Annual Report 2014

MEDIVIR

2014 was an important year for Medivir. We created value in the company through our sales successes with OLYSIO® (simeprevir), and hence revenues, both from sales and from royalties. We are proud of the fact that our work is helping to cure seriously ill people and save lives.

Medivir is a research-based pharmaceutical company with a focus on infectious diseases and oncology. We have leading expertise in protease inhibitor design and nucleotide/nucleoside research and are dedicated to the development of innovative pharmaceuticals that meet substantial medical needs. Medivir conducts research and development work in the areas of infectious diseases, osteoarthritis, neuropathic pain, and oncology.

Our commercial organisation supplies the Nordic market with a growing portfolio of specialty care pharmaceuticals. We also receive milestone payments and royalty income for project and products for which we conclude partnership agreements. Medivir is listed on the Nasdaq Stockholm Stock Exchange Mid Cap list.

Medivir works with the entire development chain, from early research to the finished pharmaceutical product on the market, with the latter stages in this chain normally conducted in partnership with global pharmaceutical companies. Medivir's research and development portfolio is based on the company's expertise in the design of protease inhibitors, and in nucleotide and nucleoside research. Our focus is on infectious diseases and oncology, and on the ongoing clinical projects in the areas of osteoarthritis and neuropathic pain. The R&D portfolio currently comprises six pharmaceutical projects, two of which are being conducted in collaboration with partners.

R&D

Medivir receives milestone payments and royalty income for projects and products that have been developed by our research and development operations and subsequently out-licensed. Working in collaboration with our partners, we have, to date, developed two pharmaceuticals all the way from concept to finished and launched pharmaceutical, namely simeprevir (OLYSIO®) for the treatment of hepatitis C, and Xerclear (Zoviduo®) for the treatment of labial herpes.

Royalties & milestone payments

Innovative Specialty Care

The pharmaceuticals in our Innovative Specialty Care portfolio comprise both in-house developed pharmaceuticals where we have retained the Nordic marketing rights, and pharmaceuticals that we have in-licensed and which we market in the Nordic region. The portfolio currently comprises two pharmaceuticals, namely OLYSIO® and Adasuve®. Our ambition is to expand the portfolio through in-house research and development and through the in-licensing of innovative specialty care pharmaceuticals for the Nordic market.

Nordic Brands

The pharmaceuticals in our Nordic Brands portfolio comprise 14 well-known pharmaceuticals with a long history of prescription in the Nordic region. The cough medicine, Mollipect, and the analgesic, Citodon, are the best-known brands, but the portfolio also includes Digoxin BioPhausia, Egazil, Laxabon, Lithionit, Morfin Special, Nitroglycerin BioPhausia, Paraflex, Probecid, Solvezink, Suscard, Teovent and Theo-Dur.

Nordic sales organisation

Important events during the year

1,767 SEK M — The Group's net turnover

1,396 SEK M — The Group's cash in hand

6 — Pharmaceutical projects

16 — Pharmaceuticals for the Nordic market

- **Final results (SVR12) presented** from a phase IIa study evaluating simeprevir and daclatasvir in patients with hepatitis C genotype 1 infection.
- **Final results presented from the phase III ATTAIN study** (treatment with simeprevir or telaprevir). The results demonstrated good efficacy and a good safety profile.
- **Simeprevir approved in Russia** for the treatment of chronic hepatitis C genotype 1 infection in adult patients.
- **Two phase III studies initiated** (OPTIMIST-1 and -2) for the evaluation of simeprevir and sofosbuvir once daily.
- **Final data from the phase II COSMOS study** with simeprevir and sofosbuvir were presented at EASL.
- **Suscard re-launched** on the Swedish market.
- **Adasuve® launched in** Sweden, Norway, Finland and Denmark.
- **Simeprevir approved within the EU** and launched by Medivir in Sweden, Denmark, Norway and Finland.
- **Medivir's Annual General Meeting** elected Birgitta Stymne Göransson as the new Chairman of the Board.
- **Medivir reported increased revenue streams** both from its own pharmaceutical sales and from royalties received.
- **The US Food & Drug Administration (FDA) granted priority review** to the supplemental New Drug Application (sNDA) for treatment with OLYSIO® in combination with sofosbuvir.
- **Medivir in-licensed an RSV programme** from Boehringer Ingelheim.
- **Niklas Prager took over as the new President & CEO** of Medivir AB.
- **Medivir entered into an agreement with Swedish county councils** in respect of risk-sharing in conjunction with treatment with OLYSIO®.
- **The US Food & Drug Administration (FDA)** approved OLYSIO® in combination with sofosbuvir as an interferon- and ribavirin-free treatment.
- **The Extraordinary General Meeting approved a voluntary share redemption programme** for SEK 625 million for repayment to the shareholders.
- **MIV-802 selected as a candidate drug** from the nucleotide-based polymerase inhibitor project for the treatment of HCV infection.

Contents

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

Successful and eventful year with a clear strategy for continued value creation

The most important events in 2014 were, without doubt, the global market launch of OLYSIO® and the approval of OLYSIO® as a pharmaceutical for the treatment of chronic HCV in Europe. Many of those who work at Medivir have been involved in this project from the start and have all played a part in making a new pharmaceutical available to patients worldwide – something of which Medivir can be – and is – justifiably very proud!

Birgitta Stymne Göransson was elected as the new Chairman of the Board at the Annual General Meeting held in May 2014. Some months later, Niklas Prager took over as the new President & CEO of the company. At the same time, the launch of OLYSIO® was proceeding apace in our domestic Nordic market and, through our partner, Janssen, in the global market. But even though the change in CEO took place during a period of intense activity, neither our tempo nor our focus waned. The market launch of OLYSIO® was well-prepared and the organisation that had been successively built up ahead of the Nordic launch did a fantastic job.

Success for patients, health care and Medivir

On 16 May 2014, the European Commission announced that it had approved treatment with simeprevir within the EU in combination with other pharmaceuticals. The drug had, at that point, already been approved in Japan, the USA, Canada and Russia. We have developed simeprevir in collaboration with our partner, Janssen, and we are naturally delighted that we have been able to be involved in both the development and the market launch of a pharmaceutical that helps cure seriously ill people and save lives. The hepatitis C market's playing field is an ever-changing and challenging one, and we expect competition to become more severe in the year ahead.

Medivir holds the marketing rights for the Nordic market, while Janssen holds the marketing rights for the rest of the world. Simeprevir is marketed in the Nordic market under the name of OLYSIO®. The market launch is proof that we have the capacity to develop innovative specialty care pharmaceuticals that can dramatically change the treatment opportunities for seriously ill patients. It also demonstrates that we can generate income streams through our commercial organisation in the Nordic region, while the global sales have, in addition, generated royalties for Medivir, creating a strong cash flow. It is, therefore, clear that simeprevir has been good for health care and good for patients, but that it has also been good for Medivir's owners and future patients in our research areas.

Commercial platform in place for Nordic region

Medivir's commercial focus is on the Nordic market and we have accordingly built up a strong marketing organisation with its own presence in Sweden, Denmark, Finland and Norway. 2014 also saw the launch of Adasuve®, the first inhalable pharmaceutical approved for the treatment of agitation in conjunction with bipolar disorder and schizophrenia and which we have in-licensed from the Spanish pharmaceutical company, Ferrer. Our marketing organisation has also re-launched Suscard (a vasodilatory drug) which was unavailable in the market for a couple of years due to a change of supplier. We intend to continue developing our commercial portfolio in the Nordic region through the launch of innovative new specialty care pharmaceuticals, partly by means of in-house development and partly through in-licensing. Our commercial platform also provides an important source of financial stability for our ongoing investments in research, innovation and development.

Research focusing on infection and oncology

We are convinced that Medivir's goal of creating maximum shareholder value can best be achieved by continuing to build long-term value into our research and development portfolio. An important activity in 2014 consequently saw Medivir analysing and, as a result, implementing an augmented and clearer research and development strategy. Our strategy is based on exploiting

our unique and leading expertise in the design of protease inhibitors and in nucleotide/nucleoside research, with a focus on infectious diseases and oncology. We will increasingly be applying our platform expertise in the field of oncology, with the goal of developing new and innovative anti-cancer pharmaceuticals. We will also increase the number of projects in early developmental phases and progress more projects further along the development chain before out-licensing, in order to realise higher portfolio values.

2014 has been a successful and decisive year of which we are all very proud.

In 2014, we initiated a process designed to ensure that we have the organisation, expertise and experience required to develop successfully in line with this strategy. The changes that we have implemented will, amongst other things, entail strengthening our expertise in certain research areas and grouping the company's resources into fewer but stronger units. We have a strong focus on development in our pipeline and our goal is to further reinforce this through in-licensing and the acquisition of external projects with a suitable profile. This strategy will ensure that we are well-equipped to face the challenges that lie ahead.

Positive development of the project portfolio

Over the past year, we have demonstrated both the breadth of our research and development portfolio and our ability to successfully drive projects forward. The in-house osteoarthritis and neuropathic pain projects have both developed according to plan, and we have also initiated an expanded preclinical safety programme as part of the project involving our cathepsin K inhibitor, MIV-711.

Our ambition is to be in a position to initiate a phase IIa study by late 2015. There is currently no pharmaceutical that can arrest the progress of osteoarthritis and the need for treatments that can halt the development of cartilage degradation, bone resorption and bone deformation is very great. There is also a considerable need for new pharmaceuticals in the area of neuropathic pain. Positive efficacy data has been obtained for our cathepsin S inhibitor, MIV-247, which has been selected as a candidate drug. We have presented these data and are now conducting the studies needed to initiate phase I trials according to plan, early in the third quarter of 2015. We have also strengthened our project portfolio by means of a licensing agreement with Boehringer Ingelheim International GmbH in respect of a pharmaceutical programme for the treatment and prevention of RSV infection. During the final weeks of the year, MIV-802 was selected as a candidate drug from our internal project with nucleotide-based polymerase inhibitors for the treatment of HCV infection, and MIV-802 will consequently now enter the preclinical development phase. Taken as a whole, we have good breadth in our portfolio and a stable foundation in the form of our established technology platforms and our cutting-edge expertise.

The future – anticipation and responsibility

Looking back on the past year, we are first and foremost proud of our results and of the fact that Medivir has established itself as one of the Nordic region's leading research-based pharmaceutical companies. Our success with simeprevir has resulted in an increased interest both in the company and in our research expertise, not only in Sweden but internationally too. Medivir is now a relatively small but growing operator in a global arena. We look forward to the future with a sense of anticipation, but also with an awareness of our responsibility to patients, customers, shareholders and employees. Medivir has the expertise, the know-how and the financial potential to play a bigger part in this arena. We have a history of partnerships with both academia and other pharmaceutical companies, and we are both willing and able to expand these activities. We will continue to develop and market innovative new specialty care pharmaceuticals to meet important medical needs, and by doing so, we will help improve people's health and quality of life at the same time as we continue to create value for our shareholders.

Stockholm, March 2015

Niklas Prager
President & CEO

Birgitta Stymne Göransson
Chairman of the Board

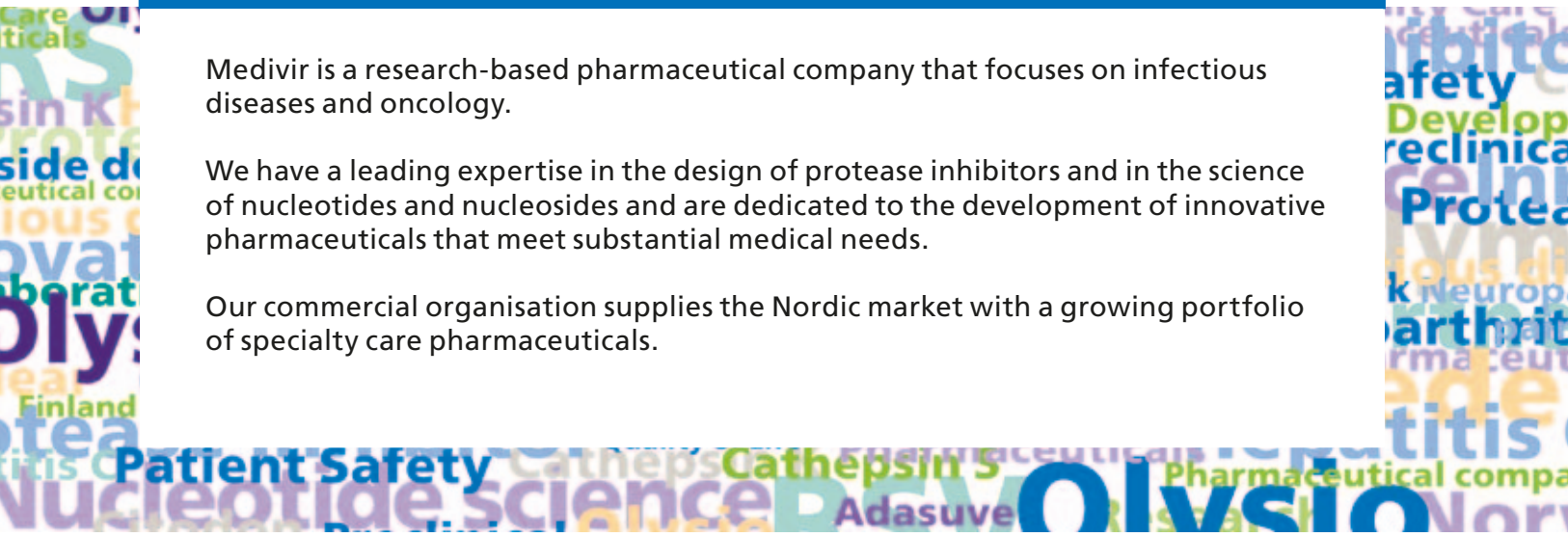
Business concept and strategy

Business concept

Medivir is a research-based pharmaceutical company that focuses on infectious diseases and oncology.

We have a leading expertise in the design of protease inhibitors and in the science of nucleotides and nucleosides and are dedicated to the development of innovative pharmaceuticals that meet substantial medical needs.

Our commercial organisation supplies the Nordic market with a growing portfolio of specialty care pharmaceuticals.



Strategic priorities

Medivir has four overall strategic priorities. They are based on our leading research and development expertise, documented business development ability, and commercial strength in the Nordic market.

Our ambition is to make Medivir a stronger partner for global pharmaceutical companies and to generate the preconditions for commercial expansion through in-licensing of innovative specialty care pharmaceuticals for the Nordic market.

Our long-term goal is to deliver sustainable value growth by focusing on in-house research and development and by adding innovative new specialty care pharmaceuticals to the existing product portfolio.

› **1. Strengthen the project portfolio and our ability to realise its values**
Ensure a constant flow of projects within our core competency areas of infectious diseases and oncology, and progress selected projects forward into phase II.

› **2. Generate income streams from milestone payments and royalties**
Implement the successful out-licensing of projects from our research and development activities that generate milestone payments and royalties.

› **3. Become one of the Nordic region's leading pharmaceutical companies by turnover**
Develop our Innovative Specialty Care product portfolio with a clear commercial focus and progress development towards operational excellence.

› **4. Be an attractive employer and a respected partner for in- and out-licensing**
Retain and develop competent employees who experience job satisfaction and who act credibly and professionally in their dealings with all our partners.

Operational goals

1. Strengthen the project portfolio and our ability to realise its values

Important activities, 2014	Goals, 2015	Goals, 2016-2018
› Expanded project portfolio through the in-licensing of an RSV programme from Boehringer Ingelheim. › In-house projects developed according to plan, including the cathepsin K and S projects. › Selected candidate drug in the nucleotide inhibitor project for the treatment of hepatitis C.	› Continue development of our cathepsin K, S and HCV nucleotide projects. › Advance projects from early research phase to lead optimisation phase. › Strengthen the portfolio through in-licensing/acquisition of an oncology project.	› Focus on identification of new candidate drugs, primarily in the infectious diseases and oncology areas. › Progress in-house projects to clinical phase I studies. › Continue development of two projects to clinical phase II level.

2. Generate income streams from milestone payments and royalties

Important activities, 2014	Goals, 2015	Goals, 2016-2018
› Continued strong market uptake and sales for simeprevir: • Approval in EU and Russia for treatment of adult patients with genotypes 1 and 4 hepatitis C. • FDA approval for OLYSIO® (simeprevir) in combination with sofosbuvir as an all-oral, interferon- and ribavirin-free treatment.	› Develop and take decisions on strategy, including investments and potential partnerships, for our hepatitis C nucleotide project.	› Enter into at least two partnerships for development in capital-intensive late phases.

3. Become one of the Nordic region's leading pharmaceutical companies by turnover

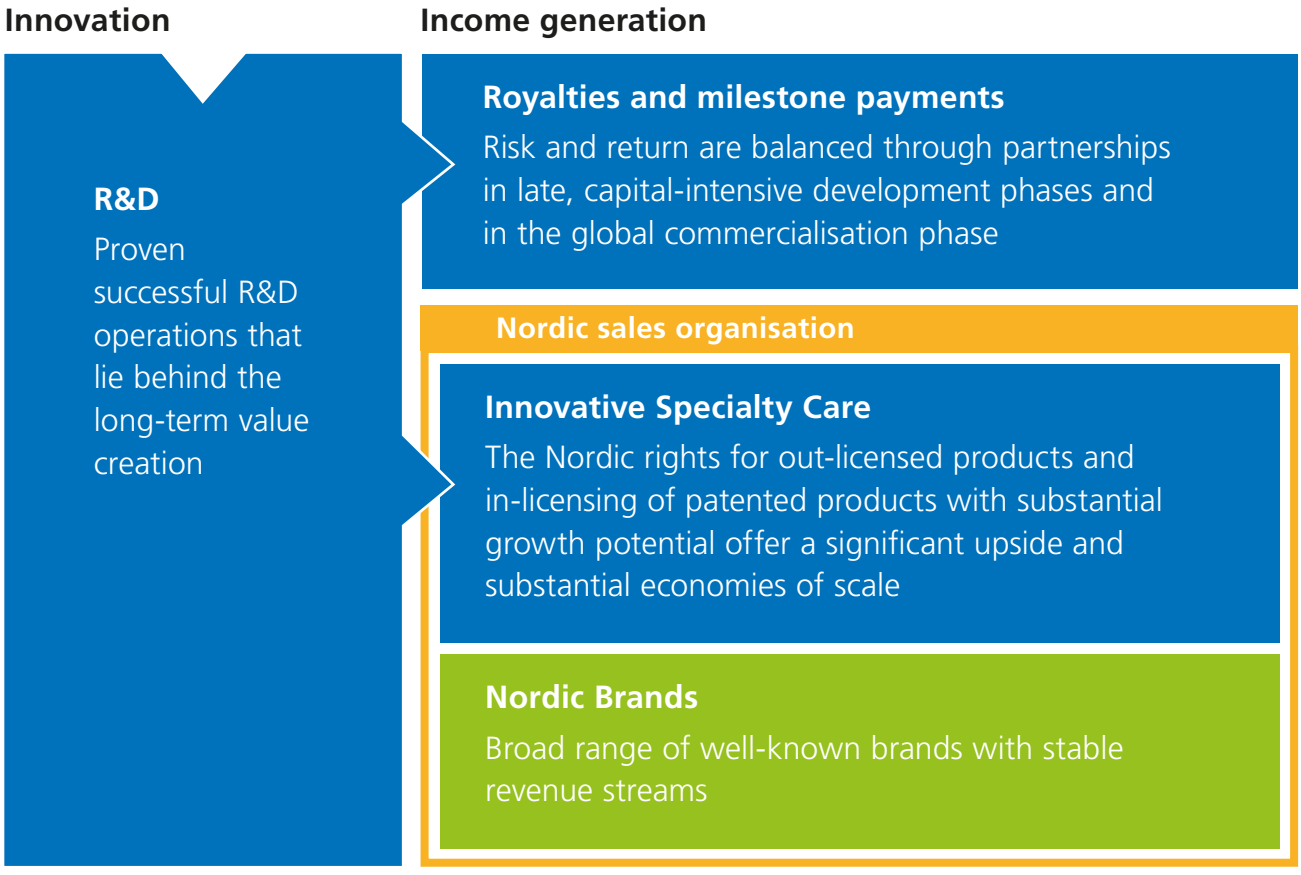
Important activities, 2014	Goals, 2015	Goals, 2016-2018
› Launched two innovative new specialty care pharmaceuticals, OLYSIO® and Adasuve®, on the Nordic market via our own marketing organisation. › Re-launched Suscard for the treatment of angina pectoris in the Swedish market. › Continued to strengthen the marketing organisation, which now has a presence in all Nordic countries.	› Conclude agreements that add a further two products to the specialty care pharmaceutical portfolio.	› Expand the specialty care pharmaceutical portfolio by adding new products, with the focus on infectious diseases and oncology.

4. Be an attractive employer and a respected partner for in- and out-licensing

Important activities, 2014	Goals, 2015	Goals, 2016-2018
› R&D department strengthened with specific expertise in the areas of oncology and clinical development. › Continued good relationships with our most important partners (e.g. Janssen, GlaxoSmithKline).	› Continue to develop a corporate culture characterised by cutting-edge scientific expertise, efficiency, quality and compliance.	› Ensure a positive trend in key ratios for employee satisfaction index and leadership. Key ratios should be on a par with or exceed the industry benchmarks. › Ensure that our partnerships are mutually successful and strengthen our brand.

Business model

Medivir's business model is based on a balanced platform consisting of the company's four cornerstones and comprising the research and development operations' innovations, which offer considerable potential for returns but are also inherently high-risk, and a stable revenue stream from our commercial operations. Our value creation is based on our innovative ability – it is this that generates the revenue streams from royalties and milestone payments and which gives rise to the new proprietary products for addition to our Nordic specialty care pharmaceutical portfolio alongside the in-licensed specialty pharmaceuticals. Our Nordic brands complement the pharmaceutical portfolio and create economies of scale for the Nordic commercial operations.



Our income generation is secured through the combination of Medivir's own Nordic sales and of milestone payments and royalties from strong global partners.

Medivir generates income by converting world-class research and development into strong cash flows. We do this by means of the sales by our own Nordic operations, and the global royalties and milestone payments we receive from partners. Medivir also generates income from sales of innovative specialty care pharmaceuticals and of the 14 established brands that make up our Nordic pharmaceutical portfolio.

Research and development up to phase II
Our innovativeness is concentrated, in our research and development operations, on areas where a substantial need exists for new medical treatments that can offer considerable patient benefit. The focus of our research and development operations is on infectious diseases and oncology, and on the ongoing clinical projects in the areas of osteoarthritis and neuropathic pain. We have the ability to progress projects from the discovery phase to clinical phase II development, after which we out-license the projects to partners – usually global pharmaceutical companies – who are responsible for the cost-intensive late phase development and commercialisation and who have global reach. Medivir usually retains the rights to sell and market these pharmaceuticals in the Nordic market.

Partnerships with many benefits
Collaborations and partnerships are important components of our business model, helping both to increase the risk spread and to ensure the necessary resources and financing of the projects. The partnerships also enable us to expand our pharmaceutical portfolio in the form of innovative specialty care pharmaceuticals and our research portfolio in the form of projects with substantial developmental potential.

The Nordic commercial operations
Our Nordic marketing organisation is represented in Sweden, Norway, Denmark and Finland. We have a strong organisation with wide-ranging competence to register, launch, market, sell and manage our pharmaceuticals efficiently and in compliance with laws and regulations. Operational synergies – primarily within the areas of pharmacovigilance, deliveries/logistics, registration, and quality – are achieved by coordinating the management of innovative and established pharmaceuticals.

A leading pharmaceutical company
Our efforts to become one of the Nordic region's leading pharmaceutical companies include active business intelligence gathering in order to identify innovative products that can strengthen our portfolio and help improve the cost-effectiveness of our management of the established brands.

We have a documented ability to customise pharmaceutical compounds and develop them into innovative breakthrough products, to enter into partnerships with leading pharmaceutical companies for development and global distribution, and to commercialise in-house developed and in-licensed products through a strong Nordic organisation.

From molecule to patient

Creating and developing a new pharmaceutical involves a long chain of activities from concept to market-ready pharmaceutical product.

Progressing a research concept requires biological systems and methods that enable the evaluation of new molecules, one of which may eventually become a new pharmaceutical. In the introductory phase, there might be thousands of compounds that are potential candidates for optimisation and further development into pharmaceuticals. It is important to establish the molecules' ability to interact with potential target proteins or other pharmaceutical targets and thereby influence the activity that triggers a disease. The goal is to identify classes of molecules that look promising for further optimisation.

Optimisation phase

During this phase, the molecules' properties are optimised with regard to safety, efficacy and pharmacokinetics. Information on potential benefits in comparison with similar pharmaceuticals is collected with regard to absorption, distribution, metabolism and excretion, etc., in the body. This work results in the selection of one or, sometimes, several candidate drugs for further development.

Preclinical development

The candidate drug is initially evaluated in preclinical studies, in order to establish that the compound is safe enough to enter trials on human beings. These studies form the basis for an initial application to the relevant medicines agency for permission to initiate clinical studies. The documentation also includes information on the way in which the first clinical trials will be designed.

Clinical trials for a new pharmaceutical product

Clinical research involves studies or trials conducted on human beings. Clinical trials are carefully regulated by the requirements of the medicines agencies. Before a clinical trial can begin, both the medicines agency and ethical review board must approve the design of the clinical trial.

The process starts with small-scale phase I trials and ends with large-scale phase III trials, before a registration application can be submitted.

› Phase I

Test subjects: 20 to 100 healthy volunteers, and may also, in some cases, include patients with the disease in question in the latter stages of the trial.
Duration: Between a few months up to one year.
Purpose: To understand how the pharmaceutical is absorbed, transported round the body, and excreted, and to establish safe doses and identify adverse events.

› Phase II

Test subjects: Up to a few hundred patients with the disease/symptoms.
Duration: Between several months and two years.
Purpose: To study efficacy and adverse events profiles in order to determine an optimum dose or dosage range.

