,007 shares in conjunction with the new share issue conducted by Epiphany Biosciences, Medivir's licensing partner for the MIV-606 (EPB-348) shingles project and shares in conjunction with the new share issue conducted by Presidio Pharmaceuticals, Inc., Medivir's licensing partner for the MIV-410 (PTI-801) compound. The value of the shares held, which totalled SEK 9,659 thousand at the beginning of the year, has been written off to SEK 0 during the year. Medivir has classified the shares as financial assets held for sale in accordance with IAS 39 and has reported the shares in the Balance Sheet under the "Financial fixed assets" item.

Credit risk (counterparty risk)

Credit risk is the risk that a counterparty is unable to fulfil its contracted obligations to Medivir, thus causing a financial loss for the company.

Medivir invests its cash and cash equivalents with Swedish fund managers with high credit ratings, P-1 from Moody's. In the year, these investments did not experience any value changes resulting from changes to asset managers' credit risk.

Medivir may also be exposed to credit risk in accounts receivable. Medivir had SEK 70,203 (67,216) thousand in outstanding accounts receivable on the reporting date.

Medivir has historically never needed to impair accounts receivable. Medivir has a number of partnership agreements with both established pharmaceutical companies and smaller biotech companies, thereby ensuring a risk spread. Pharmaceutical sales are made to large, established distributors which, in turn, sell the pharmaceuticals on to the pharmacies. The distributors bear no credit risk for deficient solvency on the part of the pharmacies and the Group consequently risks credit losses if the pharmacies suspend payments to the distributor.

	The Group		Parent Company	
Age analysis, accounts receivable (SEK k)	**2012**	**2011**	**2012**	**2011**
Not due	64,436	66,693	107	240
Due, 1-90 days	5,895	523	140	9
Due, 91 + days	–128	–	–	–
Total	**70,203**	**67,216**	**247**	**249**

Other receivables total SEK 5,405 (16,589) thousand of which SEK 0 (0) thousand was due on the reporting date.

The Group's cash and cash equivalents are invested in liquid assets with a low credit risk, such as certificates of deposit and fixed income and bond funds with low risk levels (P-1 Moody's rating) with discretionary management. No credit risks are deemed to exist in relation to the above investments.

Liquidity and cash flow risk

Liquidity risk is the risk of Medivir experiencing difficulties, in future, in fulfilling their obligations associated with financial liabilities.

A financial liability is each liability in the form of a contracted obligation to pay cash or other financial assets to another company, or to exchange a financial asset or financial liability with another company subject to terms that may be disadvantageous for the company.

Note 08 Continued

The following table shows the times to maturity of financial liabilities.

	The Group			Parent Company		
2012	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 3 years**	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 3 years**
Accounts payable	37,636	–	–	17,226	–	–
Bank loans	30,000	–	40,000	–	–	–
Overdraft facility	18,616	–	–	–	–	–

	The Group			Parent Company		
2011	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 3 years**	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 3 years**
Accounts payable	26,012	–	–	10,522	–	–
Subordinated loan, 2012	62,572	–	–	–	–	–
Bank loans	30,000	–	70,000	–	–	–
Overdraft facility	2,715	–	–	–	–	–

The amounts maturing within 12 months are consistent with the reported amounts, because the discount effect is insignificant.

Other liabilities total SEK 16,631 (12,521) thousand and mature within 12 months.

Medivir manages the liquidity risk by investing cash and cash equivalents in fixed income funds with low risk and a liquid market. Medivir's management and Board of Directors have continuous access to information on the company's equity and cash and cash equivalents. Liquidity and cash flow forecasts are prepared continuously on the basis of anticipated cash flows in order to monitor liquidity capacity.

Medivir has negative net debt at the period end, i.e. the available cash and short-term investments exceed the Group's interest-bearing liabilities. Medivir's research operations are financed in-house. The acquisition of BioPhausia, which provides the Group with stable sales of pharmaceutical products, also generates a more positive cash flow that enables a higher debt/equity ratio than the Group has historically had. As portions of the Group's interest-bearing liabilities become due for repayment, there is a refinancing risk in tandem with the extension of existing borrowings. The borrowing strategy focuses on securing the Group's loan financing requirements in terms both of the long-term loan requirement and Medivir's day-to-day payment undertakings to its lenders and suppliers. Borrowing is primarily through BioPhausia AB. Current liabilities are covered by Medivir's cash position and short-term investments on the reporting date and there is consequently no liquidity risk for the financial liabilities. The Group also disposes over unutilised credit facilities.

Capital

The consolidated equity totals SEK 874,880 (1,095,576) thousand and comprises the company's secure base for financing operating activities. For a more detailed specification of the shareholders' equity, see page 57. Cash and bank balances, together with short-term investments, total SEK 296,727 (536,279) thousand.

Medivir is a research-based pharmaceutical company that focuses on infectious diseases. The goal is to be a profitable, high growth, Nordic pharmaceutical company within the next three years. Medivir works purposefully and strategically to generate the best possible conditions for developing the company rapidly and in a way that ensures risks are balanced. The company has a solid financial position.