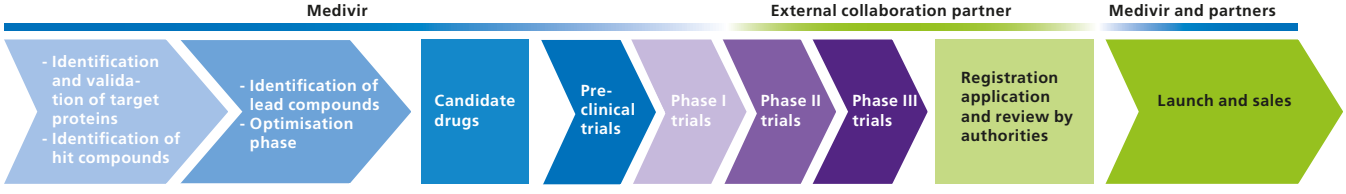
› Phase III

Test subjects: Between several hundred and several thousand patients with the disease/symptoms.
Duration: This phase can, depending on the disease in question, take up to several years.
Purpose: To study the efficacy and adverse events profiles in larger patient groups. Comparative studies with existing treatments or placebos in order to evaluate the benefit/risk profile.

Before a pharmaceutical product is approved

The next stage in the development process, once the pharmaceutical has been shown to be both safe and effective, is to apply for a licence to market the pharmaceutical. The medical agencies conduct a detailed review of the documentation submitted by the company. The documentation comprises comprehensive summaries of all available data and descriptions of preclinical and clinical trials, manufacturing and stability of the planned dosage format (e.g. tablet or infusion solution). Once all of the data has been reviewed, the agencies decide on approval of the pharmaceutical for market launch. This stage also involves price negotiations.

The entire pharmaceutical development process takes 10-15 years



Medivir from a capital market perspective

The simeprevir sales successes have resulted, in 2014, in the creation of substantial value in the company, both through revenues from Medivir's own sales in the Nordic region and through royalties from global sales. The in-house research and development projects have, at the same time, developed well and our Nordic Brands product portfolio has reported stable sales.

Medivir is an established pharmaceutical company with its own market presence in the Nordic region, where we market 16 prescription pharmaceuticals. The profits from the commercial operations help to finance some elements of Medivir's research and development. We conduct research projects in major areas of disease where there are currently either deficient or no treatment alternatives. Our strength lies in developing new pharmaceutical products based on the company's expertise in protease inhibitor design and nucleoside and nucleotide research. At the end of 2014, Medivir was conducting four major research projects in-house – projects which were either moving towards or already in clinical development – as well as a number of early research activities. Our project portfolio is continuously developing, giving us a steady flow of potential revenue-generating projects. This is achieved by means both of internally generated ideas and research and of projects that we in-license or acquire.

Shift of focus amongst investors

The commercial success we have achieved during the year has, to some extent, resulted in a shift of focus on the part of our investors and amongst analysts who follow the company. The weekly prescription rates in 2014 for simeprevir, and its market share (principally in the US market) have been at the core of the attention paid by analysts and investors. The focus has, first and foremost, been on our revenue streams in the form of royalties, and the company's profitability. And although many predicted a tougher global competitive situation in the hepatitis C area in 2014, with multiple treatment alternatives and discounted prices, this trend has proceeded more quickly than most experts anticipated. The trend and the competitive situation have influenced assessments of Medivir's revenue streams in the form of royalties and sales.

Value visibility

The market value of many Swedish life science companies is relatively low in relation to the valuation of comparable types of company in the USA, for example. The Swedish sector is followed by fewer and fewer analysts and the first victims of this are, of course, the smaller companies, but Medivir too has seen a change over the past year in the form of fewer active analysts. Analysts and investors focus on the visible values of the R&D projects – values that are often not visible until the projects are in clinical development, when the valuation methods can be used in a more reliable way and more relevant comparisons can be made with similar projects.

Continued value creation

It is important, if Medivir is to continue successfully creating value for our shareholders, that we continue to generate revenues from the sales of OLYSIO® (simeprevir) and from our other pharmaceuticals. We must also, in parallel with this, develop our in-house projects and strengthen our project and product portfolios. We must continue to generate and in-license new projects and to develop existing ones towards a range of subsidiary goals. Efforts to expand and strengthen the project and product portfolios are time-intensive, with regard both to the practical implementation work and to the preparatory work and documentation that is required in order to achieve a relevant valuation.

More information will become available as our projects progress in 2015, thereby enhancing the potential for improved value visibility with regard to these projects. Further strengthening of our product portfolio is key to building growth in the company's overall income, to compensating for lower sales revenues from OLYSIO®, and to retaining our profitability.

Analysts who monitor Medivir

Credit Suisse
Ravi Mehrotra

D. Carnegie AB
Kristofer Liljeberg-Svensson

Enskilda Securities
Lars Hevreng

Jefferies International Ltd
Peter Welford

Nordea Markets
Erik Hultgård

Pareto Öhman Fondkommission
Yilmaz Mahshid

Penser Fondkommission
Johan Löchen

Redeye
Klas Palin

Svenska Handelsbanken
Peter Sehested

The market and the outside world

The pharmaceutical industry has undergone a comprehensive structural change in the last ten to twenty years. These changes, combined with a variety of macroeconomic factors, have created a number of significant trends in the global pharmaceuticals market that will, in future, both pose challenges and offer opportunities.

The driving force behind the development of new pharmaceutical products to treat widespread and common diseases dominated the industry up to the 1990s. The companies that successfully developed a so-called "blockbuster" – a pharmaceutical that achieves sales in excess of USD 1 billion per year – were regarded as the most successful. Demands for lower pharmaceutical costs and an increased focus on patient safety became increasingly important and the pressure from society and politicians increased. In the 1990s, smaller, more niche-orientated pharmaceutical and biotechnology companies began to be formed. These niche-orientated companies have had a significant impact on the industry's development and they, in combination with a number of other external factors, mean that today's industry is now characterised by:

- Increased research and pharmaceutical development efficiency in order to meet the demand for lower pharmaceutical costs.
- A growing need for partnerships between large and small companies in order to compensate for the larger companies' lack of research projects and falling revenues that resulted from the increase in the number of patent expiries, increased competition from generics, and the need to cut their body of costs.
- Greater interest and increased demands from patients and authorities for the development of pharmaceuticals to treat diseases that affect a smaller percentage of the population and to create more individual-based forms of treatment and solutions for patients in the same disease area.

Medivir's positioning

Medivir is a research-based pharmaceutical company that develops new pharmaceuticals for the global market. Our primary driving force is the desire to develop innovative pharmaceuticals in areas of substantial medical need. This presupposes that we have good insight into and understanding of the outside world's needs and structural changes. If we are to create value in the company and achieve profitability, we must optimise the collaboration between our unique cutting-edge expertise, our partners, and a range of operators in the pharmaceutical sector.

Medivir is well-positioned, in a changing pharmaceutical market, and has the prerequisites to handle and benefit from the market's prevailing trends. The trends of the greatest importance to us are those that affect innovativeness and the opportunities for continued research and development. Trends that change treatment opportunities and the way in which the prescription of pharmaceuticals is viewed are also of the utmost importance to our continued development and future. The structural change described above challenges existing structures and methodologies but, at the same time, creates new opportunities.

Challenges

- *Patent expiries*
  Many pharmaceuticals are currently approaching their patent expiry date, and the larger pharmaceutical companies consequently risk losing up to SEK 1 trillion in revenues over the next five years as the competition from generics increases.
- *Stricter official requirements*
  Official requirements with regard to safety and efficacy before granting approval for a pharmaceutical have become increasingly stringent over time. This has generally resulted in increased costs which, in turn, result in pharmaceutical companies demanding more of the quality and innovation of their operations.

› *Savings requirements in public sector health care budgets*
Many countries in the developed world have recently suffered financial difficulties, including massive deficits and rising debt. The demand for more cost-effective pharmaceuticals is, therefore, expected to increase over time.

Opportunities

› *Population and lifespan increases*
The global population, which is currently estimated at just over 7 billion, is expected to rise to over 9 billion by 2050, according to the UN. The doubling in the percentage of the population over the age of 65 over the next 20 years is an important driving force for the market in that this group of people account for a bigger share of pharmaceutical consumption.

› *Health reforms and increased subsidies*
Over the next few years, two of the world's biggest countries, the USA and China, will implement heath care reforms that will give their uninsured citizens access to some form of health care. The reforms are expected to boost sales substantially, particularly in China. Other countries are expected to implement similar reforms in the longer term.

› *Increased patient power*
Patients will, to an increasing extent, take control over and gain greater influence over decisions about their own treatment. This is a natural component of a trend whereby people learn more about diseases and about the options for choosing their own treatment methods.

External demands and new trends

For Medivir, the changes in the outside world mean, amongst other things, that there is an increased need for strategic partnerships and that the development of innovative, new specialty care pharmaceuticals will become increasingly important. Below, we present examples of events during the year that clearly characterise Medivir's ability, as a smaller, niche-orientated company, to generate success in a changing market.

Risk-sharing agreement

At the end of October 2014, an agreement on financial risk sharing was reached between Medivir and the Swedish county councils in conjunction with the treatment of hepatitis C with OLYSIO®. The agreement gives both the county councils and Medivir increased predictability with regard to the treatment costs and the use of OLYSIO®. The agreement came about as a result of a tripartite dialogue between Medivir, the Dental and Pharmaceutical Benefits Agency (TLV) and the Swedish Association of Local Authorities and Regions, and is the first of its kind. As part of the process, the New Pharmaceutical Product Therapies (NLT) group (a group within the Swedish Association of Local Authorities and Regions tasked with evaluating new pharmaceutical products and therapies) issued recommendations for all county councils with reference to the use of OLYSIO®.

Development of new pharmaceuticals

The incidence of osteoarthritis is increasing across much of the world due, in part, to an ageing population and, in part, to increasing levels of obesity. There are, at present, no pharmaceuticals that can arrest the progress of the disease and the need for new treatments is considerable. Medivir has recently achieved positive results in its development of a pharmaceutical to treat osteoarthritis with its candidate drug, MIV-711, which has undergone clinical phase I studies. This is an important area for research and development in which the size of the patient group and the sales potential are driven by a significant increase in both the population and lifespans.

The most important trends for us are those which, in the long-term, affect innovativeness and the potential for further research and development and the trends that change the way in which the prescription of pharmaceuticals and treatment opportunities are viewed.

Partnership agreements for various projects

Pharmaceutical companies with different strategic priorities in terms of research areas can benefit from one another. The licensing agreement that Medivir has entered into with Boehringer Ingelheim International GmbH is a good example of this type of partnership. In 2014, the two companies reached an agreement giving Medivir exclusive global rights to a pharmaceutical programme for the treatment and prevention of RSV (Respiratory Syncytial Virus) infection. This is a disease area with substantial medical needs in that there is currently no effective treatment for the disease.

Our research and development

Medivir conducted a detailed analysis in 2014 with a view to determining how we can generate the best return on the company's technology platforms and our documented experience of successfully developing new candidate drugs. This work resulted in a decision to continue working within the infectious diseases area while simultaneously directing resources increasingly towards research into new cancer drugs based on our leading expertise in the design of protease inhibitors and nucleoside and nucleotide research.

Medivir's original technology platform was based on cutting-edge competence in the generation of analogues of nucleosides, the building blocks of DNA and RNA. Nucleoside analogues are a class of molecules that were amongst the first selective antiviral pharmaceuticals to be discovered. These molecules play a key role in the treatment of virtually all viral diseases for which an effective antiviral treatment exists. The development of Xerclear (Zoviduo®) is proof of Medivir's successful research in this area. Zoviduo® was approved for the treatment of labial herpes in 2009 and is the first pharmaceutical to be developed by Medivir, in collaboration with a partner, all the way from concept to finished product.

Expanded technology platform

Medivir has expanded its technology platform through the addition of expertise in the development and optimisation of protease inhibitors. Proteases are a group of enzymes that play a decisive role in the development of a great many diseases. There are over 500 human proteases and a large number of proteases in infectious organisms. Protease inhibition (achieving a pharmacological down-regulation/inhibition of protease activity) is a major field of research in the pharmaceutical industry in such areas as infectious diseases, autoimmune diseases, bone metabolism, and cancer. Protease inhibitors are used to treat several different types of viral infection, often in combination with nucleoside analogues. In Medivir's case, expert know-how in the design and optimisation of protease inhibitors has been applied to efforts to develop new pharmaceuticals that specifically target viral proteases, with simeprevir as the most tangible example of our success to date.

In-house developed projects

Medivir has the resources and expertise to progress projects from discovery to clinical phase II studies, after which we endeavour to out-licence the projects to global pharmaceutical companies (partners) who can ensure high quality in the late developmental phases, global registration and commercialisation.

The furthest advanced in-house developed projects in our current research and development portfolio are:

- MIV-711, a cathepsin K inhibitor under development for the treatment of osteoarthritis.
- MIV-247, a cathepsin S inhibitor under development for the treatment of neuropathic pain.
- MIV-802, a nucleotide-based polymerase inhibitor for the treatment of hepatitis C.

In-house developed pharmaceuticals and ongoing projects

Therapeutic area	Project/Product	Partner	Preclinical phase: Research	Preclinical phase: Development	Clinical phase: Phase I	Clinical phase: Phase IIa	Clinical phase: Phase IIb	Clinical phase: Phase III	Market
Labial herpes	Zoviduo®	GlaxoSmithKline							
Hepatitis C	OLYSIO® (simeprevir)	Janssen							
Osteoarthritis	MIV-711 Cathepsin K inhibitor								
Neuropathic pain	MIV-247 Cathepsin S inhibitor								
Hepatitis C	HCV nucleotide-based NS5B polymerase inhibitor	Janssen							
Hepatitis C	MIV-802, HCV nucleotide-based NS5B polymerase inhibitor								
RSV	RSV fusions protein inhibitor								
HIV	HIV protease inhibitor	Janssen							

Projects conducted in collaboration with partners In-house projects

Future focus for Medivir's research and development operations

Medivir's research and development organisation has undergone a number of important changes during the year. As part of our efforts to add interesting new candidate drugs to the portfolio, we have further refined our research and development strategy, which will be successively implemented in 2015.

We will continue to progress projects in antiviral therapeutic indications at the same time as we will be placing an increasing focus on the development of new cancer drugs. We are continuously evaluating new projects that could strengthen our research and development portfolio, and in 2014, Medivir in-licensed an RSV inhibitor programme, thereby clearly illustrating our ongoing commitment to new pharmaceuticals to treat infectious diseases. We also intend to initiate or acquire other projects in the infectious diseases area that will, in our opinion, meet substantial medical needs and be commercially interesting.

Focused research and development strategy

Our technology platform can be utilised in a number of different areas and we see considerable potential for exploiting this expertise in the area of cancer. We have chosen the cancer area in that it offers numerous molecular targets that will enable us to make use of our cutting-edge expertise in protease inhibitors and nucleotide and nucleoside research, and our updated research strategy offers excellent potential for developing several interesting candidate drugs for our research and development portfolio. This means that we will, in future, focus more on research into new cancer drugs. We have, on the basis of our technology platform, identified two primary areas with significant potential:

- We will apply our expertise to design inhibitors of proteases that represent a good fit with our technology platform and for which there is a clear link to one or more types of cancer and a well-defined possibility for improving treatment outcomes.
- The know-how that we have built up on selectively targeting pharmaceuticals to the liver as part of our nucleotide-based hepatitis C inhibitor project can be utilised to steer cancer drugs to the liver, for example in the treatment of liver cancer.

A new project era

The selection of MIV-802 as a candidate drug at the end of 2014 is yet more proof of Medivir's highly successful research into new hepatitis C pharmaceuticals. It also marks the start of a new project era that will expand our project portfolio in the years ahead. Early research resources will be freed up within the company as our nucleotide-based polymerase inhibitor project for the treatment of hepatitis C transitions to the preclinical development phase, and these resources will be transferred to important new projects in the cancer area.

Successful research for the treatment of hepatitis C

Approximately 130-150 million people worldwide are estimated to have a chronic hepatitis C virus (HCV) infection. Many of these people develop a liver disease that slowly degenerates and in the long-term can lead to cirrhosis and liver cancer. Hepatitis C is also one of the most common causes for liver transplants.

The last few years have seen a dramatic and rapid development in the treatment methods used for chronic hepatitis C – from partially effective and poorly tolerated interferon-based treatments to treatments that use all-oral antiviral pharmaceuticals that are well tolerated and cure a majority of patients after a short period of treatment.

Nucleotide-based polymerase inhibitors

Nucleotide-based inhibitors of the viral polymerase play a key role in many of the most effective combination treatments for hepatitis C, since the most effective members of this class combine a number of favourable properties:

- They have a very potent antiviral activity.
- They are effective against all HCV genotypes.
- They can easily be combined with other classes of antiviral pharmaceuticals.
- They have very high barriers to the emergence of antiviral resistance.

In view of the attractive profile of nucleotides, Medivir accordingly decided in 2013 to focus the company's hepatitis C research work exclusively on this class of pharmaceutical. The focus yielded results within 18 months, when MIV-802 was selected as a candidate drug for the treatment of the hepatitis C virus. In late 2014, MIV-802 entered preclinical development.

MIV-802 has been designed to deliver large amounts of the drug selectively to the liver, where the hepatitis C virus replicates. Preclinical data indicates that it can be used effectively in combination with other classes of antiviral agents used to treat HCV, including protease inhibitors and NS5A inhibitors. The preclinical safety studies will begin in the latter half of 2015, and must be completed before the clinical phase I studies can be initiated. Our ambition is to be able to initiate the clinical phase I studies in the first half of 2016.

New hepatitis C pharmaceuticals

Our research, development and subsequent launch of simeprevir has demonstrated that Medivir's expertise in the successful design of protease inhibitors can result in an effective and safe pharmaceutical for the treatment of hepatitis C. MIV-802 is in an early developmental phase, but demonstrates a preclinical profile that gives us good grounds for optimism. Medivir's work on developing new hepatitis C pharmaceuticals is, therefore, approaching a successful conclusion and 2014 will always be an important year in the company's history in the hepatitis C area.

Simeprevir – facts and figures

Simeprevir is an NS3/4A protease inhibitor developed jointly by Janssen Sciences Ireland UC and Medivir. Simeprevir has been approved for the treatment of chronic hepatitis C infection as part of an antiviral treatment programme in genotype 1-infected adults with compensated liver disease, including cirrhosis. Simeprevir was approved in Japan in September 2013, in the USA and Canada in November 2013, in Russia in March 2014, in the EU in May 2014, and in Mexico and Australia in July 2014.

MIV-802 – facts and figures

MIV-802 is a highly potent and selective nucleotide-based NS5B polymerase inhibitor which, in antiviral test models, blocks the replication of all hepatitis C virus genotypes. MIV-802 is in the preclinical development phase and will, in 2015, undergo the safety studies required to initiate clinical studies, which Medivir expects to begin in 2016.

New RSV research programme

Human respiratory syncytial virus, also known as RSV, is the most important cause of lower respiratory tract infections in children, the elderly, and severely immunocompromised people. Inhaled ribavirin is the only pharmaceutical approved for the treatment of RSV infection and there is, therefore, a substantial need for new and improved pharmaceuticals.

RSV infections usually occur during the winter months, but the timing and extent of the disease can vary from one year to another. In healthy adults, an RSV infection usually manifests as an ordinary upper respiratory tract infection, but for older people and those who are immunocompromised, infection with RSV can result in serious diseases, including pneumonia. Children are often infected during their first year of life and virtually all children will have been infected with RSV before reaching the age of two. Young children run a greater risk of developing a serious illness, and between 0.5 and 2 per cent (mainly those under the age of 6 months) will require hospitalisation (CDC, Centers for Disease Control and Prevention). It was estimated in a report compiled in 2010 that in the year 2005, RSV caused around 33.8 million lower respiratory tract infections globally in children under the age of 5 (Nari et al).

Neglected disease area

Inhaled ribavirin is currently the only approved treatment and is only approved for the treatment of infants and young children who have been hospitalised with lower respiratory tract infections caused by RSV. Unfortunately, ribavirin has a limited antiviral effect and is often associated with severe adverse events. Administering the treatment to the patient is, furthermore, complicated in that the drug must be inhaled for 12-18 hours per day. Palivizumab, a monoclonal antibody for prophylactic use, may be offered to infants with a high risk of serious complications of RSV infection. This treatment is only approved for the prevention of serious lower respiratory tract infections caused by RSV in premature children or children with congenital heart defects, chronic pulmonary disease, or a weakened immune system during their first months of life. The drug cannot, however, be used for the treatment of children who already have an RSV infection, and nor is it approved for use in adults. Infections caused by RSV are, therefore, an important and neglected disease area where there is currently a lack of effective treatments for large patient groups.

Potential pharmaceutical compounds

In 2014, Medivir in-licensed a research programme from Boehringer Ingelheim International GmbH. The programme comprises a series of potential pharmaceutical compounds that inhibit the RSV's fusion protein. This protein has an important role in mediating the virus' entry into host cells and has attracted considerable interest as a target protein for the development of new specific pharmaceuticals for the prevention and treatment of RSV infection. Data, research tools, and compound libraries have been transferred to Medivir. Work has begun on further refining the compounds' properties with the aim of identifying candidate drugs with an optimal profile for further development.

Osteoarthritis projects

Osteoarthritis is a joint disease characterised by pain and varying degrees of inflammation in one or more joints. It is the most common form of joint disease, and studies show that up to 40 per cent of the population over the age of 65 suffers from osteoarthritis in their knee and hip joints.

The only treatments currently available are symptomatic, i.e. pain relief combined with physiotherapy, weight loss and, in more severe cases, surgical intervention. There are currently no pharmaceuticals that slow the progress of the disease, so a substantial need exists for new treatments that can arrest the joint destruction and thereby also reduce the pain suffered by this large and growing patient group.

The incidence of osteoarthritis is increasing, as the population ages and obesity becomes more common. Osteoarthritis results in deformation of the joint and the patient experiences pain in conjunction with load-bearing and movement.

Cathepsin K and osteoarthritis

Cathepsin K is a protease that is primarily produced in osteoclasts, the cells in the body that resorb bone. The protease plays a key role in breaking down the bone matrix protein known as type 1 collagen, which can result in the bone becoming fragile. It can also result in bone resorption and bone deformation, which also has a negative effect on the cartilage. Cathepsin K is also presented in cartilaginous cells, where it can resorb type II collagen in the cartilage matrix, resulting in cartilage loss. As a result of its dual function, the inhibition of cathepsin K is expected to result in a reduction in joint destruction in conjunction with osteoarthritis.

Cathepsin K inhibitors have the potential, therefore, to delay the progress of the disease and to reduce the pain suffered by osteoarthritis patients. Research suggests that the resorption of bone in structures close to joints plays an important role in the development of osteoarthritis and positive effects have been achieved in studies in which patients with osteoarthritis have been treated with compounds that specifically reduce bone resorption. Unfortunately, none of these compounds have reached the market, mainly due to unacceptable adverse events.

Beyond their potential application for the treatment of osteoarthritis, cathepsin K inhibitors have shown promising results, both clinically and in preclinical models for a number of other conditions where increased bone loss is a factor, such as osteoporosis, and rheumatoid arthritis, and in conjunction with bone metastases.

Disease-modifying treatment

Our candidate drug, MIV-711, is a cathepsin K inhibitor in clinical development for the treatment of osteoarthritis. The results of a clinical phase I trial on healthy test subjects have shown that MIV-711 is a safe and well-tolerated treatment at exposures that effectively reduce bone resorption and cartilage degradation in preclinical disease models. A 28-day study involving healthy post-menopausal women showed that biomarkers for bone resorption and cartilage degradation decreased by up to 98 per cent and up to 62 per cent, respectively, in comparison with a placebo treatment. These positive results support us in our belief that MIV-711 has potential as a future disease-modifying treatment for osteoarthritis.

Ongoing development of MIV-711

No clinical studies of osteoarthritis patients have been conducted to date, but we do have data from preclinical studies showing that treatment with MIV-711 has a protective effect on the affected joint in disease models. We have initiated studies during the past year as part of a longer preclinical safety programme with the aim of enabling the initiation of phase II studies. Medivir's goal is to be able to initiate phase II studies on osteoarthritis patients in the latter half of 2015.

Neuropathic pain projects

Approximately 30 million people in the USA, Europe and Japan suffer from some form of neuropathic pain. Neuropathic pain may result from an injury to or disease in parts of the nervous system that affect perceptions of pain, touch, vibration and temperature.

Examples of disease with this type of chronic, nerve damage-related pain include diabetes neuropathy, herpes zoster, cancer and various types of chronic lumbar region disorders. The few pharmaceuticals that have been approved for the treatment of neuropathic pain have a relatively limited effect, with the pain continuing to be felt by around 75 per cent of the patients treated.

There is, therefore, a substantial need for new pharmaceuticals that are more effective, are faster-acting, and which lack the dose-limiting adverse events of existing pharmaceuticals.

Development of cathepsin S inhibitors

Cathepsin S is a protease that is upregulated in and released from cells in the central nervous system in conjunction with a nerve injury, triggering a local inflammatory process in the nervous system and resulting in neuropathic pain. Medivir's cathepsin S inhibitor, MIV-247, is in preclinical development for an all-oral treatment of neuropathic pain. MIV-247 has demonstrated very good safety and tolerability in the initial studies.

Positive data

Our work on characterising the analgesic effects of MIV-247 and other selective cathepsin S inhibitors has demonstrated, in preclinical models, that the effect is achieved rapidly – as early as after the first dose – and that the effect also lasts after longer periods of administration. If this continues to be the case in a future clinical situation, it means that the patient could obtain a good level of pain relief as early as after the first dose with a low risk of developing tolerance to the treatment. When MIV-247, in preclinical models, was administered together with an existing pharmaceutical, e.g. gabapentin, a significantly improved effect was also noted than when the substances were administered separately. These data support our belief that Medivir's cathepsin S inhibitor could, in future, be used in combination with existing pharmaceuticals in low doses in order both to maximise the treatment effect and to minimise the existing pharmaceuticals' adverse events. MIV-247 and the data from the preclinical pain model systems were presented during the year at the 15th World Congress on Pain held in Buenos Aires.