Medivir has several attractive projects in the development phase, with simeprevir as the most advanced of these projects. Medivir intends to submit registration applications for simeprevir in the first half of 2013. These factors, coupled with Medivir's ambition to identify new business opportunities in the Nordic region forms the basis for developing Medivir towards profitability.

Effective risk assessment combines Medivir's business opportunities and results with the demand by shareholders and other stakeholders for stable, long-term value growth and control. Research and pharmaceutical development all the way to approved registration is a highly risky and capital-intensive process.

The majority of projects begun will never reach market registration. If competing pharmaceuticals take market shares or competing research projects achieve better efficacy and reach the market more quickly, the future value of Medivir's product and project portfolio may be lower than expected. Medivir's ability to produce new candidate drugs, to enter into partnerships for its projects, and to successfully develop their projects to market launch and continued sales, and to secure operational financing, are decisive to its future.

Medivir will continue to maintain a low debt/equity ratio and a high equity/assets ratio as long as the Group has no long-term, independent earnings ability with sustainable profitability. No proposals for the payment of dividends to shareholders will be possible until long-term profitability has been achieved. No dividend payments will be considered for the next few years.

Note 09 Other interest income and similar profit/loss items (SEK k)[1)]

	The Group		Parent Company	
	2012	2011	2012	2011
Interest income, bank	1,035	1,216	807	1,049
Interest income on current receivables	–	26	–	0
Interest income, Group companies	–	–	–	1,043
Exchange rate difference, intra-group balances	–	2,232	–	–
Exchange rate difference, other	2,745		–	–
Interest income from interest-bearing investments	–	0	–	0
Dividends from fixed income fund	3,309	1,996	3,309	1,996
Change in fair value of fixed income fund, unrealised	7,998	15,574	7,998	15,574
Other financial income	550	90	–	88
Total	**15,637**	**21,134**	**12,114**	**19,750**

1) Other interest income and similar profit/loss items are an effect of short-term investments recognised at fair value in the Income Statement and cash and bank balances.

Note 10 Interest expenses and similar profit/loss items (SEK k)

	The Group		Parent Company	
	2012	2011	2012	2011
Interest expenses	7,705	7,048	56	642
Exchange rate difference, intra-group transactions	3,200	2,661	–	–
Exchange rate difference, other	–	13	–	–
Issue cost, subordinated loan	1,411	2 187	–	–
Other financial expenses	782	209	–	–
Total	**13,098**	**12,118**	**56**	**642**

Note 11 Tax (SEK k)

	The Group		Parent Company	
Tax on the profit/loss for the year	**2012**	**2011**	**2012**	**2011**
Current tax	–345	0	–	–
Deferred tax	–25,823	2,545	–	–
Tax on profit/loss for the year	**–26,168**	**2,545**	**–**	**–**
Applicable tax rate for the Parent Company	26.3%	26.3%	26.3%	26.3%
Difference between the Group's tax reported in the Income Statement and tax based on applicable tax rate				
Profit/loss before tax	–192,912	111,206	–249,927	153,593
Tax at applicable tax rate for the Parent Company	50,736	–29,247	65,731	–40,395
Tax effect of change in tax rate	–9,624	–	–	–
Tax effect of non-deductible costs	–4,398	–3,425	–10,173	–9,992
Tax effect of non-taxable income	2,111	4,115	2,104	4,754
Effect of foreign tax rates	–393	–	–	–
Utilisation of loss carry-forwards not previously capitalised	–	33,817	–	45,633
Tax effect of losses for which tax assets are not recognised	–64,600	–2,715	–57,662	–
Reported tax	**–26,168**	**2,545**	–	–

Deferred tax recognised in the Balance Sheet refers to the following:

Deferred tax	Receivable	Liability	Net
Deferred tax asset			
Capitalised loss carry-forward	55,588	–	55,588
Intangible fixed assets	–	6,350	–6,350
Closing balance	**55,588**	**6,350**	**49,238**

Deferred tax asset	As of 31 Dec 2011	Operation acquired	Operation sold	Adjustment of acquisition analysis	Recognised in profit/loss	As of 31 Dec 2012
Capitalised loss carry-forward	83,528	–	–	–3,324	–24,616	55,588
Total deferred tax asset	**83,528**	**–**	**–**	**–3,324**	**–24,616**	**55,588**
Deferred tax liability						
Temporary differences relating to						
Intangible assets	5,387	–	–	–	963	6,350
Subordinated loan	–244	–	–	–	244	–
Total deferred tax liability	**5,143**	**–**	**–**	**–**	**1,207**	**6,350**
Net deferred tax asset	**78,385**	**–**	**–**	**–3,324**	**–25,823**	**49,238**

At the year-end, the total accumulated taxable loss of the Group was SEK 1,340 (1,365) million, of which SEK 253 (318) million has been capitalised. The remaining loss of SEK 1,088 (1,047) million comprises primarily tax losses in the Parent Company and in Medivir UK and have not been capitalised due to the difficulty in assessing the point in time when it will be possible to offset loss carry-forwards against future taxable profits. There is no time restriction on the utilisation of capitalised loss carry-forwards.

Note 12 Earnings per share

	The Group	
	2012	2011
Basic and diluted earnings per share, SEK[1)]	–7.01	3.80
Net profit/loss for the year, SEK k	–219,080	113,751
Average number of shares, 000	31,257	29,924

Earnings per share have been calculated as the net profit/loss for the year divided by the average number of shares during the year.

1) Basic earnings per share – the profit/loss after financial items less the tax expense for the period divided by the average number of shares.
Diluted earnings per share – the profit/loss after financial items less the tax expense for the period divided by the average number of shares and outstanding share warrants, adjusted for any dilution effect.

Note 13 Intangible fixed assets (SEK k)

	The Group					Parent Company	
2012	Capitalised R&D expenditure	Trademarks and brands	Product rights	Goodwill	Other	Capitalised R&D expenditure	Other
Cost at beginning of the year	4,319	19,234	331,874	188,153	2,742	4,319	2,742
Additions	10,045	–	–	–	–	10,045	–
Exchange rate differences	–	–	–	–61	–	–	–
Cost at year-end	14,364	19,234	331,874	188,092	2,742	14,364	2,742
Amortisation at beginning of the year	–830	–1,122	–12,906	–	–2,470	–830	–2,470
Amortisation for the year	–432	–1,923	–22,125	–	–109	–432	–109
Amortisation at year-end	–1,262	–3,045	–35,031	–	–2,579	–1,262	–2,579
Book value at year-end	**13,102**	**16,189**	**296,843**	**188,092**	**163**	**13,102**	**163**

	The Group					Parent Company	
2011	Capitalised R&D expenditure	Trademarks and brands	Product rights	Goodwill	Other	Capitalised R&D expenditure	Other
Cost at beginning of the year	4 383	–	–	–	2 742	4 383	2 742
Additions	152	–	–	–	–	152	–
Additions through business combinations	–	19 234	351 874	188 271	–	–	–
Sales and disposals	–216	–	–20 000	–	–	–216	–
Exchange rate differences	–	–	–	–118	–	–	–
Cost at year-end	4 319	19 234	331 874	188 153	2 742	4 319	2 742
Amortisation at beginning of the year	–424	–	–	–	–2 353	–424	–2 353
Amortisation for the year	–445	–1 122	–14 239	–	–117	–445	–117
Sales and disposals	39	–	1 333	–	–	39	–
Amortisation at year-end	–830	–1 122	–12 906	–	–2 470	–830	–2 470
Book value at year-end	**3 489**	**18 112**	**318 968**	**188 153**	**272**	**3 489**	**272**

Trademarks and brands
Trademarks and brands relate to the Cross Pharma trademark and arose in conjunction with the acquisition of BioPhausia AB. Amortisation is effected linearly over the estimated useful life of 10 years.

Product rights
The product rights relate to the acquisition of BioPhausia AB in 2011. The acquisition included two product portfolios: proprietary products and licensing rights to generic products. The generics portfolio was divested on 1 September 2011. Amortisation of the remaining product rights is effected linearly over the estimated useful life of 15 years.

Goodwill
Goodwill relates to the acquisition of BioPhausia AB. Goodwill has an indefinite useful life and is subject to annual impairment testing.

Capitalised research and development expenditure
Capitalised expenditure for research and development work relates both to capitalised development expenditure for Xerclear and to antiviral research programmes acquired. The useful life for Xerclear is based on the lifetime of the underlying patent and is 10 years. Amortisation is effected linearly in order to distribute the development costs in line with the estimated useful life.

Amortisation of other intangible assets acquired, such as development projects, is effected linearly over the useful life and is linked to the lifetime of patents obtained.

Note 13 Continued

Other
Other intangible assets relates to capitalised development expenditure on ERP systems. The useful life is estimated at 5 years, during which time the reported asset is amortised.

Impairment testing
Intangible assets with an indefinite useful life are subject to impairment testing at least once every year. Assets depreciated or amortised according to plan are subject to impairment testing whenever events or changes in circumstances indicate that their carrying amount is not recoverable.

The table below illustrates the carrying amount for goodwill, allocated by cash-generating unit:

	2012	2011
Pharmaceuticals	150,420	150,481
Parallel imports	37,672	37,672
Total	**188,092**	**188,153**

Goodwill assigned to the cash generating unit Pharmaceuticals is tested at a lower level than segment level due to the synergies that aroused at the acquisition of Biophausia related to pharmaceuticals, regulatory work, logistics, distribution, marketing, sales, quality assurance of pharmaceuticals and marketing channels in different countries are controlled and monitored separately within the segment in its control. When performing impairment testing, the present value of the anticipated future cash flows from the Groups´ pharmaceutical product range which includes the original pharmaceuticals that BioPhausia has an unlimited ownership of. Goodwill assigned to the segment Parallel import is being tested at segment level.

The future cash flows are established based on both next years´ budget as well as a forecast of the next coming years. The budget, as adopted by the Board, relies on a large amount of detailed assumptions with respect to growth in volume, currency rates, expense development etc.

The budget is also based on the expertise of the management and other key individuals within the organisation, on historic trends and projections.

The forecast for the period pursuant to the yearly budget and onwards is based on the managements long-term projections which covers five years. It is based on several overall assumptions regarding industry trends, development of the economy, volume growth, competition, currency rates, expense development etc.