Ongoing development of MIV-247

MIV-247 has continued to undergo evaluation in preclinical model systems during the year in order to increase our understanding of the efficacy, safety and pharmacokinetic properties of the compound. The safety studies that are necessary in order to obtain permission to initiate studies of MIV-247 in humans were initiated in 2014 and the intention is to complete these studies in the first half of 2015. The project's overall goal is to initiate phase I studies, i.e. the first studies on human beings, in 2015.

Rolf Karlsten

Senior Physician and Operations Manager
at the Uppsala University Hospital Pain Center

The goal is to alleviate the pain, but also to help the patient to make lifestyle adjustments and regain normal functional capability, in spite of the pain.

Facts and figures

- Pain and its consequences are one of the most common reasons why people seek medical care in Sweden today.
- Around 20% of the adult population of Sweden suffers from long-term pain problems that often cause difficulties in everyday life.
- The cost to Swedish society is, according to Swedish Council on Health Technology Assessment (SBU) calculations, around SEK 87.5 billion per year.

Source: Pain Center, Uppsala University Hospital

The Pain Center is Sweden's largest clinic for the treatment of pain. We have overall responsibility for investigation, treatment, education, development, and research into pain within the Uppsala County Council.

Our clinic receives around 1,100 new patients every year, the majority of whom are suffering from long-term pain. The most common reasons why new patients visit are musculoskeletal pain, neuropathic pain (e.g. shingles), cancer, and spinal stenosis (a narrowing of the spinal canal).

The patients we see are always examined by a doctor, after which – and as needed – they are also seen by a psychologist, counsellor, occupational therapist or physiotherapist. A pain analysis is conducted to investigate the underlying cause of the pain, after which a course of treatment individualised for each patient is drawn up. Increased quality of life is the focus of all the treatment provided. The goal is to alleviate the pain, but also to help the patient to make lifestyle adjustments and regain normal functional capability, in spite of the pain. The available pharmaceuticals are, unfortunately, of limited efficacy, and six out of every ten patients do not respond to this drug-based treatment.

It is frustrating that we have no better methods of treating these patients. The alternatives currently available for the treatment of neuropathic pain, for example, are either antiepileptics or antidepressants. There hasn't been a new oral pharmaceutical with a new mechanism of action for decades now. We need new tools to help patients who are in severe pain.

Cathepsin S is an exciting new mechanism of action that we believe affects pain in a new way. Treatment with cathepsin S may become an important treatment alternative, either as a monotherapy or in combination with other, existing preparations.

Our pharmaceuticals

We sell 16 prescription pharmaceuticals in a variety of therapeutic areas in the Nordic market. Our overall goal is to improve people's quality of life by alleviating symptoms and curing diseases with these pharmaceuticals. Our pharmaceuticals are spread across two product portfolios – Nordic Brands and Innovative Specialty Care.

Well-known pharmaceuticals

Our Nordic Brands pharmaceuticals comprise 14 well-known pharmaceuticals with a long tradition of being prescribed in the Nordic region. Medivir acquired this portfolio through the purchase of BioPhausia in 2011. Nordic Brands enjoys stable sales and has a healthy profitability. The cough medicine, Mollipect, and the analgesic, Citodon, are almost the best known brands in this portfolio, which also includes Digoxin BioPhausia, Egazil, Laxabon, Lithionit, Morfin Special, Nitroglycerin BioPhausia, Paraflex, Probecid, Solvezink, Suscard, Teovent and Theo-Dur.

Innovative specialty care pharmaceuticals

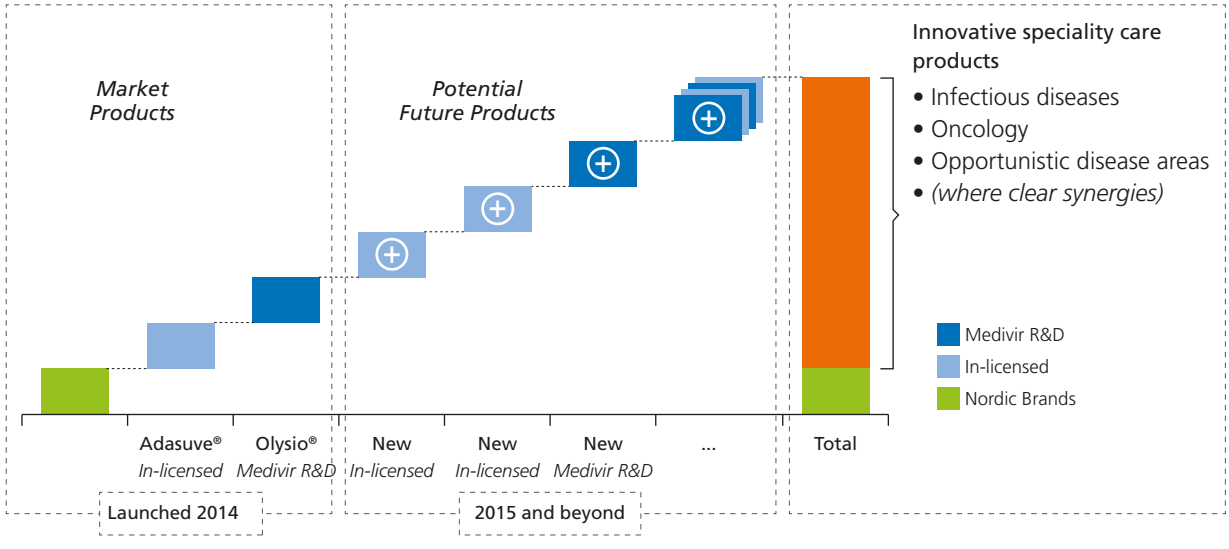
Our Innovative Specialty Care portfolio comprises both pharmaceuticals that we have developed in-house and which we sell on the Nordic market, and pharmaceuticals that we have in-licensed and which we sell and market in the Nordic region. The Innovative Specialty Care portfolio currently comprises two pharmaceuticals, namely OLYSIO® and Adasuve®. OLYSIO® is used in the treatment of chronic hepatitis C infection as part of an antiviral combination treatment. Adasuve® is the first inhalable treatment for agitation in patients with schizophrenia and bipolar disorder. Our ambition is to expand this portfolio through our own research and development and by in-licensing innovative specialty care pharmaceuticals that are a good fit for Medivir's portfolio, for sale in the Nordic market.

An efficient organisation

We structure the work with our pharmaceuticals in the Nordic region in a cost-effective way that uses a relatively small organisation. This approach is possible due to the fact that we have attracted experienced employees with wide-ranging competence. We have centralised as much of the work as possible to the head office in Stockholm, in order to achieve cost effectiveness and, at the same time, maximise the synergy effects between different pharmaceuticals and countries. The work carried out there includes work in relation to regulatory activities, pharmacovigilance, quality, logistics and communication. Those working in our regulatory department monitor and document changes implemented in relation to our pharmaceuticals and communicate them to the authorities in the countries in question. The pharmacovigilance department monitors all news of relevance to our pharmaceuticals and their active compounds, worldwide.

Growth through ongoing addition of innovative specialty care pharmaceuticals

Sales



They report any deviations, such as adverse events, to the authorities, in accordance with a regulated control system. The personnel in the pharmacovigilance department also respond to medical queries about our pharmaceuticals from patients, authorities, and medical personnel. The proactive communication work in relation to our pharmaceuticals, and the disease areas in which we operate, is also coordinated from head office. Quality issues are a top priority within the company and we work continuously with quality assurance at every stage in the chain. Our logistics department plans and structures production, stock keeping and transportation of our pharmaceuticals.

The majority of our Nordic commercial organisation is also, in addition to the above-mentioned areas of work, centralised to the head office in Stockholm. This department generates Nordic product strategies and manages and supports our country-specific commercial teams in their efforts to ensure that our pharmaceuticals are used correctly. The department includes specific expertise in marketing, sales, medical affairs and market access. Marketing and sales ensure that information about our pharmaceuticals reaches potential prescribers, while medical affairs provides scientific support in relation to our pharmaceuticals and is very involved in our dialogues with medical personnel. Market access handles issues relating to pricing and external financing of our pharmaceuticals. Our country-specific commercial organisations work with our growth area, Innovative Specialty Care, and ensure that we carry out the activities required in the specific countries in order to ensure that the pharmaceuticals in this product portfolio are prescribed to the patients who can benefit from them. In 2014, these employees have launched both Adasuve® and OLYSIO® in Norway, Sweden, Finland and Denmark.

In-house developed pharmaceuticals

We are proud of having developed two pharmaceuticals, in collaboration with our partners, all the way from the initial idea to a finished pharmaceutical product that is now available in the market. The two pharmaceuticals in question are simeprevir (OLYSIO®) for the treatment of hepatitis C, and Xerclear (Zoviduo®) for the treatment of labial herpes. Janssen Pharmaceuticals is Medivir's global partner for development and for the sale and marketing of simeprevir outside the Nordic region. GlaxoSmithKline (GSK) is our partner for the sales and marketing of Xerclear in Europe and the rest of the world, excluding the USA, South America, South Korea, Israel and China.

The future

We are actively working to add suitable products to our Innovative Specialty Care pharmaceutical portfolio – both through our own, in-house research and development and through additional in-licensing of innovative specialty care pharmaceuticals for the Nordic market – in order to ensure continued growth. Our marketing organisation has demonstrated that we have the resources and expertise to implement successful launches of innovative specialty care pharmaceuticals in the Nordic market, and we intend to build on this success and focus on new successful launches in the years to come.

"The new hepatitis C pharmaceuticals are a revolution and mean a paradigm shift. They cure virtually any patient without any adverse events to speak of, and the treatment period is much shorter than with previous treatment alternatives. This, to the great delight of both the patients and their care providers, is a significant improvement in the situation for large patient groups."

Ola Weiland,
Professor of Infectious Diseases,
Karolinska Institute

OLYSIO® in the Nordic region

OLYSIO® (simeprevir) is an HCV NS3/4A protease inhibitor developed jointly by Janssen Sciences Ireland UC and Medivir. Medivir holds the Nordic marketing rights to OLYSIO®, while Janssen owns the marketing rights outside the Nordic region and is responsible for global clinical development of simeprevir.

OLYSIO® is administered in the form of a capsule and is approved for treatment of chronic hepatitis C infection as part of a combination treatment with other antivirals. The efficacy in the treatment of HCV genotypes 1- and 4- infected patients with compensated liver disease, including cirrhosis, has been established.

Hepatitis C

Hepatitis C is a disease that occurs when the liver becomes infected with the hepatitis C virus. The virus spreads when infected blood enters the circulatory system. Hepatitis C is a silent epidemic and many people are unaware that they have been infected. According to the World Health Organisation (WHO), around 130-150 million people worldwide are infected with hepatitis C, including around 125,000 people in the Nordic region. In the long-term, the disease can lead to an increased risk of cirrhosis and liver cancer.

Several new hepatitis C pharmaceuticals

Three other new hepatitis C pharmaceuticals – over and above OLYSIO® – were launched in 2014 by various pharmaceutical companies. The common denominator for OLYSIO® and the other new pharmaceuticals is that they all have a direct antiviral effect, which means that they attack the virus directly, rather than indirectly, which was the case with earlier treatment alternatives. The introduction of OLYSIO® and other new direct-acting pharmaceuticals, all of which work in slightly different ways, means that they can be combined to create effective treatments. The results of the treatment are sufficiently good that it is now theoretically possible to stop the hepatitis C epidemic in its tracks. To date, however, only the most severely ill patients in the Nordic region have received the new pharmaceuticals. These particular patients have been prioritised in order to save their lives and to reduce the need for liver transplants.

The most important research news of the year

The news about OLYSIO® and other new pharmaceuticals to treat hepatitis C was communicated widely in the media in 2014. The fact that it is now possible to cure over 90 per cent of patients by using treatments that also have shorter treatment periods and lower adverse event profiles than the older treatment alternatives is regarded as a major breakthrough. The new hepatitis C pharmaceuticals, with their "simpler and better cure for hepatitis C", topped the list of the 10 most important research news items in 2014 in the Swedish periodical, "Dagens Medicin" (C-M Hake, Dagens Medicin no. 50-52/2014) and have been described by many as a revolution.

Medivir's factors for success

2014 was a successful year for OLYSIO®, which achieved widespread usage across the Nordic region. This may be due not only to the fact that the pharmaceutical has a good safety/efficacy profile, which meant it attracted considerable attention from the health care sector, but to Medivir's implementation of a carefully planned and precisely executed introduction programme – the launch work. We have recruited employees with extensive experience of pharmaceutical launches in the specialty care area to our commercial organisation. Our clinical studies ensured that clinical experience of treatment with OLYSIO® existed within the Nordic region, even before

the pharmaceutical was approved and commercially available. The national teams have also prepared carefully to ensure that national approvals could be quickly achieved after the general EU approval in May. All of this meant that OLYSIO® was available in Swedish pharmacies as early as the end of May, followed by Denmark, Finland and Norway in June, all of which was unusually quick. Positive exposure in the media for both Medivir and OLYSIO® meant that both medical personnel and people with hepatitis C quickly became aware of this new opportunity to cure the disease. One of the important tasks we faced was also to ensure that experts and authorities were supplied with medical and health-economics source data for evaluation with reference to treatment guidelines and financing. OLYSIO® was included in the national treatment guidelines for treatment in Sweden, Denmark, Finland and Norway, and soon began to be used across the Nordic region, with positive results.

Curing patients with hepatitis C

Competition will increase in 2015 with the anticipated introduction of two more drugs by other pharmaceutical companies. It should, however, be emphasised that whilst the competition is becoming more severe, the number of patients treated will also increase rapidly. To date, only the most severely ill hepatitis C patients have been treated and there will be a substantial need for good pharmaceutical combinations for several years to come in order to treat considerable more people with hepatitis C infections. In the light of these factors, it is worth reflecting over on what drives the decision to prescribe one particular pharmaceutical in preference to another. There are a number of factors influencing the physician's decision, the first of which is clinical data, i.e. the documentation that shows a favourable efficacy and safety profile. The second is the physician's own, practical experience of a particular drug, and the third is treatment costs. Medivir has focused on all three of these areas. We have provided the health care sector with available clinical data through a series of in-depth dialogues and have ensured personal, practical experience for physicians and the inclusion of recommendations in a range of treatment guidelines through study programmes and rapid national approvals. We have also maintained an ongoing dialogue with the various bodies responsible for pharmaceutical costs in the respective Nordic countries with the aim of reducing the risk of treatment costs constituting a barrier to the prescription of OLYSIO®. In November, Medivir also became, as part of this work, the first company operating in the hepatitis C area to sign risk-sharing agreements in connection with treatment with OLYSIO® with all 21 Swedish county councils. These agreements give both the county councils and Medivir increased predictability with regard to treatment costs and the use of OLYSIO®.

We are very pleased that our successful launch of OLYSIO® has helped make an effective treatment quickly available, and thereby helped cure many people with hepatitis C.

Our patents

Securing patent protection is the foundation for all new pharmaceutical projects, whether the project derives from Medivir's laboratories or whether it is in-licensed. Patents and other exclusive rights, such as data exclusivity (protecting clinical data against generic pharmaceutical companies) and trademark protection are crucial to companies' future commercial prospects. At the same time, it is important to monitor the competition in order to avoid patent infringements.

Simeprevir
Medivir has been granted patents for simeprevir in 106 countries, including most of the major markets, and applications to patent offices are currently being processed in a further dozen or so countries. The usual 20-year patent lifespan for the product patent will expire in 2026, but the patent in the key USA market has been extended until August 2029, and a further extension to February 2030 is expected when the paediatric clinical programme is completed. The corresponding patents in Europe have been granted a preliminary ruling on patent extension (so-called Supplementary Protection Certificates, or SPC) until May 2029. Within the EU, the paediatric clinical programme will also add an extra 6 months' patent protection until November 2029. The Japanese patent has been extended until September 2028 and an extension application is currently being processed by the Australian patent office.

Xerclear
Medivir has been granted patents valid until November 2019 for Xerclear (Zoviduo®) in approximately 50 countries. The patent has been extended in several major European countries until February 2021, thanks to an SPC.

MIV-247 and cathepsin S
Medivir has several patent families with patent lives extending until 2031-2034 and which protect MIV-247 and other cathepsin S inhibitors both as products ("composition of matter") and for their use in treating several diseases (including neuropathic pain) and in synergistic combinations. Patents have been granted or approved in the USA and EU, amongst others.

MIV-711 and cathepsin K
Medivir has several patent families with patent lives extending until 2028-2034 and which protect MIV-711 and other cathepsin K inhibitors both as products ("composition of matter") and for their use in treating several diseases (including osteoarthritis), and for crystalline forms for different preparations. Patents have been granted in the USA, Japan, China and Russia, amongst others.

Other patent applications
Patent applications have also been submitted during the year for other pharmaceutical projects and we are now awaiting the granting of these applications.

Our Corporate Social Responsibility

Medivir has been passionate about being a good member of society and taking responsibility for the work we do, ever since our operations were founded, 26 years ago.

Our efforts to improve people's health and quality of life take a variety of forms: the development of new pharmaceuticals in areas of great unmet medical need, focusing on the patient, providing effective and safe pharmaceuticals, protecting the environment and ensuring sustainable solutions.

Strict regulations

Many aspects of our operations are subject to strict regulations and are governed by official requirements. We work actively to ensure we are up to date with applicable environmental legislation, rules and guidelines. We are supported in our work by "Miljöguiden" (the Environmental Guide) which is an online system for compiling and following up on legislative requirements. All of the statutes that affect our operations have been grouped together in a single document, together with comments on the ways in which Medivir is affected by each statute.

Our workplace shall also be a place where employees experience job satisfaction and where working conditions are good, and it is, therefore, vital that we comply with the rules and guidelines governing quality, the work environment and the external environment, and that we strive to ensure compliance with the Swedish Work Environment Authority's regulatory requirements.

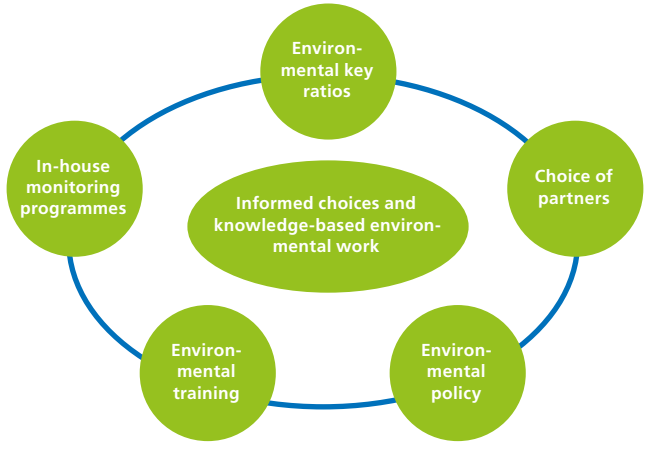
Knowledge-based environmental work

Our environmental work focuses on promoting a sustainable society and we always seek to reduce our environmental impact, placing particular emphasis on energy, chemicals and transport. We have conducted a number of activities in 2014 with the aim of ensuring that we have good routines and that we work professionally with our environmental goals and sustainability issues. All of our activities are based on the guidelines and goals laid down in our environmental policy and create a framework for a unified and consistent approach throughout the company.

- Employees who work with environmental issues have completed a basic environmental training programme.
- We have established an in-house monitoring programme that addresses, amongst other things, the management and control of chemical products, waste, risk assessments, and impact on the external environment.
- We have summarised the operation's environmental key ratios and the changes that have occurred during the year.

Environmental impact and responsibility are also taken into account when choosing partners, suppliers and transport, and we accordingly place great emphasis on ensuring that our partners are certified in accordance with ISO 9001 and ISO 14001.

We conduct detailed follow-up work in order to ensure that our operations are conducted in accordance with the guidelines and policies established. Sustainability work affects all of us and we accordingly maintain an ongoing dialogue with our employees during which we review what has been done and what can be done in future to reduce our environmental impact. Informed choices and knowledge-based environmental work help ensure that we can generate sustainable solutions in our day-to-day work.



Our employees

Medivir currently employs around 140 people in five different countries. Our Group language is English and, collectively, we represent around 15 different nationalities. Our goal is to have competent employees with a strong sense of commitment to our operations and who continuously contribute ideas that help promote the company's development.

It is of the utmost importance, if we are to retain talented employees and to attract and recruit new employees, that we operate an active programme of HR work. Our ambition is to have the industry's most satisfied employees. Medivir's personnel policy forms the basis of our staff development work and of the way in which we create a good workplace. We are convinced that one of the important driving forces for our employees is that we offer development opportunities for every single employee, and this is consequently a prioritised area of work for Medivir. We are also convinced that our success is built on our ability to collaborate broadly and on the realisation that every part of the company is equally important in achieving our shared goals.

Promoting diversity

Medivir is a workplace that promotes diversity. We have implemented a number of measures designed to enable us to attract talented employees from every corner of the world. We have, during the course of the year, developed a terms and conditions package designed to function as a turnkey solution that facilitates relocation to Sweden and helps ensure a good start for the new employee and his/her family, in order to enhance our ability to recruit employees from other countries. We regard the adoption of English as the corporate language as an advantage that makes it easier to incorporate new, non-Swedish-speaking employees rapidly.

Career ladder and skill development

Medivir is keen to offer all of its employees good opportunities for both skill development and a career path within the company, and to this end, in 2014, we created a new career ladder within the research and development operations. The ladder comprises six clearly defined levels and is part of our efforts to clarify and sharpen the focus of career paths within Medivir.

Communication is a cornerstone

Our shared success is based on our having a good insight into every part of the company and an understanding of how they all interact. Communication is a vital and core component of achieving this. We operate in several different countries and internal communication is, therefore, a prioritised area for Medivir. In 2014, we launched a new intranet that offers the potential for increased dialogue, faster and more effective information flows, and a properly thought out structure for fact gathering and searching for important information. The new intranet also includes project areas, generating improved collaborative potential between different teams and employees. We also bring all of the personnel together, a few times a year, in group meetings. Important focal areas at these meetings, over and above straightforward information points, include a presentation of the various functions within the company and the provision of support for company-wide processes. The focus on open and transparent communication has resulted in close collaboration between research and development, marketing, and the staff functions.

Employees in figures

- A total of 141 employees
- of whom:
  129 in Sweden
  4 in Denmark
  1 in Finland
  2 in Norway, and
  5 in the UK
- Average period of employment:
  7.5 years
- Average age: 47
- Number of nationalities >15

Gender breakdown

Women 61%
Men 39%

Education breakdown

Doctorates 47%
University degrees 33%
Other education 20%

Our ambition is to have the industry's most satisfied employees.

Scientific leadership

Small teams, each with a team leader, have been created within the research operations with a view to augmenting and refining the scientific leadership structure, and a team leader training programme was launched in 2014 and will continue in 2015. This change is also designed to strengthen collaboration and enhance the internal dialogue by affording every employee the opportunity for increased feedback and development as part of their day-to-day work. The research and development portfolio was also expanded in 2014, with an increased focus on oncology and we have accordingly reinforced the company's expertise by recruiting new researchers – a process that will continue in 2015.

Nordic marketing organisation

A focal point of 2014 has also been the establishment and continued development of our Nordic marketing organisation. We have put a great deal of effort into creating and implementing efficient processes and methodologies and into introducing new employees in a short space of time and the work carried out in 2014 has established a solid platform for further development. We now have a very strong and competent marketing organisation with the ability to launch new specialty care pharmaceuticals efficiently in the Nordic market.

Directors' Report

The Board of Directors and the President of Medivir AB (publ.), corporate ID no. 556238-4361, whose place of incorporation is Huddinge, Sweden, hereby submit the Annual Report for the operations of the Group and the Parent Company, Medivir AB, (publ.) for the 2014 financial year. All figures refer to the 2014 financial year of the Group, unless otherwise indicated. Comparisons, unless otherwise indicated, are made with the 2013 financial year.

The Medivir Group comprises eight companies with sales in Sweden, Norway, Denmark and Finland. The Swedish public limited company, Medivir AB, whose shares are quoted on the Nasdaq Stockholm Exchange, is the Parent Company of the Group. For additional information, please visit www.medivir.se.

Operations

Medivir is a research-based pharmaceutical company that focuses on infectious diseases and oncology. We have a leading expertise in the design of protease inhibitors and in the science of nucleotides and nucleosides and are dedicated to the development of innovative pharmaceuticals that meet substantial medical needs. Our commercial organisation supplies the Nordic market with a growing portfolio of specialty care pharmaceuticals. The company was founded in 1988 as an offshoot of AstraZeneca's antiviral research unit and was listed in 1996 on the Nasdaq Stockholm Stock Exchange's Mid Cap list.

Medivir is currently conducting research and development operations within infectious diseases, osteoarthritis, neuropathic pain, and oncology. The R&D portfolio comprises six pharmaceutical projects, two of which are being pursued in collaboration with partners. Four of the projects focus on infectious diseases of which two are in the hepatitis C area. Medivir has the internal capacity to run projects all the way from the early drug discovery phase through clinical phase II development, after which we intend to outlicense projects to partners, who are usually global pharmaceutical companies with the resources needed to drive the cost-intensive late stage development work and commercialisation in a manner that achieves maximum global uptake of the drug. These collaborations and partnerships are important components of our business model and Medivir has, over the years, entered into a number of successful partnerships with other pharmaceutical companies for the further development of potential new pharmaceutical products.

Medivir markets pharmaceuticals in the Nordic market and we currently sell 16 prescription pharmaceuticals. The pharmaceuticals in our Innovative Specialty Care portfolio comprise both in-house developed pharmaceuticals for which we have retained the Nordic marketing rights, and pharmaceuticals that we have in-licensed and which we market in the Nordic region. Our ambition is to expand this portfolio both through our own research and development and through in-licensing of innovative specialty care pharmaceuticals. The pharmaceuticals that make up our Nordic Brands portfolio comprise well-known products with a long tradition of prescription in the Nordic region.

Significant events in 2014

SVR12 results from a phase IIa study evaluating simeprevir and daclatasvir in hepatitis C genotype 1 patients presented

Daclatasvir is an NS5A inhibitor developed by Bristol-Myers Squibb, who also conducted the study. The results showed that all-oral combination treatment with simeprevir (150mg) and daclatasvir (30mg), with and without ribavirin, was generally well tolerated with varying efficacy in different subgroups of HCV patients. The best efficacy was achieved in the HCV genotype 1b patients, where 75 to 85 per cent of treatment-naïve patients were cured and 65 to 95 per cent of prior null responders to HCV treatment with interferon and ribavirin were cured. The term, cure, refers to a sustained virologic response 12 weeks after the end of treatment (SVR12).