The calculations and forecasts are based both on supporting data drawn from external sales statistics and from internal trend analyses.

This input, together with the management's experience, estimated forecasts, business plans and existing supplier agreements, has formed the basis for the estimates.

The most central assumptions that has been employed in this year's test comprises volume growth, EBITDA, capital employed, need for capital expenditures and discount rate (WACC).

WACC
The discount rate applied has been calculated as the WACC (weighted average cost of capital) and totals 9.0 per cent before tax. The discount interest rate is based on a market assessment of the average capital cost, taking into account the estimated prevailing risk level. The return on equity requirement is based on assumptions of a risk-free interest rate of 1.5 per cent, a market risk premium of 6.5 per cent, and a beta value of 0.7.

Sensitivity analysis
Sensitivity analyses are carried out in order to analyse the way in which changes in WACC and estimated growth rates affect the estimated useful life of the cash-generating units.

Note 14 Tangible fixed assets (SEK k)

	The Group		Parent Company	
Buildings and land[1)]	**2012**	**2011**	**2012**	**2011**
Cost at beginning of the year	17,719	17,719	4,232	4,232
Capital expenditure	–	–	–	–
Cost at year-end	17,719	17,719	4,232	4,232
Depreciation at beginning of the year	–16,007	–15,796	–2,520	–2,309
Depreciation for the year	–213	–211	–213	–211
Depreciation at year-end	–16,220	–16,007	–2,733	–2,520
Book value at year-end	**1,499**	**1,712**	**1,499**	**1,712**

1) The value of the Group's buildings corresponds to the incurred cost of improvements to rental properties.

	The Group		Parent Company	
Equipment, tools, fixtures and fittings	**2012**	**2011**	**2012**	**2011**
Cost at beginning of the year	149,390	134,537	134,058	119,817
Capital expenditure	10,642	17,010	9,474	15,577
Additions through business combinations	–	1,562	–	–
Sales and retirements	–215	–3,223	–	–1,336
Exchange rate differences	–	–496	–	–
Cost at year-end	159,817	149,390	143,532	134,058
Depreciation at beginning of the year	–115,481	–111,650	–102,581	–96,930
Depreciation for the year	–10,015	–7,299	–9,451	–6,983
Sales and retirements	206	3,105	–	1,332
Exchange rate differences	44	363	–	–
Depreciation at year-end	–125,246	–115,481	–112,032	–102,581
Book value at year-end	**34,571**	**33,909**	**31,500**	**31,477**

Financial leasing
Tangible fixed assets include leasing objects held through financial leases as shown below:

	The Group		Parent Company	
Equipment, tools, fixtures and fittings	**2012**	**2011**	**2012**	**2011**
Cost	266	266	266	266
Accumulated depreciation	–138	–111	–138	–111
Book value at year-end	**128**	**155**	**128**	**155**
Future minimum lease payments have the following due dates:				
Within 1 year	41	75	**41**	75
Between 1 and 5 years	–	41	–	41
Total	**41**	**116**	**41**	**116**

Depreciation totalling SEK 27 thousand (SEK 53 k) has been charged to the profit/loss.

Note 15 Participations in Group companies (SEK k)

Subsidiary company:	Corporate ID no.	Registered office	Number of shares	Share of capital	Book value, 2012	Book value, 2011
BioPhausia AB[1)]	556485-0153	Stockholm	342,564,194	100%	604,112	604,112
Medivir UK Ltd	3496162	Essex, England	2,000,007	100%	0	0
Medivir Personal AB	556598-2823	Huddinge	1,000	100%	100	100
Medivir HIV Franchise AB	556690-7118	Huddinge	1,000	100%	100	100
Total					**604,312**	**604,312**

1) Holdings in BioPhausia AB: Cross Pharma AB, OY Cross Pharma AB, Prodlekpol Sp z.o.o., Altesse AB, Astor Pharma AB, Glycovisc BioTech AB, Lefarm Sp z.o.o., BioPhausia A/S, OY BMM Pharma Ab.

Note 16 Financial assets held for sale (SEK k)

	The Group		Parent Company	
	2012	2011	2012	2011
Epiphany Biosciences				
Opening book value	6,329	14,165	6,329	14,165
Impairment loss	–6,329	–7,836	–6,329	–7,836
Closing book value	0	6,329	0	6,329
Presidio Pharmaceuticals Inc.				
Opening book value	3,330	4,628	3,330	4,628
Impairment loss	–3,330	–1,298	–3,330	–1,298
Closing book value	0	3,330	0	3,330
Total	**0**	**9,659**	**0**	**9,659**

In 2012, valuations carried out by independent parties have shown that the market value was significantly lower than the carrying amount. The value impairment was adjudged to be significant and lasting and the holdings in Epiphany and Presidio were accordingly impaired to SEK 0.

Note 17 Inventories (SEK k)

	The Group		Parent Company	
	2012	2011	2012	2011
Finished goods	54,297	61,877	16	261
Raw material inventories	29,060	8,207	–	–
Goods in repackaging	3,964	3,906	–	–
Total	**87,321**	**73,990**	**16**	**261**

Impairment of inventories totals SEK 240 (8,185) thousand.
The impairment has been charged to Cost of goods sold.

Note 18 Prepaid expenses and accrued income (SEK k)

	The Group		Parent Company	
	2012	2011	2012	2011
Prepaid rent	3,733	3,229	2,155	948
Licensing fees	2,244	2,566	2,244	2,566
Accrued milestone payments	4,353	–	4,353	–
Service agreements	1,985	418	1,985	418
Connection to external databases	1,300	853	1,300	853
Other items	3,227	2,973	1,468	795
Total	**16,842**	**10,039**	**13,505**	**5,580**

Note 19 Cash and cash equivalents (SEK k)

	The Group		Parent Company	
	2012	2011	2012	2011
Fixed income and bond funds	257,514	425,334	257,514	425,334
Cash and bank balances	39,213	110,944	14,932	90,963
Total	**296,727**	**536,279**	**272,446**	**516,297**

Note 20 Interest-bearing liabilities (SEK k)

	The Group		Parent Company	
	2012	2011	2012	2011
Non-current interest-bearing liabilitiesBank loans	40,000	70,000	–	–
Financial leasing liability	–	41	–	41
Total non-current interest-bearing liabilities	**40,000**	**70,041**	**–**	**41**
Current interest-bearing liabilities Liabilities to credit institutions	48,616	32,715	–	–
Financial leasing liability	41	75	41	75
Subordinated loan	–	62,572	–	–
Total current interest-bearing liabilities	**48,657**	**95,362**	**41**	**75**
Unutilised credit facilities				
Overdraft facility	81,384	97,285	–	–

Note 21 Accrued expenses and deferred income (SEK k)

	The Group		Parent Company	
	2012	2011	2012	2011
Accrued holiday pay	17,115	15,857	14,752	13,149
Accrued performance-related pay and severance pay	1,874	1,592	1,874	1,592
Accrued research costs	3,547	4,733	3,547	4,733
Accrued rent costs	4,447	4,713	–	–
Accrued social security contributions on staff stock options	–	427	–	427
Accrued social security contributions	3,612	3,000	2,293	1,716
Accrued salaries	7,742	4,310	7,584	–
Deferred income	–	1,054	–	1,054
Deferred royalty payments	2,462	–	2,462	–
Other items	17,144	20,964	5,504	11,076
Total	**57,943**	**56,650**	**38,016**	**33,747**

Note 22 Pledged assets (SEK k)

	The Group		Parent Company	
	2012	2011	2012	2011
Floating charges	104,250	104,250	–	–
Shares in subsidiaries	44,105	56,765	–	–
Pledged bank balances	–	1,153	–	1,153
Total	**148,355**	**162,168**	**–**	**1,153**

Note 23 Operations divested

On 1 September 2011, 100 per cent of the shares in BMM Pharma AB were sold to Bluefish Pharmaceuticals AB for a total purchase price of SEK 32,470 thousand, SEK 24,048 thousand of which was paid in 2011, with the remaining SEK 8,422 thousand received in 2012.

Note 24 Post Balance Sheet events

A non-exclusive partnership agreement was concluded between Janssen and Idenix for phase II combination trials of simeprevir, TMC647055 and IDX719. The partnership entails the evaluation of a fully oral, interferon-free antiviral combination therapy for the treatment of hepatitis C.

Janssen has submitted a registration application to the Japanese Ministry of Health, Labour and Welfare requesting market approval for triple combination therapy using simeprevir in combination with pegylated interferon and ribavirin for patients with chronic HCV genotype 1.

The interim results of the COSMOS trial (Combination Of SiMeprevir and sOfosbuvir in HCV genotype 1 infected patientS) were presented at a scientific conference in Atlanta, USA. These data show that a majority of the patients treated with simeprevir and sofosbuvir (a nucleotide inhibitor developed by Gilead) achieve sustained virological response eight weeks after treatment was completed (SVR8). The data also show that treatment once daily with simeprevir and sofosbuvir, with and without supplementary ribavirin, is generally well tolerated.

The current R&D organisation will be divided into two parts, Discovery Research and Development. At the same time the company strengthens the R&D leadership to prepare for future strategic and operational opportunities. The research organisation will be led by Richard Bethell, who will assume the position as Executive Vice President Discovery Research. Charlotte Edenius will become responsible for the development organisation in a new role as Executive Vice President Development

Attestation

The Board of Directors and the Chief Executive Officer hereby attest that the Consolidated Accounts have been prepared in accordance with the IFRS international financial reporting standards, as adopted by the EU, and that they present a true and fair view of the Group's financial position and the results of the operations. The Annual Accounts have been prepared in accordance with generally accepted accounting principles and provide a true and fair view of the Parent Company's financial position and the results of the operations. The Directors' Report for the Group and the Parent Company provide a true and fair view of the development of the Group's and the Parent Company's operations, financial positions and the results of the operations and describe significant risks and uncertainty factors facing the companies included in the Consolidated Accounts.