Results of ATTAIN phase III study with simeprevir and telaprevir

ATTAIN is a randomised, double-blind, clinical phase III multicentre study in treatment-experienced genotype 1 HCV patients who were partial responders or null responders in previous treatment with pegylated interferon and ribavirin. In the trial, 771 patients were randomised to treatment with either150 mg of simeprevir once daily plus pegylated interferon and ribavirin (PegIFN/RBV) or 750 mg of telaprevir three times per day plus PegIFN/RBV for 12 weeks, followed by 36 weeks of PegIFN/RBV alone.

The results of ATTAIN show that simeprevir achieved its primary endpoint of non-inferiority to telaprevir in treatment-experienced HCV patients, with 54 per cent of patients in the simeprevir arm cured in comparison with 55 per cent in the telaprevir arm. Simeprevir also demonstrated a superior safety profile, including a lower adverse event frequency, fewer serious adverse events, and a lower incidence of anaemia than with telaprevir.

Simeprevir approved in Russia

In March 2014, the Russian Ministry of Health announced that it had approved Sovriad® (simeprevir) in combination with peginterferon alfa and ribavirin for the treatment of chronic hepatitis C genotype 1 infection in adult patients with compensated liver disease (including patients with cirrhosis) and who are treatment-naïve or who have failed previous interferon therapy (pegylated or non-pegylated), with or without ribavirin. Hepatitis C is a major problem in Russia.

Two phase III trials evaluating once-daily treatment with simeprevir and sofosbuvir initiated

OPTIMIST-1 is a randomised, open-label, phase III study investigating the efficacy and safety of simeprevir in combination with sofosbuvir. The treatment is administered once daily for 8 or 12 weeks in chronic HCV genotype 1 infected patients without cirrhosis.

OPTIMIST-2 is an open-label, single-arm, phase III study investigating the efficacy and safety of simeprevir in combination with sofosbuvir. The treatment is administered once daily for 12 weeks in HCV genotype 1 patients with cirrhosis.

Final data from the phase II COSMOS study with simeprevir in combination with sofosbuvir presented at EASL

Positive new simeprevir data were presented at the International Liver Congress™ 2014 of the European Association for the Study of the Liver (EASL) in London. Final results of the COSMOS study demonstrate that 92 per cent of chronic HCV genotype 1 patients who received combination treatment with simeprevir and sofosbuvir were cured. The study included patients with cirrhosis and prior null responders to treatment with pegylated interferon and ribavirin.

Relaunch of Suscard

Suscard is a vasodilatory nitroglycerin preparation for both acute treatment of and as a situational prophylactic for angina pectoris in conjunction with exertion. Suscard became temporarily unavailable on the market in 2012 due to a change of supplier. This change has now been completed and, in April 2014, Suscard was re-launched on the Swedish market.

Adasuve® launched in Sweden, Norway, Finland and Denmark

Adasuve® is a completely new inhalable treatment for agitation that has been approved for sale within the EU by the European Medicines Agency (EMA). Medivir entered into a licensing and distribution agreement for the commercialisation of Adasuve® with Ferrer in September 2013. Ferrer is a privately-held European R&D-based pharmaceutical company headquartered in Barcelona. Under the terms of the agreement, Medivir was able to launch Adasuve® in Sweden, Norway, Finland and Denmark in 2014 for the treatment of mild to moderate agitation in patients with schizophrenia or bipolar disorder.

Simeprevir approved in the EU for the treatment of adults with hepatitis C genotype 1 and 4 infection

The European Commission granted marketing authorisation to simeprevir both as a new triple therapy treatment option for patients with HCV genotype 1 and 4 infection, and as part of an all-oral, interferon-free 12-week course of treatment, with or without ribavirin, in genotype 1 or 4 patients, who are intolerant of or ineligible for interferon or interferon-based treatment. The European Commission's approval of simeprevir was based on a clinical trial programme involving three pivotal phase III studies with over 1,000 patients. All three studies met their primary endpoints and demonstrated that simeprevir in combination with pegylated interferon and ribavirin achieved significant cure rates when compared with a placebo. The European Commission's approval of simeprevir in combination with sofosbuvir was also based on the phase II COSMOS study.

Medivir in-licensed Respiratory Syncytial Virus programme from Boehringer Ingelheim

Medivir in-licensed an RSV programme from Boehringer Ingelheim providing exclusive, global rights to a drug programme for the treatment and prevention of Respiratory Syncytial Virus (RSV) infection. The aim of the project is to develop an all-oral inhibitor of the RSV fusion protein, and the programme includes several series of molecules that inhibit the RSV fusion protein, which is a key mediator of viral entry into host cells and an important target for new medicines.

Niklas Prager appointed new President and CEO of Medivir

Medivir's Board of Directors appointed Niklas Prager as the new President and CEO of Medivir AB. Niklas Prager took over on 1 September 2014, when he succeeded Maris Hartmanis, who had previously announced he was leaving his position as President and CEO of Medivir.

Medivir presented data from its cathepsin S inhibitor programme at the 15th World Congress on Pain

Medivir presented preclinical data for its candidate drug, MIV-247, and the preclinical results of combination treatment with a cathepsin S inhibitor and gabapentin, a commonly used drug for neuropathic pain. The results support the continued development of MIV-247 for the treatment of neuropathic pain with the potential for use either as a first line monotherapy or as an add-on to current treatments, with a low risk of CNS side effects.

Phase II IMPACT study initiated to evaluate simeprevir in combination with sofosbuvir and daclatasvir

Medivir's partner, Janssen, announced the launch of the phase II IMPACT study which intends to evaluate the efficacy, safety and pharmacokinetics of simeprevir in combination with sofosbuvir and daclatasvir. The study includes treatment-naïve and treatment-experienced patients with hepatitis C genotype 1 and 4 infection and decompensated liver disease.

Medivir and county councils conclude agreement on OLYSIO®-based treatment for hepatitis C

The Dental and Pharmaceutical Benefits Agency (TLV) concluded that treatment with OLYSIO® is beneficial from a health economics viewpoint in the treatment of HCV genotypes 1 and 4 with METAVIR scores of F3-F4, irrespective of previous treatment. A risk-sharing agreement that offers the county councils and Medivir an increased degree of predictability with regard to treatment costs and the use of OLYSIO® was reached on the basis of this conclusion. The agreement was concluded between Medivir and the Swedish county councils. The New Pharmaceutical Product Therapies (NLT) group – a group within the

Swedish Association of Local Authorities and Regions tasked with evaluating new pharmaceutical products and therapies – subsequently drew up collective recommendations for the county councils with regard to the use of OLYSIO®.

OLYSIO® gained additional FDA approval in combination with sofosbuvir for treatment of hepatitis C infection

In November, the U.S. Food and Drug Administration (FDA) approved OLYSIO® (simeprevir) in combination with sofosbuvir as an all-oral, interferon- and ribavirin-free treatment option for genotype 1 chronic hepatitis C infection in adult patients as part of a combination antiviral treatment regimen. The recommended treatment duration of OLYSIO® in combination with sofosbuvir is 12 weeks for patients without cirrhosis or 24 weeks for patients with cirrhosis. The sNDA was filed in May by Medivir's strategic partner, Janssen Research & Development LLC, and granted Priority Review by the FDA.

Extraordinary General Meeting of Medivir on 20 November 2014

The Extraordinary General Meeting of Medivir Aktiebolag (publ.) on 20 November 2014 approved, in accordance with the Board of Director's proposal, a voluntary redemption programme comprising a reduction in the statutory reserve, a reduction in the share capital for repayment to the shareholders and a bonus issue without issuance of new shares. The redemption programme will be effected by redemption of a maximum of 4,465,717 shares, whereof 94,285 class A shares and 4,371,432 class B shares. For each share in the company, the shareholder receives one redemption right. Redemption rights received for class A shares entitle the holder to redeem class A shares and redemption rights received for class B shares entitle the holder to redeem class B shares.

MIV-802 selected as a candidate drug and enters non-clinical development for the treatment of hepatitis C infection

MIV-802 was selected as a candidate drug from the company's nucleotide polymerase inhibitor project for the treatment of hepatitis C infection. In *in vitro* antiviral assays, MIV-802 is a highly potent and selective nucleotide inhibitor of the replication of all genotypes of the hepatitis C virus. Preclinical data indicate that MIV-802 can be used effectively in combination with other classes of antiviral agents used to treat HCV, including protease inhibitors and NS5A inhibitors. Medivir intends to present the preclinical antiviral and pharmacokinetic profile of MIV-802 at a major scientific meeting in 2015.

The Group's results and financial position

Medivir was, until 30 June 2013, organised into two operating segments. On 30 June 2013, the wholly owned subsidiary company, Cross Pharma, which conducted parallel imports of pharmaceuticals, was divested. The Group's continuing operations consist, as of the third quarter of 2013, of a single segment comprising both pharmaceutical research and development, and pharmaceutical sales.

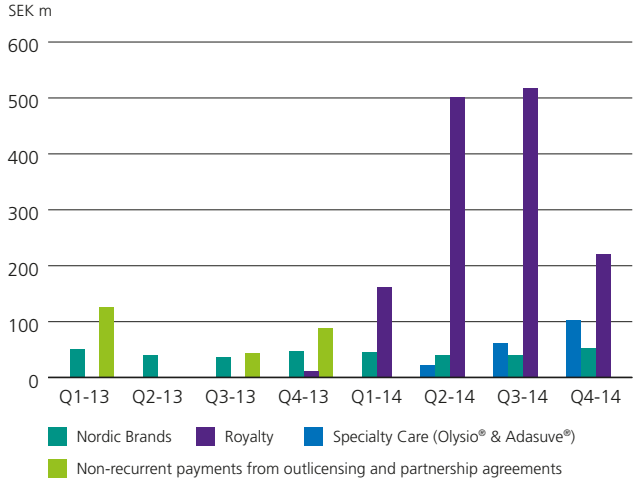
Comparisons in the Annual Report are, unless otherwise indicated, with the corresponding period in 2013.

Revenues and results

Net turnover totalled SEK 1,767.0 million (SEK 446.1 m), corresponding to an increase of SEK 1,320.9 million. Royalty income totalled SEK 1,400.2 million (SEK 11.5 m), SEK 1,399.0 million (SEK 10.5 m) of which reflects royalties for Janssen's global sales of simeprevir. Income from proprietary pharmaceutical sales in the Nordic region totalled SEK 366.8 million (SEK 176.1 m), SEK 186.4 million (–) of which derived from sales of OLYSIO® and SEK 180.4 million (SEK 176.1 m) from sales of other pharmaceuticals. Non-recurrent payments from outlicensing and partnership agreements in the corresponding period last year amounted to SEK 258.5 million and related both to the registration applications for simeprevir in Japan (EUR 10 million) and in the USA (EUR 20 million). The cost of goods sold totalled SEK –174.0 million (SEK –71.8 m), corresponding to an increase of SEK 102.2 million attributable mainly to the simeprevir royalty costs for the period. The gross profit was SEK 1,593.0 million (SEK 374.3 m), corresponding to an increase of SEK 1,218.7 million and equating to a gross margin of 90 per cent (84%).

Net turnover breakdown (SEK m)	2014	2013
Out-licensing and partnership agreements Non-recurrent payments	–	258.5
Pharmaceutical sales	366.8	176.1
Royalties	1,400.2	11.5
Total	**1,767.0**	**446.1**

Selling expenses rose by SEK 33.2 million due, primarily, to the Nordic market launches of OLYSIO® and Adasuve®. Administrative expenses increased by SEK 10.6 million, largely due to non-recurrent personnel costs. Research and development costs increased by SEK 16.4 million, primarily in response to the expansion of the project portfolio and to the increase according to plan in costs for the MIV-802 HCV and MIV-247 neuropathic pain projects. Other operating income/expenses were positive, increasing by SEK 5.0 million, which was largely due to



exchange rate effects. Operating costs totalled SEK –404.2 million (SEK –349.1 m), corresponding to an increase of SEK 55.1 million.

The operating profit/loss was SEK 1,188.7 million (SEK 25.2 m), corresponding to an increase of SEK 1,163.5 million.

Net financial items totalled SEK 4.0 million (SEK 2.5 m), corresponding to an increase of SEK 1.5 million.

The estimated tax expense for the period was SEK –60.0 million (SEK –11.7 m). The estimated tax on the Group's profit/loss after a reduction in the deferred tax receivable totalled SEK –273.2 million. A renewed assessment of the Parent Company's accumulated fiscal loss carry forward entailed a reported tax income of SEK 213.2 million, corresponding to a capitalisation of the entire loss carry forward related to the company as of 31 December 2013.

The profit/loss for the period was SEK 1,132.7 million (SEK –21.3 m), corresponding to an increase of SEK 1,154.0 million.

Cash flow and financial position

Liquid assets, including short-term investments with a maximum term of three months, totalled SEK 402.2 million (SEK 296.7 m) at the beginning of 2014 and SEK 1,395.6 million (SEK 402.2 m) at the period end, corresponding to a change of SEK 993.4 million (SEK 105.5 m). Royalty payments for the fourth quarter are not included in liquid assets at the period end. Pledged assets at the period end totalled SEK 54.3 million (SEK 54.3 m). Medivir's financial assets are, in accordance with its financial policy, invested in low-risk, interest-bearing securities.

The cash flow from operating activities totalled SEK 1,014.4 million (SEK 43.0 m), with changes in working capital accounting for SEK –2.1 million (SEK –24.2 m) of this total. The positive cash flow refers primarily to royalties paid for the previous quarters.

The cash flow from investing activities was SEK –17.7 million (SEK 111.0 m) and is mainly related to investments in research equipment, office equipment and IT systems totalled SEK –20.2 million (SEK –4.0 m). The corresponding investing activities figure last year largely related to the divestment of Cross Pharma.

The cash flow from financing activities amounted to SEK 0.0 million (SEK –48.6 m).

Investments, depreciation and amortisation

A total of SEK 8.9 million (SEK 3.6 m) was invested in tangible fixed assets during the period and related to the purchase of research and office equipment. Investments in intangible fixed assets totalled SEK 8.6 million (SEK 0.5 m), SEK 6.9 million of which related to the in-licensing of the RSV research programme and capitalised development expenses for IT systems. Amortisation of tangible fixed assets was charged to the profit/loss for the period in the sum of SEK –10.1 million (SEK –9.9 m). Depreciation of intangible fixed assets in the sum of SEK –23.1 million (SEK –23.6 m) was charged to the profit/loss for the period.

Royalty undertakings

A significant percentage of Medivir's research and development projects work has been carried out exclusively in-house, and Medivir is consequently entitled to all revenues in respect of these inventions. Medivir also conducts research and development work that originates from Swedish universities and pharmaceutical companies, and Medivir is consequently entitled to the revenues generated by these projects but obliged to pay royalties on the same. Certain projects have been progressed using research tools for which patents have been sought, which have been in-licensed from other companies and which command royalty payments. Royalty costs during the period totalled SEK 87.2 million (SEK 13.6 m).

Transactions with related parties

Transactions with related parties are on market terms. There are existing agreements between companies owned by senior executives and Medivir entered into in 2005, conferring entitlement to royalties on products that the company may develop based on patented inventions that the company has acquired from the parties in question. Royalty payments of SEK 11.1 million (SEK 1.9 m) were made to Uppsala Hallbechem AB (Board Member, Anders Hallberg), and of SEK 24.2 million (–) to Sybesam AB (Board Member, Bertil Samuelsson) during the period. Other services were purchased from related parties for a total of SEK 0.8 million (SEK 0.1 m). Parent company sales to Group companies amounted to SEK 59.5 million (SEK 85.3 m).

The Parent Company in brief

Medivir AB (publ.), corporate ID no. 556238-4361, is the Parent Company of the Group. Its operations comprise research and development, marketing and sales, and administrative and company management functions.

The Parent Company's net turnover totalled SEK 1,646.4 million (SEK 327.3 m), corresponding to an increase of SEK 1,319.1 million. Royalty income from Janssen's global sales of simeprevir totalled SEK 1,399.0 million (SEK 10.5 m). Revenues from proprietary pharmaceutical sales in the Nordic region amounted to SEK 186.7 million (SEK 0.0 m), SEK 186.4 million of which related to OLYSIO®. Sales to Group companies amounted to SEK 59.5 million (SEK 85.3 m). The net turnover for the corresponding period last year included non-recurrent payments totalling SEK 258.5 million.

The gross profit totalled SEK 1,517.9 million (SEK 313.7 m), corresponding to an increase of SEK 1,204.2 million.

Operating costs totalled SEK –336.8 million (SEK –295.1 m), corresponding to an increase of SEK 41.7 million and which related, primarily, to increased costs in connection with the market launches of OLYSIO® and Adasuve®.

The operating profit totalled SEK 1,181.1 million (SEK 18.6 m), corresponding to an increase of SEK 1,162.5 million. Net financial items amounted to SEK –48.9 million (SEK 80.2 m), corresponding to a decrease of SEK 129.1 million. The net financial items for the corresponding period last year included dividend payments received from subsidiary companies of SEK 120.0 million.

Appropriations totalled SEK –181.0 million (SEK 0.0 m) and related to Group contributions made to the BioPhausia AB subsidiary company.

The tax for the period amounted to SEK –8.8 million (SEK 0.0 m) and the estimated tax for the period, including a reduction in the deferred tax receivable, totalled SEK –222.0 million. A renewed assessment of the Parent Company's accumulated fiscal loss carry forward entailed a reported tax income of SEK 213.2 million, corresponding to a capitalisation of the entire loss carry forward related to the company as of 31 December 2013. The fiscal loss carry forward had been utilised in full by the end of the fourth quarter.

The net profit/loss for the period was SEK 942.4 million (SEK 98.8 m), corresponding to an increase of SEK 843.6 million.

The cash flow from operating activities totalled SEK 957.7 million (SEK –13.0 m), with changes in working capital accounting for SEK –27.2 million (SEK –56.9 m) of this total. The positive cash flow relates, primarily, to royalty payments received for the previous quarters.

The cash flow from investing activities totalled SEK 14.8 million (SEK 81.0 m). Investments in tangible and intangible fixed assets amounted to SEK –20.2 million (SEK –4.0 m), and related to investments in research and office equipment, and IT systems. Amortised loans from subsidiary companies during the period totalled SEK 35.0 million.

Liquid assets, including short-term investments with a maximum term of three months, amounted to SEK 1,352.9 million (SEK 380.4 m).

Employees

Medivir's operations impose stringent demands not only on its employees, but also for an innovative and 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 together set individual goals for the year based on the overall objectives of the company, and evaluate and appraise previous efforts. To achieve the expected levels of commitment it is important 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 achieve its ambitious objectives.

Salaries, benefits and labour market regulations

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 local agreed salary criteria. Medivir complies with and respects labour market regulations and the agreements reached between labour market parties.

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 a fitness subsidy, and pays for influenza vaccinations.

Diversity and equal opportunities

The company had a total of 141 (117) employees at the period end, 57 per cent (55) of whom are female. Medivir's management team, including the CEO, comprised eight people (two women and six men) at the year-end, while the Board of Directors, including the Chairman, comprised six people elected by the Annual General Meeting (two women and four men). The Board also includes two employee representatives (one woman and one man). Medivir regards it as self-evident that everyone should 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 more than 15 different countries. Medivir strives 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 operations. 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 disputes.

Our goal is to recycle everything that can be recycled. Any hazardous waste that cannot be recycled is stored, processed and disposed of in accordance with best practice. Our research facility in Huddinge generates small amounts of 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. 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 manufactures are certificated in accordance with the ISO 9001 and ISO 14001 standards.

The biggest health risks arise in connection with the handling of chemicals, but by ensuring that all chemicals are handled correctly, which includes the performance of risk assessments before the laboratory experiments begin, the health risks are minimised. Protective equipment and clothing are used. All work with chemicals is carried out in ventilated facilities. All fume hoods and secure benches are fitted with alarms and are inspected regularly.

Medivir conducts a systematic programme of occupational health & safety work in order to ensure continuous improvements 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 2014 or 2013.

IT security

The importance of protecting the company's information means that IT security is a high priority for Medivir. The company's IT policy contains guidelines on organisation, responsibilities, authorisation, permissions administration, antivirus 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, 2015

The Board of Directors has proposed guidelines for remuneration to senior executives which broadly conform to the principles applied in the past. Senior executives, in this context, refers to the CEO and other members of the Group management. The guidelines apply to contracts of employment entered into after the adoption of the guidelines by the AGM or amendments to existing contracts made after the adoption of the guidelines. Medivir 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 plans, pensions and other benefits. Variations to 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, as a cash bonus, 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

The senior executives may be granted other customary benefits, such as a company car, membership of a company health care scheme, etc.

Pension

Pensions should be of the defined contribution type. The contribution payable to the CEO and other senior executives may comprise up to 25 per cent of their 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 for the CEO and other senior executives. 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 fixed 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 fixed 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 plans

Share- and share price-related incentive plans 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 not matured. For additional information, see Note 5.

Remuneration paid in 2014

For details of remuneration disbursed to senior executives, please see Note 5.

Details of deviations from the 2014 guidelines

The Board of Directors has not departed from the guidelines for remuneration to senior executives approved by the 2014 AGM of the company's shareholders.

Events after the end of the financial year

Reorganisation of Medivir's management group

The company's management group was reorganised in order to streamline and increase operational focus. After the change, the company's management team consists of 6 people, including the CEO, vs. the previous team of 8 people. Two new functions were created in conjunction with the reorganisation, namely Strategic Business Development – which is a consolidation of Corporate Development and Business Development – and Finance & Administration – which is a consolidation of the current Finance & Administration function and Corporate Affairs & IR. The new organisation came into force on 1 March 2015.

Phase II COMMIT and ACCORDION-I studies initiated

Recruitment began in February 2015 for a further two phase II studies with simeprevir:

- The COMMIT study which aims to study the efficacy and safety of a 12-week course of treatment with simeprevir and daclatasvir. The trial has enrolled patients with HCV genotype 1b infection with advanced liver disease with METAVIR scores of F3 or F4 (cirrhosis);
- The ACCORDION-I study which aims to study the efficacy and safety of simeprevir, daclatasvir and sofosbuvir in a two-arm study structure. The trial has enrolled HCV genotype 1 patients. Patients with early stages of liver fibrosis will receive a 6-week course of treatment, while those with cirrhosis will receive an 8-week course.

The Nomination Committee's proposal for a new Board of Directors

The composition of the 2014-2015 Nomination Committee was as follows:

- Anders Algotsson, Chairman of the Nomination Committee, representing AFA Försäkring
- Maria Rengefors, representing Nordea Fonder
- Birgitta Stymne Göransson, Chairman of the Board of Medivir AB
- Bo Öberg, representing the class A shareholders

The Nomination Committee has agreed to propose, with reference to the upcoming 2015 Annual General Meeting, that a new Board of Directors be appointed by means of the re-election of the Board's existing Members, namely Anna Malm Bernsten, Anders Ekblom, Anders Hallberg, Bertil Samuelsson and Birgitta Stymne Göransson, and the new election of two Members, namely Johan Harmenberg and Helena Levander. The re-election of Birgitta Stymne Göransson as the Chairman of the Board is proposed. Björn C. Andersson has declined re-election and Niklas Prager resigned his seat on the Board in September 2014 in conjunction with his becoming President & CEO of the company.

Voluntary redemption programme

A voluntary share redemption programme was initiated on 3 February. Shareholders were afforded the option of registering with the programme, between 10 and 24 February, and by the end of the application period, a total of 4,293,990 shares had been registered for redemption, 53,642 of which were class A shares and 4,240,348 class B shares, corresponding to a take-up rate of 96.2 per cent. A cash sum totalling ca. SEK 601.2 million was transferred to the shareholders, corresponding to SEK 140 per share redeemed, for disbursement around 17 March 2015.

New data on Simeprevir presented

New clinical data for simeprevir have been presented at the 24th Conference of the Asian Pacific Association for the Study of the Liver (APASL) in Istanbul, Turkey. Six oral and poster presentations on three clinical studies spanning over several development programs including simeprevir in different treatment combinations, durations and populations were held.

Summary of future development work

Medivir is a research-based pharmaceutical company whose focus is on infectious diseases and oncology. We have a leading expertise in protease inhibitor design and nucleotide/nucleoside research and are dedicated to the development of innovative pharmaceuticals that meet substantial medical needs. Our commercial organisation supplies the Nordic market with a growing portfolio of specialty care pharmaceuticals. Medivir is listed on the Nasdaq Stockholm Stock Exchange's Mid Cap list.

The market launch of OLYSIO® (simeprevir) has been successful, both in the Nordic countries and in other markets where Medivir's partner, Janssen, owns the marketing rights. OLYSIO® (simeprevir) can, however, be expected to face increasing competition in the hepatitis C market. A number of studies of simeprevir in combination with other direct-acting antiviral agents are also being conducted in parallel under the aegis of Janssen with the aim of developing interferon-free treatment alternatives for different patient groups with hepatitis C.

Medivir will continue to exploit our leading expertise in the design of protease inhibitors and nucleotide and nucleoside research with a focus on infectious diseases and oncology. Medivir also has several attractive in-house projects in the development phase as well as a number of early discovery projects. We will also continue with the commercialisation of our existing pharmaceuticals and on building growth through the in-licensing of new specialty care pharmaceuticals for the Nordic market. We will intensify our activities in the business development sphere and within our already strong commercial organisation with the aim of identifying new business opportunities for both our R&D operations and our Nordic pharmaceutical portfolio – activities that will lead to increased value generation.

Corporate governance
Medivir has applied the Swedish Code of Corporate Governance since 1 July 2008. See the Corporate Governance Report on page 40.