Huddinge, 25 March 2013

Björn C. Andersson
Member of the Board

Anna Malm Bernsten
Member of the Board

Ingemar Kihlström
Member of the Board

Rolf A Classon
Member of the Board

Göran Pettersson
Chairman of the Board

Anders Hallberg
Member of the Board

Maris Hartmanis
CEO

Our Audit Report was submitted on 1 April 2013
PricewaterhouseCoopers AB

Claes Dahlén
Authorised Public Accountant

Auditor's report

To the annual meeting of the shareholders of Medivir AB, corporate identity number 556238-4361

Report on the annual accounts and consolidated accounts
We have audited the annual accounts and consolidated accounts of Medivir AB for the year 2012. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 46-80.

Responsibilities of the Board of Directors and the Managing Director for the annual accounts and consolidated accounts
The Board of Directors and the Managing Director are responsible for the preparation and fair presentation of these annual accounts and consolidated accounts in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act, and for such internal control as the Board of Directors and the Managing Director determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these annual accounts and consolidated accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts and consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts and consolidated accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual accounts and consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts and consolidated accounts 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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the Managing Director, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

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

Opinions
In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the parent company as of 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2012 and of their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the parent company and the group.

Report on other legal and regulatory requirements
In addition to our audit of the annual accounts and consolidated accounts, we have also audited the proposed appropriations of the company's profit or loss and the administration of the Board of Directors and the Managing Director of Medivir AB for the year 2012.

Responsibilities of the Board of Directors and the Managing Director
The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss, and the Board of Directors and the Managing Director are responsible for administration under the Companies Act.

Auditor's responsibility
Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the company's profit or loss and on the administration based on our audit. We conducted the audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion on the Board of Directors' proposed appropriations of the company's profit or loss, we examined whether the proposal is in accordance with the Companies Act.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts and consolidated accounts, we examined significant decisions, actions taken and circumstances of the company in order to determine whether any member of the Board of Directors or the Managing Director is liable to the company. We also examined whether any member of the Board of Directors or the Managing Director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

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

In addition, we have read the corporate governance report and based on this reading, and our knowledge of the Company we believe we have sufficient basis for our opinion. This means that our review of the Corporate Governance Report has a different focus and a limited scope than the scope of an audit conducted in accordance with International Standards on Auditing and auditing standards in Sweden.

Opinions
We recommend to the annual meeting of shareholders that the loss be dealt with in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

A corporate governance report has been prepared and its statutory information is consistent with the annual accounts and the consolidated accounts.

Stockholm 2 April 2013
PricewaterhouseCoopers AB

Claes Dahlén
Authorized Public Accountant

Key ratios

The Group	2012	2011	2010	2009	2008	2007
EBITDA, SEK k	–150,975	135,348	–128,851	–129,425	–103,410	–13,644
EBIT, SEK k	–185,792	111,914	–136,726	–139,815	–113,733	–37,320
Operating margin, %	–33.5	16.0	–222.2	–544.4	–117.0	–15.0
Profit margin, %	–34.8	15.9	–218.1	–527.1	–102.9	–11.6
Debt/equity ratio, multiple	0.1	0.2	0.0	0.1	0.0	0.0
Return on:						
equity, %	–22.2	13.4	–35.3	–61.3	–29.5	–10.3
capital employed, %	–14.8	14.2	–35.2	–61.2	–29.6	–9.9
total capital, %	–14.0	12.7	–28.8	–46.8	–23.9	–7.6
Equity/assets ratio, %	81.3	80.7	83.7	75.0	77.4	83.7
Average number of shares, 000	31,257	29,924	24,718	20,844	20,844	16,873
Number of shares at year-end, 000	31,260	31,254	28,593	20,844	20,844	20,844
Basic and diluted earnings per share, SEK[1)]	–7.01	3.80	–5.43	–6.49	–4.76	–1.74
Equity per share before and after dilution, SEK[1)]	27.99	35.05	21.24	7.38	13.80	18.42
Net worth per share before and after dilution, SEK[1)]	27.99	35.05	21.24	7.38	13.80	18.42
Cash flow per share after investments, SEK	–4.69	–4.26	–3.34	–6.76	–2.14	–4.91
Cash flow per share after financing activities, SEK	–7.66	–3.71	20.39	–6.76	–2.14	7.95
Dividend per share, SEK	0	0	0	0	0	0
Number of outstanding share warrants	394,400	712,507	803,647	760,000	970,000	970,000
Capital employed	963,537	1,095,576	607,254	153,855	287,606	383,979

1) IAS 33 states that potential ordinary shares do not give rise to any dilution effect when their conversion to ordinary shares entails an improvement in earnings per share, which would be the case in conjunction with an exercise of the outstanding share warrants in Medivir.

Definitions

Average number of shares
The unweighted average number of shares during the year.

Capital employed
Balance Sheet total less non-interest-bearing liabilities including deferred tax liabilities.

Cash flow per share
Cash flow divided by the average number of shares.

Debt/equity ratio
Interest-bearing liabilities divided by shareholders' equity.

Earnings per share after dilution
Earnings per share after financial items less full tax divided by the average number of shares and outstanding share warrants adjusted for any dilution effect.

Earnings per share before dilution
Profit/loss after financial items less full tax divided by the average number of shares.

EBIT
Profit/loss before financial items and tax.

EBITDA
Operating profit/loss before depreciation and amortisation, financial items and tax.

Equity/assets ratio
Shareholders' equity in relation to the Balance Sheet total.

Net worth per share
Shareholders' equity plus hidden assets in listed shares divided by the number of shares at the period-end.

Operating margin
Operating profit/loss as a percentage of net sales.

Profit margin
Profit/loss after financial items as a percentage of net sales.

Return on equity
Profit/loss after financial items less full tax as a percentage of average equity.

Return on capital employed
Profit/loss after financial items plus financial expenses as a percentage of average capital employed.

Return on total capital
Profit/loss after financial items plus financial expenses as a percentage of the average Balance Sheet total.

Shareholders' equity
The sum of non-restricted and restricted equity at the year-end. Average shareholders' equity has been calculated as the sum of the opening and closing shareholders' equity balances, divided by two.

Shareholders' equity per share
Shareholders' equity divided by the number of shares at the period-end.

Tax expense for the year
The sum of current and deferred tax, taking into account changes in temporary differences and loss carry-forwards.

Six-year summary

The Group, SEK k	2012	2011	2010	2009	2008	2007
INCOME STATEMENTS[1]						
Net sales[2]	555,026	698,566	54,912	25,684	97,175	249,623
Cost of goods sold	–402,671	–240,621	–770	–	–	–
Work performed by the company for its own use and capitalised	–	–	–	4,077	0	0
Other operating income	–	–	–	5,737	4,800	3,840
Selling expenses	–69,714	–95,179	–9,517	–	–	–
Administrative expenses	–64,462	–47,159	–29,533	–	–	–
Research and development costs	–203,352	–184,064	–153,398	–	–	–
Other operating income	8,903	17,392	7,852	–	–	–
Other operating expenses	–9,522	–37,086	–6,273	–	–	–
Operating expenses	–	–	–	–175,313	–215,708	–290,783
Operating profit/loss	–185,792	111,849	–136,727	–139,815	–113,733	–37,320
Profit/loss from financial investments	–7,120	–643	2,499	4,427	13,711	8,489
Profit/loss after financial items	–192,912	111,206	–134,228	–135,388	–100,023	–28,832
Tax	–26,168	2,545	0	13	820	–487
Profit/loss after tax	–219,080	113,751	–134,228	–135,375	–99,203	–29,318

	31 dec 2012	31 dec 2011	31 dec 2010	31 dec 2009	31 dec 2008	31 dec 2007
BALANCE SHEETS						
Intangible fixed assets	514,389	528,994	4,348	4,632	482	936
Tangible fixed assets	36,070	35,621	24,811	26,941	35,764	35,878
Financial fixed assets	–	9,659	18,793	18,793	18,793	18,793
Deferred tax asset	49,238	78,385	–	–	–	–
Inventories and current receivables	179,771	167,833	30,299	11,254	31,990	73,928
Cash and short-term investments[3]	296,727	536,279	647,240	143,580	284,486	329,330
Equity	874,880	1,095,576	607,254	153,855	287,606	383,979
Deferred tax liability/provisions	–	–	–	–	–	–
Non-current interest-bearing liabilities	40,000	70,041	116	191	–	–
Non-current non-interest-bearing liabilities	448	610	–	–	–	–
Current liabilities	160,867	190,545	118,121	51,154	83,908	74,887
Balance Sheet total	1,076,195	1,356,772	725,491	205,200	371,515	458,866

1) The Income Statements for 2010 to 2012 are classified by function, while the Income Statements for 2007 to 2009 are classified by cost type. For total costs by cost type please see note 2 on page 67.

2) Net sales in 2007 primarily comprised three milestone payments totalling SEK 182.3 million from Tibotec Pharmaceuticals Ltd. for HCV protease inhibitors.

3) The increase in cash and cash equivalents in 2010 and 2007 are due to, among other things, new share issues conducted in Q2 and Q4 of 2010 and Q1 of 2007 by Medivir AB. Revenues from pharmaceutical sales via the BioPhausia operations acquired are included from 1 June 2011.

Glossary

Antiviral
Effective against viruses.

Candidate drug
See CD (Candidate Drug).

Cathepsin K
A protease that can break down collagen in bones and cartilage.

Cathepsin S
A protease that plays a role in chronic pain.

CD (Candidate Drug)
Substance selected for further development to clinical trials. The requirement specifications used by Medivir conform to those used by major pharmaceutical companies.

Cirrhosis of the liver
Atrophy of the liver that results in the liver tissue gradually being destroyed and replaced by fibrous scar tissue.

Clinical studies
Trials of pharmaceutical substances on human beings.

Colonoscopy
Examination of the large bowel (the colon) with a soft, flexible instrument.

COPD
Chronic obstructive pulmonary disease (COPD) is a disease that results in a reduction in the lungs' aerobic capacity

Dengue fever
A viral disease that causes influenza-like symptoms. The virus is spread by the Aedes mosquito in tropical climates. A severe form of dengue fever can cause serious bleeding.

Enzyme
A protein molecule responsible for chemical reactions in animal and plant cells. It happens quickly and very precisely and the actual enzyme is not consumed. Polymerases and proteases are both enzymes.

Fibrosis of the liver
Increased quantities of fibrous tissue in the liver.

Genotype
An individual's precise genetic properties (its genome), usually in the form of DNA. For HCV, genotype 1a is the most common in North America while 1b is the most common in Europe.