Annual General Meeting
The Annual General Meeting will be held on 5 May 2015 at 14.00 (CET) at the IVA conference centre, Grev Turegatan 16, Stockholm. Shareholders wishing to participate shall both be registered in the register of shareholders maintained by Euroclear Sweden AB no later than Tuesday, 28 April, and shall notify the company of their intention to attend using the following address: Medivir AB, Blasieholmsgatan 2, 111 48 Stockholm, Sweden, or telephone on +46 (0)8 407 64 30. The company must receive the notification no later than Tuesday, 28 April. Updated information on the AGM is available from the company's website: www.medivir.se.

Proposed treatment of the unappropriated earnings
The following unappropriated earnings are available for disposition by the Annual General Meeting:

Share premium reserve	SEK 1,104,654,056
Accumulated loss	SEK –1,102,805,320
Net profit for the year	SEK 942,438,527
Total	**SEK 944,287,263**

The Board of Directors and the President & CEO proposes that the unappropriated earnings available for disposition totalling SEK 944,287,263, be carried forward.

Dividend
The Board of Directors proposes that no dividends be paid for the 2014 financial year.

Results of the voluntary redemption programme
The Extraordinary General Meeting of Medivir Aktiebolag (publ.) on 20 November 2014 approved, in accordance with the Board of Director's proposal, a voluntary redemption programme comprising a reduction in the statutory reserve, a reduction in the share capital for repayment to the shareholders and a bonus issue without issuance of new shares.

The redemption programme comprised a total of 4,465,717 shares in Medivir. Upon completion of the application period, a total of 4,293,990 shares had been registered for redemption, whereof 53,642 class A shares and 4,240,348 class B shares, corresponding to an acceptance level of 96.2 per cent. In total, cash proceeds of SEK 601.2 million will be distributed to the shareholders, corresponding to SEK 140 per redeemed share, to be paid around 17 March 2015. Following completion of the redemption programme, there will be a total of 26,966,037 outstanding shares in Medivir, whereof 606,358 class A shares and 26,359,679 class B shares, and the total number of votes will be 32,423,259 votes. SEK 827.9 million of the statutory reserve has been transferred from restricted equity to non-restricted equity. The redemption amount, SEK 601.2 million, has, since the closing of accounts, affected the non-restricted equity and the shareholders' equity to the tune of SEK –579.7 million and SEK –21.5 million, respectively. A bonus issue without issuance of new shares has been effected in a corresponding amount (SEK 21.5 million) in order to restore the shareholders' equity and has been charged to non-restricted equity.

Significant risks and uncertainty factors
An effective risk assessment reconciles Medivir's business opportunities and financial 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 efficacy 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 candidate drugs, to enter into partnerships, and to successfully develop its projects to market launch and sales, are decisive in terms of the company's future.

Competition
The competition within 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 marketing 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 effectiveness, and sales and marketing strategies.

Seasonal variations
Medivir's sales and operating profit/loss are, to some extent, dependent on 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, mitigated by the fact that Medivir has a number of other products in other therapeutic areas.

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 and clinical trials, and the production, marketing and sale of pharmaceuticals. Even if Medivir considers its existing insurance cover to be sufficient, the extent 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 can 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 projects in preclinical and clinical development. The relevant compound 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 areas 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 a significant 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 the 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.

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 of obtaining regulatory authorisation usually demands extensive preclinical and clinical trials, which are extremely costly and take a very long time. The FDA, EMA 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 level of expertise within the company.

Financial risks

Medivir has, historically, posted losses and there is no guarantee that Medivir will, in future, be able to report a profit. The future profit performance is uncertain due, in part, to the fact that new partnership agreements and those already entered into may have a significant impact on Medivir's future revenues and cash position. For a detailed presentation of financial risks, such as currency risk, interest rate risk, credit risk and liquidity risk, see Note 8 on page 71.

The Medivir share

Medivir's class B share has been listed on the Nasdaq Stockholm Stock Exchange since 1996, with all trade taking place on the Mid Cap list. The class A share, which carries enhanced voting rights, is not listed.

Share structure, earnings per share, and equity

There were a total of 31,260,027 (31,260,027) shares in Medivir AB at the year-end, 660,000 (660,000) of which were class A shares and 30,600,027 (30,600,027) class B shares with a nominal value of SEK 5. The average number of shares during the year was 31,260,027 (31,260,027). All shares are equally entitled to participation 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 was SEK 156.3 million (SEK 156.3 m) and the equity totalled SEK 1,982.6 million (SEK 852.6 m). Basic and diluted earnings per share, based on a weighted average number of outstanding shares, were SEK 36.24 (SEK 0.51) and SEK 35.90 (SEK 0.51), respectively. Equity per share was SEK 63.4 (SEK 27.3). The equity/assets ratio was 90.8 per cent (85.7%).

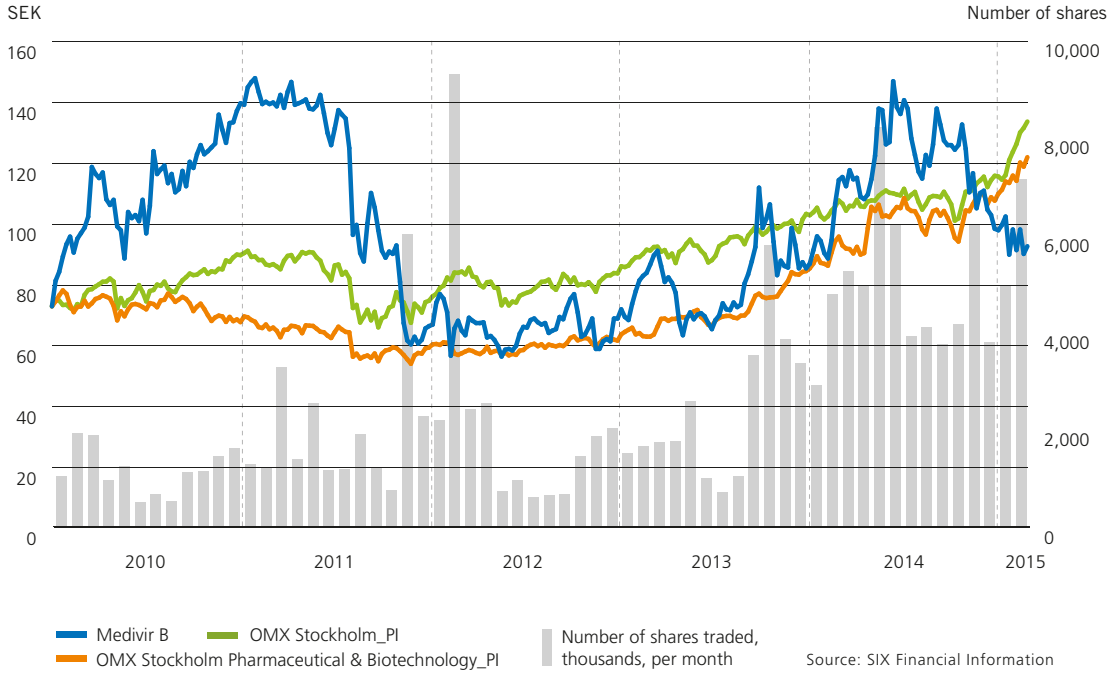
For a presentation of Medivir's financial risks and principles applied for financial risk management, see Note 8, Financial risks, on page 71.

Shareholders

There were a total of 11,743 (12,696) shareholders at the year-end, 9,933 (11,026) of whom held 1,000 or more shares. The fifteen biggest shareholders accounted for 38.1 per cent (34.0%) of the total number of shares and 48 per cent (45.0%) of the total number of votes. Bo Öberg was the largest shareholder by votes, followed by Nils-Gunnar Johansson and AFA Försäkring. Foreign owners accounted for 27.8 per cent (19.9%) of the total equity. For additional information on the ownership structure, see page 38.

Share price performance and turnover, 2014

Medivir's share price rose by 16.3 per cent from SEK 84.50 to SEK 98.25 in 2014. The Nasdaq Stockholm Stock Exchange's Mid Cap index (OMX-SMCPI) also rose by 16.3 per cent during the same period. Medivir's market capitalisation at the end of 2014 was SEK 3.07 billion, based on the closing price paid at the year-end of SEK 98.25. A total of 58,227,824 Medivir shares were traded on the Nasdaq Stockholm Stock Exchange in 2014, corresponding to a turnover rate of 194 per cent in comparison with one of 86 per cent for the Nasdaq Stockholm Stock Exchange.



Beta value

On 31 December 2014, Medivir's class B share had a weighted beta value in comparison with the exchange's general index of 0.94. 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 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.

Share-related incentive plans

The intention of share-related incentive plans is to promote the company's long-term interests by motivating and rewarding the company's senior executives and other members of staff. Medivir currently has two active share-related incentive plans, LTI 2013 and LTI 2014. The costs of both programmes, including the cost of social security contributions, have, in accordance with certain assumptions such as share price performance, participation, and staff turnover, been charged to the profit/loss during the period in the sum of SEK 3.4 million (SEK 2.0 m).

48 per cent of all permanent employees elected to participate in LTI 2014, including the CEO, who has invested SEK 0.3 million (2,085 shares), and other senior executives, who have invested SEK 0.2 million (1,181 shares). 73 per cent of all permanent employees have opted to participate in LTI 2013, including senior executives, who have invested SEK 0.7 million (10,322 shares). The principal rule, in conjunction with the cessation of employment before the end of the vesting period, is that the share warrants shall expire for the participant. For a more detailed description, see Note 5 on page 69.

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 decisions, 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. 2014[1)]

Name	Class A shares	Class B shares	% of votes	% of capital
Bo Öberg	284,000	262,475	8.3	1.7
Nils Gunnar Johansson	284,000	66,575	7.8	1.1
AFA Försäkring	0	1,636,729	4.4	5.2
Staffan Rasjö	0	1,611,807	4.3	5.2
UNIONEN	0	1,204,200	3.2	3.9
Nordea Investment Funds	0	1,189,484	3.2	3.8
Avanza Pension	0	952,581	2.6	3.0
Christer Sahlberg	92,000	27,881	2.5	0.4
AMF Försäkringar och Fonder	0	867,488	2.3	2.8
Danica Pension	0	750,370	2.0	2.4
Catella Fondförvaltning	0	739,050	2.0	2.4
Skandia Fonder	0	546,230	1.5	1.7
Tredje AP-fonden	0	507,408	1.4	1.6
JPM Chase NA	0	481,931	1.3	1.5
Nordnet Pensionsförsäkring	0	402,201	1.1	1.3
Total, 15 largest shareholders	**660,000**	**11,246,410**	**48.0**	**38.1**
Total, other shareholders		19,353,617	52.0	61.9
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. This composite entry approach has not been taken in other tables for the Medivir share.

SHAREHOLDER BREAKDOWN BY SIZE OF HOLDING, 31 DECEMBER 2014

	No. of shareholders	No. class A shares	No. class B shares	% of capital	% of votes
1–100	4,943		210,620	0.67	0.57
101–1,000	4,990		2,072,263	6.63	5.57
1,001–5,000	1,290		2,893,998	9.26	7.78
5,001–20,000	336		3,308,200	10.58	8.89
20,001–100,000	132		5,957,065	19.06	16.01
100,001–	52	660,000	16,157,881	53.80	61.18
Total	**11,743**	**660,000**	**30,600,027**	**100.0**	**100.0**

SHAREHOLDER CATEGORIES, 31 DECEMBER 2014

	% of votes	% of capital	No. of shareholders
Swedish institutions	32.73	38.95	679
Foreign institutions	22.37	26.62	391
Swedish private investors	44.08	33.45	10,562
Foreign private investors	0.82	0.98	111
Total	**100.0**	**100.0**	**11,743**

SHARE STRUCTURE

Year	Transaction	Nominal amount, SEK	Change in share capital, SEK	Total share amount, 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

Corporate Governance Report

The Medivir Group comprises eight companies. The Parent Company of the Group is the Swedish public limited company Medivir AB, whose shares are quoted on the Nasdaq Stockholm Stock 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 above chart illustrates Medivir's corporate governance model and the way in which the central bodies function. The model reflects the situation as of 31 December 2014.

External regulations

As a Swedish public limited company with securities quoted on the Nasdaq Stockholm Stock 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 Stockholm Stock Exchange's Rules for Issuers.
- The Swedish Code of Corporate Governance.

Regulatory compliance

There were no breaches of applicable stock market regulations in 2014 and Medivir's operations have been conducted in accordance with good stock market practice.

Compliance with the Swedish Code of Corporate Governance

Medivir has applied the Swedish 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.bolagsstyrning.se).

Internal regulations

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

- The Articles of Association.
- The Board of Directors' Rules of Procedure and the CEO Instructions.
- The Board Committees' Rules of Procedure.
- Guidelines for remuneration to senior executives.
- The Financial Policy.
- The Information Policy.
- The IT Policy.
- The Accounting and HR Manual.
- The Code of Conduct.

Significant events in 2014

- A new Board of Directors was appointed at the 2014 Annual General Meeting of the company's shareholders through the re-election of Björn C Andersson, Anders Hallberg, Anna Malm Bernsten and Birgitta Stymne Göransson (Chairman) and the new election of Anders Ekblom, Niklas Prager and Bertil Samuelsson.
- Maris Hartmanis left Medivir on 1 September after approximately three years as its President & CEO.
- Niklas Prager took over as the new President & CEO on 1 September at which time he also resigned his seats on the Board of Directors and various committees within Medivir.

Decision-making at shareholders' meetings

Medivir's shareholders exercise their right of decision at the Annual General Meeting and any Extraordinary General Meetings. Class A shares carry ten votes, while class B shares carry one vote. Most of the decisions at the 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, if called, 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 the 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, which also includes information on shareholders' entitlement to raise matters for consideration at the Annual General Meeting, and on when such requests for consideration should be received by Medivir.

2014 Annual General Meeting

The 2014 Annual General Meeting was held on 8 May 2014. 155 (72) shareholders attended the Meeting, either in person or through proxies, representing approximately 54.5 per cent (40.9%) of the votes. Attorney at Law, Erik Sjöman, was elected Chairman of the Meeting. All Members of the Board elected by the Meeting were present. The Minutes of the Meeting are available on Medivir's website, www.medivir.se. The matters resolved by the Meeting included:

- The re-election of Board Members Björn C Andersson, Anders Hallberg, Anna Malm Bernsten and Birgitta Stymne Göransson. The new election of three Board Members, namely Anders Ekblom, Niklas Prager and Bertil Samuelsson. Birgitta Stymne Göransson was elected Chairman of the Board.
- SEK 20,000 shall, over and above their ordinary fee, be payable to Board Members resident outside Europe for every physical Board Meeting attended, up to an annual cap of SEK 100,000 per Member.
- The Auditor's fee for the period until the next Annual General Meeting shall, as before, be payable upon account.
- Guidelines for remuneration to senior executives.
- Procedures for the appointment of the Nomination Committee and its work.
- The Directors' fees for the period until the next Annual General Meeting were maximised at SEK 2,530,000, divided between them as follows:

Chairman	500,000
Six Members (SEK 230,000 each)	1,380,000
Audit Committee (convening: SEK 80,000); two members (SEK 65,000 each)	210,000
Remuneration Committee (convening: SEK 65,000); two members (SEK 50,000 each)	165,000
R&D Committee (convening: SEK 80,000); three members (SEK 65,000 each)	275,000
Total	**2,530,000**

- 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)]
- The adoption of a long-term incentive plan for the employees of Medivir and the authorisation of the Board to issue warrants as a hedging measure for the long-term incentive plan.

1) The authorisation was not utilised in 2014.

2015 Annual General Meeting

Medivir's 2015 Annual General Meeting will be held at 14.00 (CET) on 5 May at the "IVAs Konferenscenter" facility at Grev Turegatan 16 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. For further information, see Medivir's website, www.medivir.se

Nomination Committee

The Nomination Committee procedure adopted at the 2014 Annual General Meeting means that the Chairman of the Board shall contact the three biggest shareholders in terms of the 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. If 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 the work of the Committee.

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 may 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.

Members of the Nomination Committee

The current Nomination Committee comprises the Chairman of the Board and three members appointed by the three shareholders with the largest shareholdings on 30 September 2014:

Nomination Committee ahead of the 2015 AGM

Name	Representing	Proportion of votes, %, on 30 Sept. 2014
Bo Öberg	Class A shareholders	18.7
Maria Rengefors	Nordea Fonder	4.56
Anders Algotsson	AFA Försäkring	4.4
Birgitta Stymne Göransson	Medivir's Board of Directors	0
Total		**27.66**

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 candidate auditors in consultation 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 ahead of the 2015 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 as 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 has held five meetings, at which all members were present, by 17 February 2015. The Nomination Committee's full proposal for the 2015 Annual General Meeting was published in conjunction with the issue of the notice convening the Annual General Meeting.

Attendance by Members of the Board at meetings held in 2014[1)]

Members elected by the AGM	Elected	Born	Board Meetings, Attendance/total number of Board Meetings	Remuneration Committee, Attendance/ total number of Committee meetings	Audit Committee, Attendance/total number of Committee meetings	R&D Committee, Attendance/total number of Committee meetings
Björn C Andersson	2008	1946	14 of 14		7 of 7	
Rolf Classon[2)]	2012	1945	3 of 4		2 of 3	
Anders Ekblom[3)]	2014	1954	10 of 10	2 of 2		2 of 2
Anders Hallberg[4)]	2012	1945	14 of 14			2 of 2
Ingemar Kihlström[2)]	2008	1952	3 of 4	3 of 3		
Anna Malm Bernsten	2006	1961	12 of 14	5 of 5	7 of 7	
Göran Pettersson[2)]	2008	1945	4 of 4			
Niklas Prager[3,5)]	2014	1970	4 of 6		1 of 1	
Bertil Samuelsson[3,4)]	2014	1950	10 of 10			2 of 2
Birgitta Stymne Göransson, Chairman	2013	1957	14 of 14		3 of 3	2 of 2
Bo Öberg[2,6)]	2013	1939	4 of 4			
Members elected by the local trade union organisations						
Susana Ayesa Alvarez	2013	1970	14 of 14			
Christian Sund	2013	1958	14 of 14			
Stina Lundgren, Deputy Member	2013	1979	10 of 14			
Veronica Werlinder, Deputy Member	2013	1966	13 of 14			

1) Members prevented from attending a Board Meeting have been afforded the opportunity to submit their views to the Chairman before the Meeting.
2) Resigned at the 2014 AGM.
3) Appointed at the 2014 AGM.
4) Independent in relation to the company's major shareholders but not independent in relation to the company and the company management.
5) Left the Board on 31 August 2014.
6) Not independent in relation either to the company and the company management or to the company's major shareholders.

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, amongst 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 the optimisation of capital structure, investment, acquisitions and divestments.
- Following up and monitoring of 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 were 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 Member of the Board. 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 of a company in which he or she is active. The Board of Directors elected by the shareholders at the 2014 Annual General Meeting for the period until the end of the 2015 Annual General Meeting comprised seven Members of the Board and no Deputy Members, including the Chairman of the Board. The Board also includes two Members elected by the local trade union organisations, each with their own Deputy Members.

Neither the CEO, the CFO or the Secretary to the Board are Members of the Board, but do, however, attend the Board Meetings with the exception of agenda items where a conflict of interest may arise or when it is otherwise inappropriate for them to be present, e.g. in conjunction with the appraisal of the work of the CEO.

See pages 48-49 for a presentation 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 the rules of the Nasdaq Stockholm Stock Exchange.

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 and Bertil Samuelsson have been adjudged to be independent in relation to the company's major shareholders, but not independent in relation to the company and the company's management. Anders Hallberg and Bertil Samuelsson are 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 has developed, 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 division of labour of the Board and its Committees, including the role of the Chairman, the decision-making process within the Board, the Board's schedule of meetings, notices convening Board meetings, agendas and minutes. The Rules of Procedure also regulate the ways 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, the requirement for internal control instruments, and other matters requiring a decision by the Board or which must be reported to the Board.

The Rules of Procedure require an inaugural Board Meeting 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 company 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 2014

The Board of Directors has held 14 minuted Meetings in 2014. The attendance of the individual Members of the Board at these Meetings is shown in the table on page 42. 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 relevant Board Meeting. An ordinary Board Meeting usually lasts for half a day in order to ensure sufficient time for presentations and discussions. An appointed Attorney-at-Law has acted as Secretary at the majority of 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, optimisation of the Group's capital structure.
- Development of the project portfolio.
- Partnerships and collaborations.
- Strategic orientation.
- Recruitment of a new CEO.

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 2014 Remuneration Committee comprised Anna Malm Bernsten (Chairman), Anders Ekblom (September-December), Ingemar Kihlström (January-May) and Niklas Prager (May-August). The Committee advises the Board of Directors and has no independent right of decision.

The primary duty of the Remuneration Committee is to represent the Board of Directors on issues relating to remuneration and employment terms for the CEO and senior executives who report directly to the CEO, based on 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 five minuted Meetings in 2014. The attendance of individual Board Members is shown in the table on page 42. 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 2014 Audit Committee has comprised Björn C Andersson (Chairman), Anna Malm Bernsten, Rolf Classon (January-May), Niklas Prager (May-August) and Birgitta Stymne Göransson (January-May). 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 seven minuted meetings in 2014. The attendance of the respective Board Members is shown in the table on page 42. 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 2014 R&D Committee has comprised Anders Hallberg (Chairman), Anders Ekblom (May-December), Bertil Samuelsson (May-December), Birgitta Stymne Göransson (May-December) and Bo Öberg (January-May). The Committee's meetings were also attended by Board Member, Susana Ayesa Alvarez. The Committee is an advisory one and has no independent right of decision.

The primary duties of the R&D Committee are to review and evaluate the R&D 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 2014. 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 42. The Committee has largely focused on 6-monthly reviews and evaluations of the R&D portfolio.

The 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. In 2014, the Group management, including the CEO, comprised eight people (two women and six men). The Group management 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 47.

The role of the Group management is to:

- Set goals, allocate resources, and follow up on the operating units' results.
- Produce information and documentation as support data that enables the Board to take well-founded decisions.
- Goals are updated for the year ahead on the basis of the annual strategic work. Goals are 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.

Election of Auditors

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

Öhrlings PricewaterhouseCoopers AB (PwC) was appointed as the company's external auditors for a one-year period up to and including the 2015 Annual General Meeting. Authorised Public Accountant, Hans Jönsson, is the Auditor-in-Charge for Medivir.

- The auditors work to an audit plan and 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.
- The auditors review one interim report 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 Auditor-in-Change attends the Annual General Meeting at which he or she presents details of the audit work and observations made.

When additional services are requested from PwC over and above the audit engagement, such as consultancy on tax issues and on a range of different accounting and financial issues, such services are provided only to the extent that is compatible with the provisions of the Swedish Audit Act and the professional ethics guidelines issued by FAR (Sweden's professional institute for authorised public accountants) with regard to the impartiality and independence of auditors.

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 2014 Annual General Meeting. These guidelines are essentially 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, share incentive plans 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. Performance-related pay paid in cash 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 on page 68.

Medivir has complied, in 2014, with the remuneration principles for senior executives approved by the Annual General Meeting and the principles proposed for submission to the 2015 Annual General Meeting are the same as those previously applied. See page 33 for the Board's full proposal to the 2015 Annual General Meeting.

Remuneration to senior executives (SEK k)[1,2,3]

Function	Year	Fixed salary	Performance-related pay	Benefits	Severance pay	Total	Pension	Total, incl. pension
CEO, Niklas Prager [1]	**2014**	**1,279**	**580**	**3**	–	**1,862**	**298**	**2,160**
CEO, Maris Hartmanis [2]	**2014**	**2,496**	–	**88**	**4,646**	**7,230**	**826**	**8,056**
CEO, Maris Hartmanis	2013	3,462	1,321	98	–	4,881	1,218	6,099
Other senior executives [3]	**2014**	**10,811**	**2,394**	**506**	**5,459**	**19,170**	**2,193**	**21,363**
	2013	9,133	1,982	433	1,104	12,653	2,053	14,706
Total	**2014**	**14,586**	**2,974**	**597**	**10,105**	**28,262**	**3,317**	**31,579**
	2013	12,595	3,303	531	1,104	17,534	3,271	20,805

1) Niklas Prager took over as President & CEO on 1 September 2014, succeeding Maris Hartmanis.
2) Severance pay refers to remuneration in conjunction with contractual cessation of employment, see Note 5.
3) At the beginning of 2013, the management group, including the CEO, comprised 7 people. At the end of the year, it comprised 8 people. Restructuring decisions were taken by the Board of Directors in 2014 and the number of other senior executives will consequently be reduced in 2015 from 7 to 5.

Directors' fees (SEK k) [1, 8]

		Director's fees		Audit Committee		Remuneration Committee		R&D Committee		Total	
Name	**Function**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Björn C Andersson	Member	230	210	80	80	–	–	–	–	310	290
Rolf Classon	Member	–	210	–	65	–	–	–	–	–	275
Anders Hallberg [3]	Member	230	210	–	–	–	–	80	65	310	275
Ingemar Kihlström	Member	–	210	–	–	–	50	–	80	–	340
Anna Malm Bernsten [2]	Member	230	210	65	65	65	65	–	–	360	340
Göran Pettersson	Chairman, 2013	–	470	–	–	–	–	–	65	–	535
Niklas Prager [5]	Member	77	–	22	–	17	–	–	–	115	–
Birgitta Stymne Göransson [6]	Chairman, 2014 Member, 2013	500	210	–	65	–	–	65	–	565	275
Bo Öberg [4]	Member	–	175	–	–	–	–	–	65	–	240
Anders Ekblom [7]	Member	230	–	–	–	33	–	65	–	328	–
Bertil Samuelsson [1]	Member	115	–	–	–	–	–	32	–	147	–
Total		**1,612**	**1,905**	**167**	**275**	**115**	**115**	**242**	**275**	**2,136**	**2,570**

1) Reduction in Directors' fees and Committee Members' fees by 6/12 parts (SEK 147,500) due to employment with a salary of SEK 309,000 for the period from May to October 2014. Pursuant to an earlier agreement, royalties have, in addition to Directors' fees, been paid in the sum of SEK 24,158,000 in 2014 (–). Other remuneration paid in accordance with earlier agreements comprises travel expenses totalling SEK 60,000.
2) Consultancy fees, approved by the Board of Directors, have, in addition to Directors' fees, been paid to Bernsten Konsult AB in the sum of SEK 41,000 (SEK 72,000).
3) Pursuant to an earlier agreement, royalties have, in addition to Directors' fees, been paid to Hallbechem AB in the sum of SEK 11,057,000 (SEK 1,903,000) in 2014.
4) Reduction in the Directors' fees by 2/12 parts due to employment with a salary of SEK 108,000 for the period from May to June 2013.
5) Reduction in Directors' fees and Committee Members' fees by 8/12 parts (SEK 230,000) in that the appointment as President & CEO dated from 1 September 2014. Other remuneration paid pursuant to earlier agreements (May-August) comprises salaries and company car benefits comprising SEK 194,500 and consultancy fees comprising SEK 60,000 (–), as approved by the Board of Directors, paid to Altoni AB.
6) Consultancy fees (jan-apr), approved by the Board of Directors, have, in addition to Directors' fees, been paid in the sum of SEK 150,000 (–).
7) Reduction in Committee Members' fees by 4/12 parts as Anders Ekblom replaced Niklas Prager on the Remuneration Committee as of 1 September 2014.
8) The table refers to Directors' fees during the period from May 2014 to April 2015 (2014) and from May 2013 to April 2014 (2013) and are shown in SEK k. Fees to the Members of the Board elected by the Annual General Meeting are proposed by the Nomination Committee and approved by the Annual General Meeting. Directors' fees for 2013 and 2014 are shown in the table above, where travel expenses are excluded. Differences exist between the maximum fees approved by the Annual General Meeting and the actual fees, due to the reductions effected for certain Members (see notes 1-7 above).