HBV
See hepatitis B.

HCV
See hepatitis C.

Hepatitis B
Jaundice caused by the human hepatitis B virus (HBV).

Hepatitis C
Jaundice caused by the human hepatitis C virus (HCV).

HIV (Human Immunodeficiency Virus)
Virus which, in people, damages the immune system and gives rise to AIDS.

IAS (International Accounting Standards)
See IFRS.

IFRS (International Financial Reporting Standards)
New accounting rules adopted by the EU. The rules are designed to facilitate comparability between annual accounts in Europe. Listed companies have been obliged, since 1 January 2005, to comply with these rules.

Interferon
The body's own protein with an antiviral effect.

Issue
Issuance of new shares in order to obtain new capital.

Janssen Pharmaceuticals
The collective name given in this report to those companies within the Johnson & Johnson corporate group with which Medivir has agreements, such as Tibotec Pharmaceuticals Ltd, Ortho Biotech Products LP, Centocor Ortho Biotech Products LP and Janssen Pharmaceuticals.

Milestone payments
Payments as contractual goals are achieved.

MS
Multiple sclerosis (MS) is a chronic disease in which inflammation causes damage to the central nervous system. It is a so-called autoimmune disease that affects the brain and spinal cord.

Neuropathic pain
Nerve pain that occurs as a direct consequence of a lesion or disease that affects the somatosensory system. It is important to distinguish between peripheral and central neuropathic pain.

NS5A/B inhibitor
Inhibitor of one of the two polymerase proteins which, together, replace the HCV genome.

Nucleoside analogue
Chemical variants of the nucleosides that build up genetic material.

Nucleotide
A nucleoside with one or more phosphate groups.

Option
Right to buy shares in the future.

Osteoarthritis
Wear and tear of the cartilage in the body's joints.

Osteoporosis
Brittle bones.

Peg-IFN
The interferon is treated with polyethylene glycol in order to extend its half-life.

Peroral
Intake of a substance by mouth.

Pharmacokinetics
The study of the metabolism of pharmaceuticals by the human body (uptake, distribution, transformation and excretion).

Pharmacovigilance
The science of and activities in relation to the identification, evaluation, understanding and counteracting of side effects or other pharmaceutical-related problems.

Pivotal studies
The most important studies in conjunction with the registration of a new pharmaceutical.

Polymerase
A type of enzyme that copies the genetic material (genes) in, for example, a virus.

Polypills
A tablet containing multiple active ingredients for different diagnoses.

Preclinical research
All research into a pharmaceutical substance up to the first trials on humans, after which the research is known as clinical trials.

Pre-emption
If a holder of a class A share wishes to sell those shares, they shall be offered to other holders of class A shares first.

Protease
An enzyme that can divide proteins into smaller parts.

QA
QA, Quality assurance, is the department that works with quality control in order to ensure that the company's operations are conducted to a high standard in accordance with applicable regulations and other regulatory requirements.

RA
Rheumatoid arthritis (RA).

RBV
See Ribavirin.

Regulatory Affairs
Monitors and analyses trends in pharmaceutical regulation in Sweden.

Replication complex inhibitor
A substance which, by either inhibiting NS5A or NS5B, prevents the replication of the HCV genome.

Resistance
Reduced effect of a substance that normally inhibits a virus or other microorganism.

Ribavirin
A nucleoside analogue which, via cellular mechanisms, has an antiviral effect.

Royalty
Remuneration, often a percentage, for sales of a product (pharmaceutical).

SEK k
Swedish kronor in multiples of 1,000.

SEK m
Swedish kronor in multiples of 1,000,000.

SVR
Sustained Virological Response.

Volatility
Unpredictability.

Shareholder information

Forthcoming financial information, 2013

- Q1 Interim Report, published 6 May 2013.
- Q2 Interim Report, published 22 August 2013.

The reports will be available on Medivir's website, www.medivir.se, under the heading, Investor Relations, as of these dates.

Medivir sends it reports to all shareholders with the exception of those who, when registering their VP accounts, declined all information.

For additional information on Medivir, please contact Rein Piir, EVP Corporate Affairs & IR.

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2013 Annual General Meeting

The Annual General Meeting will be held at the IVA Conference Centre
at Grev Turegatan 16, Stockholm, Sweden at 14.00 (CET) on Monday, 6 May 2013.

Shareholders wishing to participate at the Annual General Meeting shall:

- be recorded in the register of shareholders maintained by Euroclear Sweden AB no later than 29 April, and
- notify the company of their intention to attend, no later than 29 April 2013, stating their name, address and telephone number, either by letters in the post to:
  Medivir AB, Blasieholmsgatan 2, 111 48 Stockholm, Sweden
  or by telephone: +46 (0)8 407 64 30
  or by fax: +46 (0)8 407 64 39
  or by email: enter@medivir.se.

PLEASE NOTE:

Important information regarding nominee-registered shares
Shareholders whose shares are nominee-registered must, in order to be entitled to participate at the Annual General Meeting, temporarily re-register their shares in their own names with Euroclear Sweden AB. Shareholders wishing to effect such re-registration must inform their nominee thereof in good time before 29 April 2013.

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