Long-term incentive plans

The purpose of long-term incentive plans is to generate the conditions for retaining and recruiting competent personnel to the Group and promote employee shareholding in the company, so as to encourage continued company loyalty by combining the interests of the shareholders and the employees. The 2013 and 2014 Annual General Meetings accordingly each approved a three-year share saving plan, LTI 2013 and LTI 2014. Medivir believes that the plans will have a positive effect on the Group's further development and that LTI 2013 and LTI 2014 are, therefore, to the benefit of both the shareholders and the company. The Board intends to propose to the 2015 Annual General Meeting that it approves a third year plan which, in every significant respect, has the same structure as that of the previous two plans.

The Board intends to conduct an evaluation of the plans that focuses on the above-mentioned objectives and which systematically analyses the results achieved. The goal of the evaluation will be to determine whether the plans have fulfilled their stated objectives, and will also include a review of the results and costs of the plans.

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 2014 and 2013 are shown in the table on page 45.

Remuneration to the Board of Directors

The Director's fee payable to the Members of the Board of Medivir is determined by the Annual General Meeting in line with proposals by the Nomination Committee. Fees and remunerations in 2014 and 2013 are shown in the table above.

Auditors' fees

Fees for auditing Medivir's accounts are determined by the Annual General Meeting in line with proposals by the Nomination Committee. Auditors' fees in 2014 and 2013 are shown in the table below.

Auditors' fees (SEK k)

	2014	**2013**
PwC		
Audit engagement	1,294	1,047
Auditing services over and above the audit engagement	454	259
Tax advice	457	845
Other services	516	912
Subtotal	**2,721**	**3,063**
EY		
Audit engagement	33	36
Auditing services over and above the audit engagement	–	–
Other services	100	–
Subtotal	**133**	**36**
Total	**2,854**	**3,099**

Management 2014


Richard Bethell


Charlotte Edenius


Christina Kassberg


Henrik Krook


Rein Piir


Niklas Prager


Paul Wallace


Håkan Wallin

Richard Bethell
Born 1963. Doctor of Philosophy (D. Phil.) in Chemistry, Oxford University.
EVP Discovery Research. Employed since 2013. Formerly Vice President, Biological Sciences at Boehringer Ingelheim (Canada), Vice President, Therapeutic Research at Shire and a variety of different positions at Pfizer and GlaxoSmith-Kline in the field of pharmaceutical R&D.
Shares in Medivir: 0

Charlotte Edenius
Born 1958. MD and Ph.D., Karolinska Institute. EVP Development.
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 operations.
Shares in Medivir: 11,118 class B shares.

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 Öhrling PriceWaterhouseCoopers.
Shares in Medivir, including holdings by family members: 1,809 class B shares.

Henrik Krook
Born 1973. Executive MBA, Stockholm School of Economics. Graduate Pharmacist and Ph.D. in Immunology from Uppsala University. EVP Commercial. Employed since 2013. Formerly Country Manager/Commercial Director for Novartis Norway and over ten years' experience of various senior executive positions in clinical studies, sales and marketing at Roche and Novartis, in addition to the position of Research Project Manager at Uppsala University Hospital.
Shares in Medivir: 1,757 class B shares.

Rein Piir
Born 1958. B.Sc. Business Economics and Management.
EVP Corporate Affairs & IR. Employed since 2000. Previous senior executive positions include Health Care and Research at D. Carnegie AB, and Analysis & Strategy at SPP.
Shares in Medivir: 1,396 class B shares.

Niklas Prager
Born 1970. Master of Business Administration from the Stockholm School of Economics and the University of Michigan. President and CEO at Medivir and CEO of BioPhausia. Employed since 2014. Niklas has many years' experience of senior executive positions in trade and industry. He has worked, both in Sweden and the USA, for Merck & Co. Inc. and has been the CEO of Pfizer AB, Qbtech AB and Envirotainer AB.
Shares in Medivir: 2,085 class B shares.

Paul Wallace
Born 1962. Ph.D. in Biochemistry, University of Cambridge.
EVP Business Development.
Employed since 2000. Formerly senior positions in business development at Peptide Therapeutics plc. and Director of Research at Eclagen, both in the UK.
Shares in Medivir: 7,690 class B shares.

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: 4,484 class B shares.

The information above describes the circumstances on 31 December 2014.

Management Group as of March 1, 2015
Richard Bethell, Ola Burmark, Charlotte Edenius, Henrik Krook, Christine Lind and Niklas Prager.

Ola Burmark
Born 1969. B. Sc. in Finance and Business Administration. Chief Financial Officer. Employed since 2015. Previous positions include CFO at OneMed AB and Aditro Holding AB, SVP Finance and M&A at Thule Group AB and Cell Network AB, Cash Manager at SCA Finans, and auditor at Ernst & Young.
Shares in Medivir: 0

Christine Lind
Born 1974. B. Sc. Finance and Information Systems from New York University and MBA from Columbia Business School. EVP Strategic Business Development. Employed since 2015. Formerly Vice President, Business Development at LifeCell Corporation and 12 years of investment banking experience at Merrill Lynch & Co. and Gerard Klauer Mattison & Co.
Shares in Medivir: 0


Ola Burmark


Christine Lind

The Board of Directors

Bertil Samuelsson Birgitta Stymne Göransson

Anna Malm Bernsten Anders Hallberg

Bertil Samuelsson

Born 1950. Member of the Board since 2014, and also a member of Medivir's R&D Committee. Ph.D., Associate Professor, and, since 1985, an untenured Professor at Stockholm University. Bertil held the position of Chief Scientific Officer of Research & Development at Medivir between 1999 and 2010. He has since worked as Chief Scientific Advisor for Medivir. He was formerly Head of the Swedish Academy of Pharmaceutical Sciences at AstraZeneca. Bertil has held seats on the Boards of ACTAR, NovaSaid and Toscana Life Sciences Foundation and the Swedish Pharmaceutical Society, and has acted as an advisor to AstraZeneca R&D Bangalore. He has published over 170 peer-reviewed articles, including a large number in the area of infectious diseases, and is listed as a co-inventor on approximately 40 patent applications, the majority of which have been granted.
Shares in Medivir: 2,703 class B shares.

Birgitta Stymne Göransson

Chairman of the Board. Born 1957. Member of the Board since 2013 and a member of Medivir's R&D Committee. Birgitta holds a Master of Business Administration degree from Harvard Business School and a B.Sc. in Engineering, specialising in biotechnology, from the Royal Institute of Technology in Stockholm. Birgitta has extensive experience of working as a CEO and as a Member of the Boards of both listed and unlisted companies. Her previous positions include CEO of Memira until 2013, prior to which she was the CEO of Semantix, and Deputy CEO of Telefosgruppen. Birgitta has also worked for Gambro, as a strategic consultant at McKinsey, and as the CFO of Åhlens. Birgitta is currently the Chairman of the Board of The Fryshuset Foundation and a Member of the Boards of Elekta AB, HL Display AB, Sophiahemmet, Rhenman & Partners Asset Management AB, the Stockholm Chamber of Commerce and Advania Hf (Iceland).
Shares in Medivir: 2,142 class B shares.

Anna Malm Bernsten

Born 1961. Member of the Board since 2006, and also a member of Medivir's Audit Committee and Chairman of the Remuneration Committee. Anna holds a B.Sc. in Engineering, specialising in chemical engineering, organic chemistry and analytical chemistry. She currently runs her own consultancy firm, operating in the fields of leadership, strategy and business development. Anna has extensive experience as a Member of the Boards of both listed and unlisted companies, and operational experience from senior executive positions with Pharmacia, ASSA ABLOY, GE Healtcare Life Sciences, Medivir and Baxter Medical, and as President & CEO of Carmeda AB. Anna is currently Chairman of the Boards of CEBA and Oatly AB and a Member of the Boards of Cellavision AB, Neurovive AB and Birdstep ASA. She was also formerly a Member of the Board of Biophausia AB, which was acquired by Medivir.
Shares in Medivir: 1,634 class B shares.

Anders Hallberg

Born 1945. Member of the Board since 2012 and Chairman of Medivir's R&D Committee. 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 270 scientific articles, a large number of which are on the subject of pharmaceuticals for the treatment of infectious diseases and is the co-inventor of a large number of granted patents. Anders Hallberg is a member of the Royal Swedish Academy of Sciences, and the Royal Swedish Academy of Engineering Sciences. He has also been awarded honorary doctorates in Sweden and other countries.
Shares in Medivir, including holdings by family members: 1,600 class B shares.

Anders Ekblom Björn C Andersson

Anders Ekblom

Born 1954. Member of the Board since 2014, and also a member of Medivir's Remuneration Committee and R&D Committee. Physician (specialising in anaesthesia and intensive care), dentist, Doctor of Medicine and Associate Professor in physiology at the Karolinska Institute. Anders has previously worked at AstraZeneca for 19 years in a number of different positions, including Executive Vice President Global Medicines Development, and CEO of AstraZeneca AB in Sweden. He has extensive experience of pharmaceutical development within a number of therapeutic areas such as inflammation, respiratory diseases, cardiovascular diseases, oncology, the nervous system, and infectious diseases. He is currently Chairman of the Board of the Karolinska University Hospital, Member of the Boards of SwedenBio, AnaMar AB, Infant Bacterial Therapeutics AB, RSPR Pharma AB, Viscogel AB and is a senior advisor for Phase4 Partners, UK.
Shares in Medivir: 857 class B shares.

Björn C Andersson

Born 1946. Member of the Board since 2008 and Chairman of Medivir's Audit Committee. Björn has a Licentiate in Economics from the Stockholm School of Economics and a Master of Science from Carnegie Mellon University. He was previously employed by Handelsbanken, where he was the Deputy CEO and the Director of Handelsbanken Markets and, subsequently, Director of Handelsbanken Asset Management. Björn is a Member of the Boards of Bliwa Livförsäkring and SPP Fonder AB.
Shares in Medivir: 686 class B shares.

Members elected by the local trade unions

Susana Ayesa Alvarez Christian Sund

Susana Ayesa Alvarez

Born1970. Ph.D. Organic Chemistry. Employed since 2000 and Member of the Board, appointed by the Unionen trade union, since 2013.
Participated in the work of the R&D Committee in 2014. Previously employed as a chemist at Pharmacia & Upjohn (1993-2000). Susana has published scientific articles and is the co-inventor of 14 patent applications, 8 of which have been granted, and is also a Member of the Board of ACES-FSFS (the Society of Spanish Researchers in Sweden non-profit organisation).
Shares in Medivir, including holdings by family members: 1,775 class B shares.

Christian Sund

Born 1958. Ph.D. Bioorganic Chemistry. Employed since 1997 and Member of the Board, appointed by the Akademikerklubben trade union, since 2013. Christian has previously been employed as a chemist at Wallac OY (Perkin Elmer) in Turku, Finland (1984-1988) and as a research assistant at Uppsala
University (1993-1997). He is the author/co-author of 36 scientific articles and the co-inventor of 15 patent applications, just over half of which have been granted.
Shares in Medivir: 58 class B shares.

Deputy Members of the Board

Stina Lundgren

Born 1979. B.Sc. in Engineering and Ph.D., specialising in chemistry from the Royal Institute of Technology.
Employed since 2008 and Deputy Member of the Board, appointed by the Unionen trade union, since 2013.
Shares in Medivir: 378 class B shares.

Veronica Werlinder

Born 1966. Ph. Lic., Senior Research Scientist, DMPK & Bioanalysis.
Employed since 2008 and Deputy Member of the Board, appointed by the Akademikerklubben trade union, since 2013.
Shares in Medivir: 287 class B shares.

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 following presentation comprises the Board of Directors' report on Internal Controls in respect of the financial reporting. It has been reviewed by the company's auditors. The purpose of the internal control of the financial reporting is to provide reasonable assurance that the external financial reporting in the form of interim reports, annual accounts and full-year financial statements is reliable and has been prepared in accordance with legislative requirements, applicable accounting standards, and other requirements of listed companies. 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. According to the COSO framework, the internal control shall include, amongst 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 on the basis of which they operate. Medivir's control environment is based on:

- Steering documents, such as the Board's Rules of Procedure and the CEO's Instructions, quality systems, policies and guidelines.
- Medivir's Core values and the Code of Conduct.
- 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, the budget process, and performance reviews.

Medivir's financial reporting complies with the laws and regulations applicable to companies listed on the main market of the Nasdaq Stockholm Stock 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. Operational and 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. Medivir continuously updates its risk analysis with regard to the assessment of risks, which can result in errors in the financial reporting. The risk work is reported annually to the management group, the Audit Committee and the Board of Directors. Medivir is exposed to the following main risk categories:

- External risks – such as regulatory approval, competition, price changes, external seasonal variations, 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.

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 accounting 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. The risk of material misstatements in financial reporting may arise in conjunction with the 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. For a more detailed presentation of risk exposure and the way in which Medivir handles it, see pages 35-36.

Control activities

The primary purpose of the control activities is to prevent, identify and rectify errors in the financial reporting. Routines and activities during the full-year financial statement and

reporting process, and which are critical to the reliability of the financial reporting, have been structured to handle and action significant risks. 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 time, and reports within the company, thereby minimising 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, amongst 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 financial reports on the Group's position and profit performance on a monthly basis. Meetings are held within the company at management group level, and then at the level deemed appropriate by the respective units. There are processes during which all relevant employees certify in writing their knowledge of and compliance with significant internal steering documents. Important communications channels within the company include the intranet, where quality systems, policies, guidelines and information are published, and regular information meetings for all members of staff.

Monitoring

The Board of Directors reviews all of the Group's quarterly reports, year-end financial statements, and annual reports before publication. The Board receives monthly financial reports on the Group's position and profit performance, and the Group's financial position 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 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 Board with an Audit Committee, 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.

Income Statements

SEK k	Note	The Group 2014	The Group 2013	Parent Company 2014	Parent Company 2013
Net sales	1	1,766,989	446,146	1,646,407	327,271
Cost of goods sold		–174,018	–71,771	–128,484	–13,590
Gross profit		**1,592,971**	**374,375**	**1,517,924**	**313,681**
Selling expenses		–103,578	–70,486	–62,208	–21,618
Administrative expenses		–62,518	–51,867	–54,313	–61,320
Research and development costs		–245,754	–229,430	–227,708	–228,882
Other operating income		15,223	6,347	14,286	27,864
Other operating expenses		–7,612	–3,775	–6,864	–11,193
Operating profit/loss	2,3,4,5,6	**1,188,731**	**25,164**	**1,181,116**	**18,531**
Profit/loss from participations in Group companies	7	–	405	–51,371	76,043
Profit/loss from other securities and receivables	8,10	–	–	–	–
Other interest income and similar profit/loss items	8,9	6,558	4,199	4,057	4,304
Interest expenses and similar profit/loss items	8,10	–2,588	–2,134	–1,543	–80
Profit/loss after financial items		**1,192,701**	**27,633**	**1,132,259**	**98,799**
Appropriations		–	–	–181,000	–
Tax	11	–59,966	–11,619	–8,820	–
Net profit/loss for the year from continuing operations		**1,132,735**	**16,014**	**–**	**–**
Net profit/loss for the year from discontinued operations	24	–	**–37,350**	**–**	**–**
Net profit/loss for the year		**1,132,735**	**–21,336**	**942,439**	**98,799**
Net profit/loss attributable to:					
Parent company shareholders		1,132,735	–21,336	942,439	98,799
Basic and diluted earnings per share	12				
Basic continuing operations, SEK		36.24	0.51	–	–
Diluted continuing operations, SEK		35.90	0.51	–	–
Discontinued operations, SEK		–	–1.19	–	–
Total basic operations, SEK		36.24	–1.19	–	–
Total diluted operations, SEK		35.90	–0.68	–	–
Average number of shares, ‘000		31,260	31,260	–	–
Number of shares at year-end, ‘000		31,260	31,260	–	–
Proposed dividend per share, SEK		–	–	–	–

– = not applicable

Statement of comprehensive income

SEK k	The Group 2014	The Group 2013	Parent Company 2014	Parent Company 2013
Net profit/loss for the year	**1,132,735**	**–21,336**	**942,439**	**98,799**
Other comprehensive income				
Items that may be recycled to the profit/loss				
Exchange rate differences	–5,412	–2,165	–	–
Other comprehensive income for the period, net after tax	**1,127,323**	**–23,501**	**942,439**	**98,799**
Total comprehensive income for the period	**1,127,323**	**–23,501**	**942,439**	**98,799**
Total comprehensive income attributable to:				
Continuing operations	**1,127,323**	**14,949**	**–**	**–**
Discontinued operations	–	**–38,450**	**–**	**–**

Balance Sheets

SEK k	Note	The Group 2014 31 Dec.	The Group 2013 31 Dec.	Parent Company 2014 31 Dec.	Parent Company 2013 31 Dec.
ASSETS					
Fixed assets					
Intangible fixed assets					
Capitalised expenditure for research and development work		9,192	2,739	9,192	2,739
Trademarks and brands		–	–	–	–
Product rights		256,106	278,516	3,514	3,798
Goodwill		150,420	150,420	–	–
Other intangible assets		1,859	404	1,859	404
Total intangible fixed assets	13	**417,577**	**432,080**	**14,564**	**6,942**
Tangible fixed assets					
Buildings and land		1,087	1,287	1,087	1,287
Equipment, tools, fixtures and fittings		25,788	26,671	25,468	26,006
Total tangible fixed assets	14	**26,875**	**27,958**	**26,555**	**27,292**
Financial fixed assets					
Participations in Group companies	15	–	–	604,212	604,212
Financial assets held for sale	8,16	–	–	–	–
Deferred tax receivable	11	–	43,187	–	–
Other long-term receivables	8,17	2,500	10,001	–	–
Total financial fixed assets		**2,500**	**53,188**	**604,212**	**604,212**
Total fixed assets		**446,952**	**513,226**	**645,331**	**638,447**
Current assets					
Inventories	18	**23,609**	**23,982**	**3,608**	–
Current receivables					
Accounts receivable	8	70,159	21,474	47,854	13,241
Receivables from Group companies		–	–	7,284	44,472
Tax receivables		5,694	3,084	5,615	2,311
Other receivables	8	9,478	9,338	1,707	4,018
Prepaid expenses and accrued income	19	232,378	22,146	229,732	19,995
Total current receivables		**317,708**	**56,042**	**292,193**	**84,037**
Short-term investments					
Other short-term investments	8,20	1,309,583	370,588	1,309,583	370,588
Cash and bank balances	8,20	86,038	31,632	43,329	9,805
Total short-term investments		**1,395,621**	**402,220**	**1,352,911**	**380,393**
Total current assets		**1,736,938**	**482,244**	**1,648,713**	**464,430**
TOTAL ASSETS		**2,183,890**	**995,470**	**2,294,044**	**1,102,877**

– = not applicable

Balance Sheets

SEK k	Note	The Group 2014 31 Dec.	The Group 2013 31 Dec.	Parent Company 2014 31 Dec.	Parent Company 2013 31 Dec.
EQUITY AND LIABILITIES					
Equity, the Group					
Share capital		156,300	156,300	–	–
Other capital contributed		1,761,747	1,759,059	–	–
Exchange rate difference		–4,042	1,363	–	–
Accumulated loss		68,599	–1,064,135	–	–
Total equity, the Group		**1,982,604**	**852,587**	**–**	**–**
Equity, Parent Company					
Restricted equity					
Share capital		–	–	156,300	156,300
Statutory reserve		–	–	827,971	827,971
Total restricted equity		**–**	**–**	**984,271**	**984,271**
Non-restricted equity					
Share premium reserve		–	–	1,104,654	1,101,965
Accumulated loss		–	–	–1,102,805	–1,201,603
Net profit/loss for the year		–	–	942,439	98,799
Total non-restricted equity		**–**	**–**	**944,287**	**–839**
Total equity, Parent Company		**–**	**–**	**1,928,558**	**983,432**
Provisions					
Deferred tax liability	11	–	–	468	–
Total provisions				**468**	
Long-term liabilities					
Liabilities to credit institutions	8,21	–	40,000	–	40,000
Other liabilities		–	–	–	–
Total long-term liabilities		–	**40,000**	–	**40,000**
Current liabilities					
Liabilities to credit institutions	8, 21	40,000	–	40,000	–
Accounts payable	8	40,755	28,676	29,891	18,621
Liabilities to Group companies		–	–	197,810	61
Other liabilities	8,11	36,192	12,711	22,747	10,700
Accrued expenses and deferred income	22	84,339	61,497	74,570	50,062
Total current liabilities		**201,286**	**102,883**	**365,018**	**79,445**
Total equity and liabilities		**2,183,890**	**995,470**	**2,294,044**	**1,102,877**
Pledged assets	23	54,250	54,250	–	–
Contingent liabilities	6	–	–	–	–

– = not applicable

Change in equity

The Group, SEK k	Share capital	Other capital contributed	Exchange rate difference	Accumulated profit/loss	Total equity	Number of shares
Opening balance, 1 January 2013	**156,300**	**1,757,852**	**3,534**	**–1,042,799**	**874,887**	**31,260,027[1)]**
Net profit/loss for the year	–	–	–	–21,336	–21,336	–
Exchange rate differences	–	–	–2,165	–	–2,165	–
Total comprehensive income for the period	–	–	**–2,165**	**–21,336**	**–23,501**	–
Conversion of options	–	–	–	–	–	–
Share saving plan: value of employees' service	–	1,207	–	–	1,207	–
Closing balance, 31 December 2013	**156,300**	**1,759,059**	**1,369**	**–1,064,135**	**852,593**	**31,260,027[2)]**
Opening balance, 1 January 2014	**156,300**	**1,759,059**	**1,369**	**–1,064,135**	**852,593**	**31,260,027[3)]**
Net profit/loss for the year	–	–		1,132,735	1,132,735	–
Exchange rate differences	–	–	–5,412		–5,412	–
Total comprehensive income for the period	–	–	**–5,412**	**1,132,735**	**1,127,323**	–
Conversion of options	–	–	–	–	–	–
Share saving plan: value of employees' service	–	2,688	–	–	2,688	–
Closing balance, 31 December 2014	**156,300**	**1,761,747**	**–4,043**	**68,600**	**1,982,604**	**31,260,027[4)]**

1) Opening number of shares in 2013: 660,000 class A shares and 30,600,027 class B shares, nominal value: SEK 5
2) Closing number of shares in 2013: 660,000 class A shares and 30,600,027 class B shares, nominal value: SEK 5
3) Opening number of shares in 2014: 660,000 class A shares and 30,600,027 class B shares, nominal value: SEK 5
4) Closing number of shares in 2014: 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 2014: SEK 0 per share.

Parent Company, SEK k	Share capital	Statutory reserve	Share premium reserve	Accumulated profit/loss	Net profit/loss for the year	Total equity	Number of shares
Opening balance, 1 January 2013	**156,300**	**827,971**	**1,100,758**	**–951,676**	**–249,927**	**883,426**	**31,260,027[1)]**
Appropriation of profits: Profit/loss for the previous year brought forward	–	–	–	–249,927	249,927	–	–
Net profit/loss for the year	–	–	–	–	98,799	98,799	–
Share saving plan: value of employees' service, Medivir AB	–	–	1,207	–	–	1,207	–
Closing balance, 31 December 2013	**156,300**	**827,971**	**1,101,965**	**–1,201,603**	**98,799**	**983,432**	**31,260,027[2)]**
Opening balance, 1 January 2014	**156,300**	**827,971**	**1,101,965**	**–1,201,603**	**98,799**	**983,432**	**31,260,027[3)]**
Appropriation of profits: Profit/loss for the previous year brought forward	–	–	–	98,799	–98,799	–	–
Net profit/loss for the year	–	–	–	–	942,439	942,439	–
Share saving plan: value of employees' service, Medivir AB	–	–	2,688	–	–	2,688	–
Closing balance, 31 December 2014	**156,300**	**827,971**	**1,104,653**	**–1,102,804**	**942,439**	**1,928,558**	**31,260,027[4)]**

1) Opening number of shares in 2013: 660,000 class A shares and 30,600,027 class B shares, nominal value: SEK 5
2) Closing number of shares in 2013: 660,000 class A shares and 30,600,027 class B shares, nominal value: SEK 5
3) Opening number of shares in 2014: 660,000 class A shares and 30,600,027 class B shares, nominal value: SEK 5
4) Closing number of shares in 2014: 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 2014: SEK 0 per share.

Statements of cash flow

SEK k	Note	The Group 2014	The Group 2013	Parent Company 2014	Parent Company 2013
Operating activities					
Operating profit/loss		1,188,731	34,286	1,181,116	18,531
Adjustment for non-cash items					
Depreciation and amortisation		33,193	33,477	10,738	9,863
Write-downs		–	10,045	–	10,045
Other reversals [1]		–202,872	–7,524	–205,929	4,776
		1,019,053	**70,283**	**985,925**	**43,215**
Interest received		365	3,885	489	–97
Dividends received		102	832	102	832
Interest paid		–1,555	–6,750	–1,543	–80
Tax paid		–1,472	–1,024	–2,970	–
Cash flow from operating activities before changes in working capital	24	**1,016,492**	**67,226**	**984,972**	**43,870**
Increase(–)/decrease(+) in inventories		374	–19,255	–3,608	–
Increase(–)/decrease(+) in current receivables		–33,617	–25,266	–20,074	–59,287
Increase(+)/decrease (–) in current liabilities		31,114	20,335	–3,554	2,367
Cash flow from operating activities	24	**1,014,363**	**43,041**	**957,737**	**–13,051**
Investing activities					
Purchase of intangible fixed assets		–11,248	–461	–11,248	–461
Purchase of tangible fixed assets		–8,916	–3,594	–8,916	–3,583
Sale of operations	24	2,501	115,025	–	–13
Loans to subsidiary companies		–	–	35,000	–35,000
Dividends received from subsidiary companies		–	–	–	120,000
Cash flow from investing activities	24	**–17,662**	**110,971**	**14,837**	**80,943**
Financing activities					
Loans raised		–	40,000	–	40,000
Amortisation of loans		–	–88,616	–	–
Cash flow from financing activities	24	–	**–48,616**	–	**40,000**
Cash flow for the year		**996,700**	**105,396**	**972,573**	**107,892**
Cash and cash equivalents at the beginning of the year		402,220	296,727	380,338	272,446
Cash flow for the year		996,700	105,396	972,573	107,892
Exchange rate differences, cash and cash equivalents		–3,299	97	–	–
Cash and cash equivalents at the end of the year	20	**1,395,621**	**402,220**	**1,352,911**	**380,338**

1) The item primarily comprises accrued royalty income totalling SEK –209 million and actual change in value of short-term investments totalling SEK 9 million.

– = not applicable

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 Group utilises the acquisition value for Balance Sheet item valuation, 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 2014, 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 2014

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 introduction of the standard has had no significant impact on the consolidated financial statements but could have in future if acquisitions are made.

IFRS 12 Disclosure of interests in other entities. The standard covers disclosure requirements for subsidiaries, joint arrangements, associated companies and non-consolidated structured entities. The standard has only impacted the information on holdings in the Group's various companies on a very few minor points.

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

IFRS 9 "Financial instruments" addresses the classification, valuation and reporting of financial assets and liabilities. The full version of IFRS 9 was published in July 2014 and replaces those parts of IAS 39 that address the classification and valuation of financial instruments. IFRS 9 retains but simplifies, in certain respects, the model of several bases of valuation.

There will be 3 valuation categories for financial assets, namely amortised cost, fair value through other comprehensive income and fair value through profit or loss. The way in which an instrument shall be classified depends on the company's business model and the characteristics of the instrument. Investments in equity instruments shall be reported at fair value through profit or loss but there is also an option of reporting the instrument at fair value through other comprehensive income when an entity first applies IFRS 9. No reclassification to fair value through profit or loss will then occur in conjunction with the divestment of the instrument.

IFRS 9 also introduces a new model for calculating credit loss reserves based on expected credit losses. There is no change to the classification and valuation for financial liabilities, other than when a liability is reported at fair value through profit or loss based on the fair value alternative. Changes in value attributable to changes in the entity's own credit risk shall then be reported through other comprehensive income. IFRS 9 reduces the requirements for application of hedge accounting by replacing the 80-125% criteria with a requirement for an economic relationship between the hedging instrument and the object hedged and a requirement for the hedge ratio to be the same as that used in the risk management. There are also very few changes to hedging documentation relative to that generated under IAS 39. The standard shall be applied for financial years commencing on or after 1 January 2018. Proactive application is permitted. The Group has not, as yet, evaluated the effects of applying the standard and does not intend to apply it proactively.

IFRS 15 Revenue from Contracts with Customers regulates the way in which income is recognised. The principles upon which IFRS 15 is based are intended to provide users of financial reports with more usable information on the company's income. The augmented disclosure requirements mean that information shall be provided on income class, settlement date, uncertainties associated with income recognition, and cash flow attributable to the company's contracts with customers. Income shall, under IFRS 15, be recognised when the customer obtains control over the goods or services sold and has the ability to make use of and derive benefit from the goods or services.

IFRS 15 replaces IAS 18 Revenue and IAS 11 Construction Contracts and associated SIC and IFRIC. IFRS15 comes into force on 1 January 2017. Proactive application is permitted. The Group has not, as yet, evaluated the effects of applying the standard and does not intend to apply it proactively.

None of the other IFRS or IFRIC interpretations that have not, as yet, come into force, are expected to have any significant impact on the Group and its reported values.

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 sub-mitted as payment, issued equity instruments, and liabilities arising or assumed 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 over which the Medivir AB exercises a controlling influence. The Group controls a company when it is exposed to or entitled to a variable return from its holding in the company and has the ability to affect the return through the exercise of its influence over the company. 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 includes the elimination of intragroup receivables and liabilities and of intragroup income and expenses between 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).

The 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 exchange rates applicable on the transaction date or the date when the item is translated. 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 item are translated at the closing day rate.
- Income 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

Medivir applies a classification by function approach to the presentation of the Income Statement in accordance with the description in IAS 1 Presentation of Financial Statements. Costs in the Income Statement are broken down into Cost of goods sold, Marketing & Sales, Administration, and Research and development:

Cost of goods sold

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

Marketing & Sales

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 company management, business development, IR, and the finance department.

Research and 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 on the basis of fair value in accordance with the documented risk management and investment strategy. Medivir has, therefore, chosen to report changes in the 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 are 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.

Share-related incentive plans

Share saving plan

Payroll expenses in relation to share-related incentive plans are reported on the basis of a metric of the value to the company of the services rendered by the employees during the term of the plans. This value is based on the fair value of, for example, free shares on the vesting date, valued at the share price in conjunction with every investment. The value on the vesting date is carried as an expense in the Income Statement in the same way as all other salary earned during the vesting period. Example: the value on the vesting date is SEK 90. Given the normal vesting period of three years within the Group, SEK 30 is charged to the Income Statement per year during the vesting period. The amount carried as an expense in the Income Statement is also reported (credit) in shareholders' equity every time an item is carried as an expense in the Income Statement and the cost consequently has no direct effect on the cash flow. The cost in the Income Statement corresponds to an issue of equity instruments.

When remuneration costs for shares received through performance-based share saving plans are calculated, an assessment is made on every reporting date of the probability that the performance goals will be achieved. The costs are calculated on the basis of the number of shares which it is estimated will be matched by the end of the vesting period. When share matching occurs, social security contributions shall be paid for the value of the employee's benefit. This value is, in general, based on the market value on the matching date. Provision for

these estimated social security contributions is made during the vesting period in accordance with the Swedish Financial Reporting Board's statement UFR 7.

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 testing 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 the 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 65 (Research & Development costs).

Development costs for the product are reported, as of the date when the above criteria are fulfilled, 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.

The amortisation term for capitalised development costs for Xerclear is 10 years and 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 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 "Research and development costs" section on page 65, 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 the 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 5 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 been calculated for tangible fixed assets on the basis of the original historical costs with depreciation rates based on the 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, 3 years.

Impairment

Goodwill, which has an indefinite useful life, is subject to annual impairment testing. 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 are 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 the 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 duties 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 intra-group sales. Revenues are recognised when the amounts can be measured reliably and it is likely that 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 that 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.

Royalty income

Income in the form of royalty is reported when there is a likelihood of the financial benefits associated with the transaction accruing to Medivir, and when the income can be reliably calculated. This occurs when the counterparty has reported and confirmed the product volume sold on which Medivir's royalty remuneration is based.

Out-licensing 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. The 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: i) the collaboration shall take the form of a research project with the partner, or ii) 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).

The judgement is made on the basis of the criteria laid down in IAS 18 for sales of goods (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 out-licensing 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 when 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 refers 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 milestone payments) in a collaboration agreement is recognised when it is clear, under the terms of the agreement, that Medivir shall receive the remuneration. This is then considered as a 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 the management's perspective, which means that 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 company 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. Since 1 July 2013, Medivir's business operations are organised into a single segment comprising research and development work on the Group's research portfolio and the marketing and sale of proprietary and acquired pharmaceuticals. Up until 30 June 2013, Medivir had an additional operating segment for parallel imports through the Cross Pharma subsidiary company. Cross Pharma imported original pharmaceuticals from EU countries where the price level was lower than in Sweden and sold these pharmaceutical

products to the pharmacy market at a price below that charged by the original producer. The parallel imports segment was wound up on 30 June 2013, when the Cross Pharma subsidiary company was sold to an external party and the segment is consequently reported as discontinued operations.

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. 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.

Pension liability and pension costs

Medivir'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 2014, Alecta's surplus in the form of the collective consolidation ratio was preliminarily calculated by Alecta at 143 per cent (148%). The Group is of the opinion that the 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 all 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.

Discontinued operations

Discontinued operations are reported in accordance with IFRS 5. A discontinued operation is that part of a company that has either been divested or which is classified as being held for sale and which comprises an independent, significant operating segment or a significant operation that is conducted within a geographical area, is part of a single, coordinated plan for the divestment of an independent operating segment or a significant operation that is conducted within a geographical area, or is a subsidiary company that has been acquired exclusively for the purposes of resale. The sum of the profit/loss after tax of discontinued operations is reported as a single item in the Income Statement. The disclosures are also provided for previous periods. See also Note 24.

The disclosures in the Notes comprise the Group's total operations including discontinued operations unless otherwise indicated.

Statement of Cash Flows

The Statement of Cash Flows has been reported by applying the indirect method. Reported cash flow only includes 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 the 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 and 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 the 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 the 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 unidentified 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 level 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.

Other information

The financial reports are presented in thousands of kronor (SEK k) unless otherwise indicated. Rounding off may mean that certain tables in the Notes do not add up.

Notes

Note 01 Segment reporting (SEK k)

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 was, until 30 June 2013, organised into two operating segments: pharmaceuticals and parallel imports. On 30 June, the wholly owned subsidiary company, Cross Pharma, which had conducted parallel imports of pharmaceuticals, was divested. The Group's continuing operations have subsequently comprised one segment that comprises research and development and pharmaceutical sales.

The pharmaceuticals segment includes the Group's research portfolio, the in-house developed pharmaceuticals, simeprevir and Xerclear, and the original pharmaceuticals owned by the wholly owned subsidiary company, BioPhausia. The other operating segment comprised parallel imports of pharmaceuticals, which were conducted via BioPhausia's subsidiary, Cross Pharma, until the divestment on 30 June 2013.

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

	2014				2013			
	Pharmaceuticals	Parallel imports	Elimination	Total	Pharmaceuticals	Parallel imports	Elimination	Total
Net sales	1,766,989	–	–	1,766,989	446,146	213,006	–	659,153
EBITDA	1,221,925	–	–	1,221,925	76,389	8,222	–6,825	77,786
EBITDA %	69	–	–	69	17	4	–	12
Depreciation and amortisation				–33,193				–43,500
Net financial items				3,970				–44,447
Profit/loss after net financial items				**1,192,701**				**–10,161**
–of which continuing operations				1,192,701				27,633
–of which discontinued operations				–				–37,795

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. All of the Group's fixed assets are located in Sweden.

	The Group		Parent company	
Breakdown of net sales	**2014**	**2013**	**2014**	**2013**
Out-licensing and collaboration agreements				
Non-recurrent payments	–	258,495	–	258,495
Research collaborations	–	–	33,640	44,485
Pharmaceutical sales	366,796	176,140	186,747	60
Parallel imports	–	213,006	–	–
Royalties	1,400,193	11,512	1,400,193	11,512
Other services	–	–	25,827	12,719
Total	**1,766,989**	**659,153**	**1,646,407**	**327,271**

Geographic breakdown of net sales	**2014**	**2013**	**2014**	**2013**
Sweden	279,360	368,985	120,293	911
Nordic region, other	87,436	16,168	66,453	–
Europe, other	–	4,971	–	–
USA	1,400,193	269,029	1,400,193	269,029
Rest of the world	–	–	–	–
Total	**1,766,989**	**659,153**	**1,586,940**	**269,940**

	The Group		Parent company	
External customers who account for more than 10% of net sales (SEK k)	**2014**	**2013**	**2014**	**2013**
Customer 1	1,400,193	268,996	1,400,193	268,996
Customer 2	279,466	159,585	120,293	–
Customer 3	–	91,578	–	–

Note 02 Costs by type of cost (SEK k)

	The Group		Parent company	
	2014	**2013**	**2014**	**2013**
Cost of raw materials and consumables [1]	168,655	251,991	97,485	825
of which direct costs for purchases of goods	57,994	232,751	2,484	–
Other external costs	205,396	182,722	185,867	169,221
Personnel costs	178,623	148,728	178,623	141,068
Amortisation of intangible fixed assets [2]	23,039	33,648	778	10,045
Depreciation of tangible fixed assets [3]	10,154	9,853	9,960	9,863
Total	**585,868**	**626,942**	**472,713**	**331,021**

1) Of which royalty costs totalling SEK 87.2 million (SEK 0.6 m)
2) The Group's amortisations break down by function as follows:
Administrative expenses: SEK 0.3 million (SEK 0.1 m)
Selling expenses: SEK 22.8 million (SEK 23.5 m)
Research and development costs: SEK 0.0 million (SEK 10.0 m)
3) The Group's depreciations break down by function as follows:
Administrative expenses: SEK 3.2 million (SEK 3.4 m)
Selling expenses: SEK 0.1 million (SEK 0.1 m)
Research and development costs: SEK 6.9 million (SEK 6.4 m)

Note 03 Intra-Group transactions

The Parent Company
Intra-Group sales totalled SEK 59,467 thousand (SEK 85,276 k). Intra-Group purchases totalled SEK 0 thousand (SEK 0 k).

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

	The Group		Parent company	
	2014	**2013**	**2014**	**2013**
PwC				
Audit engagement	1,294	1,047	925	795
Auditing activities over and above audit engagement	454	259	454	259
Tax advice	457	845	356	645
Other services	516	912	550	912
Total, PwC	**2,721**	**3,063**	**2,285**	**2,611**
EY				
Audit engagement	33	36	–	–
Other services	100	–	100	–
Total, EY	**133**	**36**	**100**	–
Total	**2,854**	**3,099**	**2,385**	**2,611**

1) The Group's auditors are Öhrlings PricewaterhouseCoopers AB.

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 2014		The Group 2013		Parent company 2014		Parent company 2013	
Average number of employees	**Women**	**Men**	**Women**	**Men**	**Women**	**Men**	**Women**	**Men**
Sweden [1]	73	56	70	51	73	56	68	49
UK	3	2	3	2	3	2		
Denmark	3	1			3	1		
Norway	1	1			1	1		
Finland	1				1			
Poland			20	7				
Total	**81**	**60**	**93**	**60**	**81**	**60**	**68**	**49**

1) UK-based employees were reported under Sweden in 2013.

	The Group		Parent company	
Salaries, remuneration, social security contributions, and pension costs SEK k [1, 3]	**2014**	**2013**	**2014**	**2013**
Salaries and remuneration				
Maris Hartmanis (CEO until 15 September 2014) [3]	7,230	4,782	7,230	4,782
Niklas Prager (CEO from 15 September 2014)	1,862	–	1,862	–
Anna Malm Bernsten (Member of the Board)	353	340	353	340
Björn C Andersson (Member of the Board)	303	290	303	290
Anders Ekblom (Member of the Board from 8 May 2014)	153	–	153	–
Ingemar Kihlström (Member of the Board until 8 May 2014)	200	340	200	340
Rolf Classon (Member of the Board until 8 May 2014)	135	275	135	275
Anders Hallberg (Member of the Board)	288	275	288	275
Göran Pettersson (Chairman of the Board until 8 May 2014)	222	535	222	535
Niklas Prager (Member of the Board from 15 May 2014 until 1 September 2014)	115	–	115	–
Bertil Samuelsson (Member of the Board from 8 May 2014)	77	–	77	–
Birgitta Stymne Göransson (Chairman of the Board from 8 May 2014, Member of the Board from 6 May 2013) [1]	468	140	468	140
Bo Öberg (Member of the Board until 8 May 2014 from 6 May 2013) [2]	135	240	135	240
Total, Board of Directors and CEO	**11,542**	**7,217**	**11,542**	**7,217**
Other senior executives [3]	19,170	12,219	19,170	12,219
Other employees	86,307	75,970	86,307	70,225
Salaries and remuneration, total	**117,019**	**95,406**	**117,019**	**89,661**
Statutory and contractual social security contributions	**35,681**	**30,784**	**35,681**	**29,652**
Pension costs (of which SEK 1,124 thousand (SEK 1,218 k) for the CEO)	18,718	16,531	18,718	15,823
Total salaries, remuneration, social security contributions, and pension costs	**171,418**	**142,721**	**171,418**	**135,136**

1) The fee for 2013 has been corrected down by SEK 43 thousand from the previous figure of SEK 186 thousand.
2) The fee for 2013 has been corrected down by SEK 17 thousand from the previous figure of SEK 257 thousand.
3) Disbursement of remuneration in 2015 will total SEK 6,180 thousand.

Remuneration during the financial year

The Board of Directors

Fees to the Members of the Board elected by the Annual General Meeting are proposed by the Nomination Committee and approved by the Annual General Meeting. No fees are payable for the work of the Nomination Committee. SEK 2,450 thousand (SEK 2,435 k) was paid in directors' fees to the Board of Directors of Medivir AB during the financial year, SEK 555 thousand (SEK 535 k) 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. SEK 20 thousand per physical Board Meeting is paid to Members of the Board resident outside Europe, over and above the normal fee and up to a maximum of SEK 100 thousand per year. There is no pension plan for the Board of Directors. The following sums, as approved by the Board of Directors have been disbursed: SEK 40 thousand (SEK 72 k) in consultancy fees and other payments totalling SEK 1 thousand (–)to Bernsten Konsult AB (Anna Malm Bernsten), SEK 150 thousand (–) (Jan-April) in consultancy fees to Birgitta Stymne Göransson, SEK 60 thousand (–) in consultancy fees to Altoni AB (Niklas Prager), and SEK 11,057 thousand (SEK 1,903 k) in royalties to Uppsala Hallbechem AB (Anders Hallberg) and SEK 24,158 thousand (–) in royalties to SYBESAM (Bertil Samuelsson) in accordance with earlier agreements. Salaries and other remuneration totalling SEK 194 thousand (August) and SEK 369 thousand (May-October) have also been paid to Niklas Prager and Bertil Samuelsson, respectively.

Guidelines for remuneration to senior executives

It is apparent from the remuneration policy adopted by the 2014 Annual General Meeting, that Medivir should offer a competitive total remuneration package that enables the recruitment and retention of qualified senior executives. Remuneration payable to the senior executives may comprise a fixed salary, any performance-related pay, incentive plans approved by the AGM, pensions and other benefits. The fixed salary shall take into account the extent of the individual's responsibilities and their experience. 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. The Directors' Report on page 33 presents the proposed guidelines in their entirety.

Pensions

Pensions shall be premium-based. The premium can, for the CEO and other senior executives, comprise up to 25 per cent of the fixed salary. The Board of Directors shall be entitled, the above provisions notwithstanding, to offer other alternative solutions which, from a costs point of view, are approximately equivalent to the above.

Severance pay, etc.
A maximum mutual notice period of six months shall apply. No severance pay or similar remuneration shall, as a basic principle, be payable but may – up to an one-off amount corresponding to a maximum of 100 per cent of the annual remuneration – be agreed with reference to any 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.

Remuneration for the Chief Executive Officer
Maris Hartmanis was appointed President and CEO of Medivir on 26 September 2011. The Board of Directors appointed a new CEO for Medivir, namely Niklas Prager, effective as of 1 September 2014. Niklas Prager was a Member of the Board of Medivir from 15 May 2014 until 11 August 2014. Salaries and remuneration paid to Maris Hartmanis during the year totalled SEK 7,230 thousand (SEK 3,462 k), of which severance pay comprised SEK 4,646 thousand (–), bonuses 0 (SEK 1,320 k), and other benefits, SEK 88 thousand (SEK 98 k). Salaries and other remuneration paid to Niklas Prager during the year totalled SEK 1,279 thousand (–), bonuses comprised SEK 580 thousand (–) and other benefits, SEK 3 thousand (–). The pension plan for Maris Hartmanis conforms to the individual pension plan of 35 per cent of the annual gross salary, excluding bonuses and benefits. The pension plan for Niklas Prager conforms to the individual pension plan of 25 per cent of the annual gross salary, excluding bonuses and benefits. Pension provisions made during the year totalled SEK 826 thousand (SEK 1,218 k) for Maris Hartmanis and SEK 298 thousand (–) for Niklas Prager.

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 a significant breach of contract on the part of the company. Any bonuses are maximised to a value of 50 per cent of the annual fixed salary.

A mutual notice period of six months applies for Niklas Prager. Niklas Prager is entitled to severance pay corresponding to twelve times the value of the fixed monthly salary at the time when notice is given if notice of the termination of Niklas Prager's employment is given by the company or if Niklas Prager gives notice due to a significant breach of contract on the part of the company. Any bonuses are maximised to a value of 50 per cent of the annual fixed salary.

Other senior executives
The term, other senior executives, refers, in addition to the CEO, to the people who, together with the CEO, have comprised the management group during the year. In 2014, the management group, excluding the CEO, comprised seven persons (two women and five men). Salaries totalling SEK 10,811 thousand (SEK 9,133 k) have been paid to other senior executives, together with SEK 2,394 thousand (SEK 1,982 k) in performance-related pay, SEK 5,459 thousand (SEK 1,104 k) in restructuring costs, and SEK 506 thousand (SEK 433 k) in benefits, comprising a total of SEK 19,170 thousand (SEK 12,653 k) in remuneration paid. Pension provisions have been made in the sum of SEK 2,193 thousand (SEK 2,053 k).

Fixed salaries and performance-related pay
The CEO and Group management, managers and a number of key individuals receive performance-related pay in addition to their fixed salaries. The performance-related pay follows a system adopted by the Board of Directors, based on financial goals, company-wide goals, functional goals and, where relevant, individual goals.

The level of the performance-related pay per individual is maximised to between 10 and 50 per cent of the basic salary received and is disbursed every year in cash for the previous year. For the CEO, 30 per cent of the performance-related pay is based on financial goals, 10 per cent on company-wide goals, and 10 per cent on individual goals. For other senior executives, 10 per cent of the performance-related pay is based on financial goals, 10 per cent on company-wide goals and 10 per cent on functional goals. 5 per cent of the performance-related pay for managers and a number of key individuals is based on financial goals, 4 per cent on company-wide goals, and 10 per cent on functional goals.

The performance-related pay does not constitute pensionable income. The anticipated result is reconciled continuously throughout the year and reserves are adjusted monthly. An evaluation of the performance-related pay results is conducted on each reporting date.

Share-related incentive plans
The intention of share-related incentive plans is to promote the company's long-term interests by motivating and rewarding the company's senior executives and other members of staff. An account of the two share-related incentive plans currently operated by the company follows. Medivir's share-related incentive plans are reported in accordance with IFRS 2 – Share-based Payment.

Share saving plan 2013 (LTI-2013)
The introduction of a performance-based, long-term share saving plan (LTI 2013) was approved at the 2013 Annual General Meeting. The plan comprises all of the company's senior executives and other permanent employees of Medivir. The chance to acquire class B shares in Medivir was offered to all employees, provided that the employees in question both invested in Medivir's class B shares at the market rate on the Nasdaq Stockholm Stock Exchange – so-called savings shares, that they retain these savings shares during the vesting period, and that the employees in question continue to be employed by Medivir for the entire vesting period. If the above-mentioned criteria are met, the employees in question may receive, for every savings share, one so-called matching share and a maximum of three so-called performance-based share warrants.

All employees participating in LTI-2013 have been afforded the opportunity to invest in savings shares in a sum corresponding to a maximum of one fixed monthly salary before tax. The minimum possible investment was SEK 6,000. Employees were allowed to make either an initial one-off investment in shares or twelve monthly savings for quarterly investments in shares.

The performance-based share warrants are based both on the strategic development of Medivir's research and product portfolios and on the total return on the Medivir share during a three-year period from 2013 to 2015, known as the measurement period.

The share price-related performance condition in LTI-2013 means that performance-based share warrants are earned if the share price trend for Medivir is high in comparison with the OMX Stockholm Total Return Index trend during the measurement period. Entitlement to performance-based share warrants in accordance with this condition is contingent upon the price of the Medivir class B having risen by at least 10 per cent, relative to the index. If this minimum level is achieved, 25 per cent of the maximum number of performance-based share warrants to which the participant is entitled under this condition will be allocated. The maximum number of performance-based share warrants to which the participant is entitled under this condition will be allocated if the price of Medivir's class B share rises by 30 per cent or more, relative to the index. If the share price trend falls within these two levels, a linear allocation of the number of performance-based share warrants will be made. The value of the performance-based share warrants for this condition, in accordance with LTI-2013, has been calculated by means of Monte Carlo simulation based on market conditions on the allocation date. The value per performance-based share warrant in respect of the share priced condition of LTI-2013 has, based on these conditions, been calculated at 34 per cent of the value of the Medivir class B share on the allocation date.

The volume-weighted average share price of SEK 68.75 on the allocation date, a volatility of 37.5 per cent, and a risk-free interest rate of 0.83-0.93 per cent were all important input data in the model for LTI-2013.

73 per cent of all permanent employees of Medivir AB initially chose to participate in LTI-2013, with the CEO, Maris Hartmanis, investing SEK 0.3 million (4,341 shares) and other senior executives investing SEK 0.7 million (10,322 shares).

The maximum total number of class B shares that Medivir may issue in accordance with the LTI-2013 plan, based on the above-mentioned requirement that employees both retain their savings shares during the vesting period and that the employees in question continue to be employed by Medivir for the entire vesting period, including those shares that may be acquired through the exercise of warrants, was estimated on the closing date of 31 December 2014 to total a maximum of 200,475 class B shares, corresponding to approximately 0.64 per cent of the total number of shares and approximately 0.54 of the total number of votes in Medivir. The maximum amount by which the share capital can increase is SEK 1.0 million. SEK 4.0 million (SEK 2.0 m) in costs in connection with LTI 2013, including the cost of social security contributions

Note 05 Continued

has, in accordance with certain assumptions such as share price performance, participation, and staff turnover, been charged to the profit/loss. The right of disposal must exist with regard to the warrants and the shares that will be disbursed through the exercise of the warrants in order to enable the shares to be disbursed to the participants at the end of the programme. The warrants are also issued in order to hedge the cash flow-related costs of the programme for the Group, such as social security costs, that arise in connection with LTI 2013.

Share saving plan 2014 (LTI-2014)

The introduction of a performance-based, long-term share saving plan (LTI 2014) was approved at the 2014 Annual General Meeting. The plan comprises all of the company's senior executives and other permanent employees of Medivir. The chance to acquire class B shares in Medivir is offered to all employees, provided that the employees in question both invest in Medivir's class B shares at the market rate on the Nasdaq Stockholm Stock Exchange – so-called savings shares, that they retain these savings shares during the vesting period, and that the employees in question continue to be employed by Medivir for the entire vesting period. If the above-mentioned criteria are met, the employees in question may receive, for every savings share, one so-called matching share and a maximum of three so-called performance-based share warrants.

All employees participating in LTI-2013 have been afforded the opportunity to make an initial one-off investment in savings shares in a sum corresponding to a maximum of one fixed monthly salary before tax. The minimum possible investment was SEK 3,000.

The performance-based share warrants are based both on the strategic development of Medivir's research and product portfolios and on the total return on the Medivir share during a three-year period from 2014 to 2016, known as the measurement period.

The share price-related performance condition in LTI-2014 means that performance-based share warrants are earned if the share price trend for Medivir is high in comparison with the OMX Stockholm Total Return Index trend during the measurement period. Entitlement to performance-based share warrants in accordance with this condition is contingent upon the price of the Medivir class B share having risen by at least 10 per cent, relative to the index. If this minimum level is achieved, 25 per cent of the maximum number of performance-based share warrants to which the participant is entitled under this condition will be allocated. The maximum number of performance-based share warrants to which the participant is entitled under this condition will be allocated if the price of Medivir's class B share rises by 30 per cent or more, relative to the index. If the share price trend falls within these two levels, a linear allocation of the number of performance-based share warrants will be made. The value of the performance-based share warrants for this condition, in accordance with LTI-2014, has been calculated by means of Monte Carlo simulation based on market conditions on the allocation date. The value per performance-based share warrant in respect of the share priced condition of LTI-2014 has, based on these conditions, been calculated at 57 per cent of the value of the Medivir class B share on the allocation date. The volume-weighted average share price of SEK 136.50 on the allocation date, a volatility of 48.3 per cent, and a risk-free interest rate of 0.53-0.60 per cent were all important input data in the model for LTI-2014.

48 per cent of all permanent employees initially chose to participate in LTI-2014, with the CEO, Niklas Prager, investing SEK 0.3 million (2,085 shares) and other senior executives investing SEK 0.4 million (3,266 shares).

The maximum total number of class B shares that Medivir may issue in accordance with the LTI-2014 plan, based on the above-mentioned requirement that employees both retain their savings shares during the vesting period and that the employees in question continue to be employed by Medivir for the entire vesting period, including those shares that may be acquired through the exercise of warrants, was estimated on the closing date of 31 December 2014 to total a maximum of 94,010 class B shares, corresponding to approximately 0.30 per cent of the total number of shares and approximately 0.25 of the total number of votes in Medivir. The maximum amount by which the share capital can increase is SEK 0.5 million. SEK 1.3 million in costs in connection with LTI 2014, including the cost of social security contributions has, in accordance with certain assumptions such as share price performance, participation, and staff turnover, been charged to the profit/loss. The right of disposal must exist with regard to the warrants and the shares that will be disbursed through the exercise of the warrants in order to enable the shares to be disbursed to the participants at the end of the programme. The warrants are also issued in order to hedge the cash flow-related costs of the programme for the Group, such as social security costs, that arise in connection with LTI 2014.

Note 06 Leasing agreements including property rent (SEK k)

	The Group		Parent company	
	2014	**2013**	**2014**	**2013**
Cost of the year [1]	20,160	18,117	13,591	11,139
Nominal value of future minimum lease payments for irrevocable leasing agreements including property rent				
Within one year [2]	14,529	15,077	10,690	8,890
Between one and five years [3]	41,821	40,269	13,213	11,591
Total	**56,350**	**55,346**	**23,903**	**20,481**

1) The costs refer mainly to premises rent for Medivir UK, Medivir AB and BioPhausia AB. Rent costs within the Group total SEK 17,286 thousand (SEK 15,888 k) of which rent costs in Medivir AB total SEK 10,717 thousand (SEK 9,230 k), and SEK 6,569 thousand (SEK 5,722 k) in Medivir UK. SEK 7,144 thousand (SEK 6,366 k) 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 574 thousand (SEK 644 k) has been reported under other revenue in the Income Statement. The lease agreements for Medivir AB expire between 2014 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. It is believed that a new tenancy agreement will be signed and no provision has consequently been made for rent costs after 2015.

2) Of which SEK 7,144 thousand will be recognised as revenue due to the subletting of the research facilities in Chesterford Park.

3) Of which SEK 25,470 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	
	2014	**2013**	**2014**	**2013**
Capital gain/loss from the sale of Cross Pharma AB, included in discontinued operations, see Note 24	–	–46,389	–	–
Capital gain/loss from the liquidation of Lefarm Sp.	–	446	–	–
Capital gain/loss from the winding up of dormant companies	–	–41	–	–27
Dividend from BioPhausia AB	–	–	–	120,000
Impairment losses on shares in the Medivir UK Ltd. subsidiary (see also Note 15, Participations in Group companies)	–	–	–51,371	–43,930
Total	**–**	**–45,984**	**–51,371**	**76,043**

Note 08 Financial risks (SEK k)

The Group is, by virtue of its operations, exposed to a variety of different types of risks. The operations are affected by a number of factors that can impact the company's profit or loss and its financial position. The strategy entails the ongoing identification and management of risks, as far as possible. The risks can be divided into operational risks and financial risks and the section below describes the financial risk factors that are adjudged to be of the greatest significance in terms of Medivir's development, together with the way in which Medivir manages them in order to minimise the risk level.

The main financial risks that arise as a result of the management of financial instruments comprise market risks (interest risk, currency risk and share price risk), credit risk, and liquidity and cash flow risk. Operational risks are described in a separate section of the Directors' Report.

Financial policy

Medivir has established a Group policy for its financial operations. The policy defines the financial risks and describes the way in which the company shall manage these risks. The policy states that the company must, at all times, maintain a liquidity that corresponds to at least twelve months' known future net cash disbursements.

Medivir has an agreement with SHB regarding the discretionary management of the company's funds. The investment regulations associated with the agreement specify how the funds may be invested. Investments of liquid assets shall be made in such a way that the capital invested provides a reliable and secure return. Investments are made in interest-bearing instruments, fixed income funds, and cash or cash equivalent instruments. Underlying instruments shall have a low risk level and a risk spread shall be sought when investing cash and cash equivalents. Investments may only be made in specified securities, which are low risk securities (such as Swedish bonds and papers issued by the Swedish State and A1-rated commercial papers).

Capital risk

An effective risk assessment reconciles Medivir's business opportunities and results with the requirements of shareholders and other stakeholders for sustainable profitability, 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 Group's objective with regard to its capital structure is to secure the Group's ability to continue its operations such that it can continue to generate a return for its shareholders and benefits for other stakeholders, and to maintain an optimal capital structure in order to keep capital costs down.

If it is to maintain its position, over time, as a Nordic pharmaceutical company that is growing and which has a strong research portfolio that generates value, both through milestone payments and royalties, and through a growing product portfolio of pharmaceuticals for sale, it is vital that Medivir has a strong capital base. Growth will occur both organically and through the acquisition and in-licensing of marketing rights. Medivir now has a very strong financial position that it enables it to work strategically and deliberately to develop the company rapidly and in a risk-balanced way. The consolidated equity totals SEK 1,982,597 thousand (SEK 852,587 k). The cash and cash equivalent position and short-term investments total SEK 1,395,621 thousand (SEK 402,220 k), and the equity/assets ratio is, therefore, 91.5 per cent (85.7%).

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

The Group, 31 Dec. 2014	Financial assets recognised at fair value in the Income Statement	Cash and cash equivalents	Accounts receivable and loan receivables	Financial assets held for sale	Loans and accounts payable	Total
Financial assets held for sale	–	–	–	–	–	–
Other non-current receivables	–	–	2,501	–	–	2,501
Accounts receivable	–	–	70,159	–	–	70,159
Other receivables	–	–	7,500	–	–	7,500
Other short-term investments	1,309,583	–	–	–	–	1,309,583
Cash and bank balances	–	86,038	–	–	–	86,038
Accounts payable	–	–	–	–	40,755	40,755
Borrowings	–	–	–	–	40,000	40,000
Financial leasing liabilities	–	–	–	–	–	–
Total	**1,309,583**	**86,038**	**80,160**	**–**	**80,755**	**1,556,536**

The Group, 31 Dec. 2013	Financial assets recognised at fair value in the Income Statement	Cash and cash equivalents	Accounts receivable and loan receivables	Financial assets held for sale	Loans and accounts payable	Total
Financial assets held for sale	–	–	–	–	–	–
Other non-current receivables	–	–	10,001	–	–	10,001
Accounts receivable	–	–	21,474	–	–	21,474
Other receivables	–	–	5,000	–	–	5,000
Other short-term investments	370,588	–	–	–	–	370,588
Cash and bank balances	–	31,632	–	–	–	31,632
Accounts payable	–	–	–	–	28,676	28,676
Borrowings	–	–	–	–	40,000	40,000
Financial leasing liabilities	–	–	–	–	–	–
Total	**370,588**	**31,632**	**36,475**	**–**	**68,676**	**507,371**

Financial assets recognised at fair value

The table below shows financial instruments valued at fair value, based on the way in which they have been classified in the value hierarchy. The different levels are defined as follows:

Level 1 fair value is determined on the basis of listed prices on an active market for identical financial assets and liabilities.

Level 2 fair value is determined on the basis of observable information other than listed prices included in level 1.

Level 3 fair value is determined on the basis of valuation models where material input data is based on non-observable data.

The Group has level 1 short-term investments. The short-term investments in the form of fixed income funds are managed as a single group of fixed assets and are recognised at fair value in the Income Statement. The Group has financial assets that can be sold at level 3 and which are not adjudged to have any value. Fair value for other level 3 assets and liabilities is determined by discounted cash flows.

Financial assets and liabilities recognised at fair value

	Carrying amount	Recognition at fair value at the end of the period based on:		
The Group, 31 Dec. 2014		**Level 1**	**Level 2**	**Level 3**
Financial assets recognised at fair value in the Income Statement				
Other short-term investments	1,309,583	1,309,583	–	–
Financial assets held for sale	–	–	–	–
Other long-term receivables	2,500	–	–	2,500
Other receivables	7,500	–	–	5,000
Total Assets	**1,317,083**	**1,309,583**	–	**7,500**
Borrowing	40,000	–	–	40,000
Total Liabilities	**40,000**	–	–	**40,000**

	Carrying amount	Recognition at fair value at the end of the period based on:		
The Group, 31 Dec. 2013		**Level 1**	**Level 2**	**Level 3**
Financial assets recognised at fair value in the Income Statement	–	–	–	–
Other short-term investments	370,588	370,588	–	–
Other long-term receivables	10,000	–	–	10,000
Other receivables	5,000	–	–	5,000
Financial assets held for sale	–	–	–	–
Total Assets	**385,588**	**370,588**	–	**15,000**
Borrowing	40,000	–	–	40,000
Total Liabilities	**40,000**	**–**	**–**	**40,000**

The following table shows the changes for level 3 instruments

	2014	2013
Opening balance	**–**	**–**
Losses recognised in the Income Statement	–	–
Closing balance	**–**	**–**

Other financial assets and liabilities

The fair value of financial instruments such as accounts receivable, loan receivables, accounts payable and other non-interest-bearing financial assets and liabilities which are recognised at the accrued historical value less any amortisation is deemed to correspond to the reported value due to the short anticipated term.

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 cash and cash equivalents are invested 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 1,395,621 thousand (SEK 402,220 k) on 31 December 2014. SEK 1,309,583 thousand (SEK 370,588 k) of this sum was invested in fixed income funds with discretionary management. An average return on cash and cash equivalents of 1.83 per cent (1.6%) was achieved in 2014. The year's return has fluctuated between –0.04 and 0.29 per cent (–1.8% and 3.0%). 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 5,200 thousand on a full-year basis. 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 2015, the effect on the profit/loss would be SEK –23,900 thousand, given unchanged holdings of cash and cash equivalents.

The Group's credit facilities on 31 December 2014 comprised bank loans and an overdraft facility with an interest rate calculated on the basis of the STIBOR 3-month interest rate. The Group's interest risk is attributable to the change in market interest rates and their effect on the debt portfolio. 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 Dec. 2014	**Amount in SEK '000**	**Interest expense, 2015, given unchanged interest levels**	**Average interest rate level, %**	**Average fixed interest term, months**	**Change in interest expense, 2015, given a +1% change in interest rates, SEK k**
Bank loans	40,000	1,519	3.80	3	400

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 currency are translated into Swedish kronor (translation risk).

In accordance with Medivir's financial policy, the Group has not made use of currency hedging in 2014. 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 –107 thousand (SEK –1,802 k) in exchange rate profits/losses and the exchange rate items component of net financial items total SEK –1,592 thousand (SEK –64 k).

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, 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.

2014	Net sales	Costs	Operating profit/loss	Change +/– 5%
EUR	1,407,679	–120,343	1,287,335	+/– 64,367
USD	112	–42,736	–42,624	+/– 2,131
GBP	40,657	–68,504	–27,847	+/– 1,392
DKK	34,418	–20,494	13,924	+/– 695
NOK	54,039	–7,806	46,233	+/– 2,312
PLN				+/– 0
Total	**1,536,905**	**–259,883**	**1,277,021**	**+/– 63,851**

2013	Net sales	Costs	Operating profit/loss	Change +/– 5%
EUR	264,501	–148,803	115,698	+/– 5,785
USD	559	–26,855	–26,296	+/– 1,345
GBP	8,721	–67,479	–58,758	+/– 2,938
DKK	1,260	–2,050	–790	+/– 39
NOK	14,731	–6,869	7,862	+/– 393
PLN	3,613	–52,027	–48,414	+/– 2,421
Total	**293,385**	**–304,083**	**–10,698**	**+/– 535**

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 63,851 thousand (SEK 535 k). A corresponding weakening of the Swedish krona would have yielded a deterioration in the net profit/loss of SEK 63,851 thousand (SEK 535 k).

Share price risk of unlisted shares

In 2007, Medivir received 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 18,793 thousand, are now impaired to SEK 0. Medivir has classified the shares as financial assets held for sale in accordance with IAS 39.

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. No credit risks are deemed to exist in relation to the above investments.

Medivir may also be exposed to credit risk in accounts receivable.

Medivir's partnership agreements are with established pharmaceutical companies and historically, Medivir has never needed to impair accounts receivable. 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. Medivir had SEK 70,159 thousand (SEK 21,474 k) in outstanding accounts receivable on the reporting date.

	The Group		Parent company	
Age analysis, accounts receivable	**2014**	**2013**	**2014**	**2013**
Not due	69,667	21,075	47,824	4,074
Due, 1-90 days	477	160	30	9,075
Due, 91+ days	15	239	–	92
Total	**70,159**	**21,474**	**47,854**	**13,241**

Other receivables total SEK 15,172 thousand (SEK 12,423 k) of which SEK 0 thousand (SEK 0 k) was due on the reporting date.

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.

In accordance with Medivir's financial policy, Medivir invests its cash and cash equivalents with Swedish fund managers with high credit ratings, 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 had a negative debt/equity ratio at the period end, i.e. the available cash and bank balances and short-term investments exceed the Group's interest-bearing liabilities. Medivir's research operations in 2014 and 2013 have been financed internally. The steady sale of pharmaceutical products since the acquisition of BioPhausia in 2011 provides a continuous positive cash flow. 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 loans. The borrowing strategy is focused on securing the Group's requirement for loan financing, both with regard to the long-term lending requirement and to Medivir's day-to-day payment undertakings to its lenders and suppliers. Current liabilities are covered by Medivir's cash position and short-term investments.

Note 08 Continued

The following table shows the contractual undiscounted cash flows from the Group's financial liabilities, broken down by the time which, on the closing day, remains until the contractual due date.

	The Group			Parent Company		
31 Dec. 2014	**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	40,755	–	–	29,891	–	–
Bank loans	40,000	–	–	40,000	–	–
Overdraft facility	–	–	–	–	–	–

	The Group			Parent Company		
31 Dec. 2013	**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	28,676	–	–	18,621	–	–
Bank loans	–	40,000	–	–	40,000	–
Overdraft facility	–	–	–	–	–	–

The amounts maturing within 12 months are consistent with the reported amounts, because the discount effect is insignificant.
Other liabilities total SEK 76,192 thousand (SEK 12,711 k) and mature within 12 months. The Group's bank loans correspond to the recognised fair value.

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

	The Group		Parent company	
	2014	**2013**	**2014**	**2013**
Interest income, bank	–	–	–	–
Exchange rate difference, other, realised	–5,854	35	–5,854	35
Exchange rate difference, other, unrealised	2,625	3,754	–	–
Dividends from fixed income fund	102	832	102	832
Change in fair value of fixed income fund, unrealised	9,321	3,569	9,321	3,569
Other financial income	365	96	489	–132
Total	**6,558**	**8,286**	**4,057**	**4,304**

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	
	2014	**2013**	**2014**	**2013**
Interest expenses	–1,555	–2,893	–1,543	–77
Exchange rate differences, intra-Group transactions	–	–	–	–
Exchange rate differences, other, unrealised	–1,033	–3,854	–	–
Issue cost, subordinated loan	–	–	–	–
Other financial expenses	–	–3	–	–3
Total	**–2,588**	**–6,750**	**–1,543**	**–80**

Note 11 Tax (SEK k)

	The Group		Parent company	
Tax on the profit/loss for the year	**2014**	**2013**	**2014**	**2013**
Current tax [1]	–8,352	–1,766	–8,352	–
Change in deferred tax [2]	–51,614	–9,407	–468	–
Tax on profit/loss for the year	**–59,966**	**–11,173**	**–8,820**	–

1) Of which SEK 0 thousand (SEK –1,766 k) is reported as discontinued operations.
2) Of which SEK 0 thousand (SEK 2,212 k) is reported as discontinued operations.

Applicable tax rate for the Parent Company	22.0%	22.0%	22.0%	22.0%
Difference between the Group's tax reported in the Income Statement and tax based on applicable tax rate				
Profit/loss before tax	1,192,701	–10,162	951,259	98,799
Tax at applicable tax rate for the Parent Company	–262,394	2,236	–209,277	–21,736
Tax effect of non-deductible costs	–1,151	–11,165	–12,771	–9,994
Tax effect of non-taxable income	385	30	–	26,427
Effect of foreign tax rates	–21	838	–21	–
Adjustment of tax in respect of previous years	–	1,962	–	–
Utilisation of loss carry-forwards not previously capitalised	213,249	5,326	213,249	5,303
Tax effect of deficits for which tax receivables are not recognised	–10,034	–10,400	–	–
Reported tax	**–59,966**	**–11,173**	**–8,820**	**0**

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

Deferred tax	**Receivable**	**Liability**	**Net**
Deferred tax receivable			
Capitalised loss carry-forward	45,712	–	45,712
Intangible fixed assets	–	27,918	–27,918
Untaxed reserves	–	27,500	–27,500
Share-related incentive plan	–	468	–468
Closing balance	**45,712**	**55,886**	**–10,174**

Changes in deferred taxes for the period:

The Group Deferred tax receivable	**On 31 Dec. 2013**	**Operation acquired**	**Operation sold**	**Recognised in profit/loss**	**On 31 Dec. 2014**
Capitalised loss carry-forward	45,687			25	45,712
Total deferred tax receivable	**45,687**			**25**	**45,712**
Deferred tax liability					
Temporary differences relating to:					
Intangible assets	2,500			25,418	27,918
Untaxed reserves	–			27,500	27,500
Share-related incentive plan	–			468	468
Total deferred tax liability	**2,500**			**53,386**	**55,886**
Net deferred tax liability	**43,187**			**–53,361**	**–10,174**

Parent Company Deferred tax liability	**On 31 Dec. 2013**	**Operation acquired**	**Operation sold**	**Recognised in profit/loss**	**On 31 Dec. 2014**
Share-related incentive plan	–	–	–	468	468
Total deferred tax liability	**–**	**–**	**–**	**468**	**468**
Net deferred tax liability	–	–	–	**468**	**468**

At the year-end, the total accumulated taxable loss of the Group was SEK 625 million (SEK 1,534 m), of which SEK 208 million (SEK 208 m) has been capitalised. The remaining loss comprises primarily tax losses within the subsidiary companies, Medivir UK and BioPhausia AB. There is no time restriction on the utilisation of capitalised loss carry-forwards

Note 12 Earnings per share

	The Group	
	2014	2013
Continuing operations		
Basic earnings per share, SEK [1]	36.24	0.51
Diluted earnings per share, SEK [2]	35.90	0.51
Net profit/loss for the year, SEK k	1,132,735	16,014
Discontinued operations		
Basic and diluted earnings per share, SEK [1]	–	–1.19
Net profit/loss for the year, SEK k	–	–37,350
Total operations		
Basic earnings per share, SEK [1]	36.24	–0.68
Diluted earnings per share, SEK [2]	35.90	–0.68
Net profit/loss for the year, SEK k	1,132,735	–21,336
Average number of shares, '000	31,260	31,260

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.
2) 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		
2014	Trademarks and brands	Product rights	Goodwill	Capitalised R&D expenditure	Other	Product rights	Capitalised R&D expenditure	Other
Cost at beginning of the year		335,562	150,420	14,479	3,092	3,798	14,479	3,092
Additions	–	–	–	6,895	1,751	–	6,895	1,751
Sales and disposals	–	–	–	–	–	–	–	–
Exchange rate differences	–	–	–	–	–	–	–	–
Accumulated cost at year-end	–	335,562	150,420	21,373	4,843	3,798	21,373	4,843
Amortisation at beginning of the year	–	–57,046	–	–1,694	–2,688	–	–1,694	–2,688
Amortisation for the year	–	–22,410	–	–442	–296	–285	–442	–296
Sales and disposals	–	–	–	–	–	–	–	–
Accumulated amortisation at year-end	–	–79,456	–	–2,137	–2,984	–285	–2,137	–2,984
Depreciation at beginning of the year				–10,045			–10,045	
Depreciation for the year				–			–	
Accumulated depreciation at year-end				–10,045			–10,045	
Book value at year-end	–	**256,107**	**150,420**	**9,192**	**1,859**	**3,513**	**9,192**	**1,859**

	The Group					Parent Company		
2013	Trademarks and brands	Product rights	Goodwill	Capitalised R&D expenditure	Other	Product rights	Capitalised R&D expenditure	Other
Cost at beginning of the year	19,234	331,874	188,092	14,364	2,742	–	14,364	2,742
Additions	–	3,798	–	115	350	3,798	115	350
Sales and disposals	–19,234	–109	–37,672	–	–	–	–	–
Exchange rate differences	–	–1	–	–	–	–	–	–
Accumulated cost at year-end	–	335,562	150,420	14,479	3,092	3,798	14,479	3,092
Amortisation at beginning of the year	–3,045	–35,031	–	–1,262	–2,579	–	–1,262	–2,579
Amortisation for the year	–962	–22,100	–	–432	–109	–	–432	–109
Sales and disposals	4,007	85	–	–	–	–	–	–
Accumulated amortisation at year-end	–	–57,046	–	–1,694	–2,688	–	–1,694	–2,688
Depreciation for the year	–	–	–	–10,045	–	–	–10,045	–
Book value at year-end	**–**	**278,517**	**150,420**	**2,739**	**404**	**3,798**	**2,739**	**404**

Note 13 Continued

Trademarks and brands
Trademarks and brands relate to the Cross Pharma trademark, which was sold on 30 June 2013. Amortisation has been effected linearly up to and including the divestment over the estimated useful life of 10 years.

Product rights
The product rights relate to the acquisition of the product portfolio of proprietary products from the acquisition of BioPhausia AB. The addition for the previous year refers to the acquisition of the rights to Adasuve. Amortisation of the product portfolio is effected linearly over the estimated useful life of 15 years. Adasuve is amortised over the estimated useful life of 10 years.

Goodwill
Goodwill relates to the acquisition of BioPhausia AB. Goodwill has an indefinite useful life and is subject to annual impairment testing. Sales and disposals for 2013 refer to goodwill for the parallel imports operations which were wound up in conjunction with the sale of Cross Pharma AB.

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. Antiviral research programmes acquired were amortised in 2013 to the tune of SEK 10,045 thousand as they were not adjudged to have any remaining value and no additional resources are being invested in the further development of the research programme acquired.

Other
Other intangible assets relates to capitalised development expenditure on ERP systems. The useful life is estimated at 5 years, during which time the booked asset is amortised in line with this assessment.

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:

	2014	2013
Pharmaceuticals	150,420	150,420
Parallel imports	–	–
Total	**150,420**	**150,420**

The present value of anticipated future cash flows is calculated for every cash-generating unit in conjunction with impairment testing. Future cash flows are based both on the budget adopted by the Board of Directors and current trends. The budget adopted is based on a large number of detailed assumptions regarding growth in volume, exchange rates, expense development, etc. The budget is also based on the expertise of the management and other key individuals within the organisation, and on historic trends and projections. The forecast for the period pursuant to the yearly budget and onwards is based on the management's long-term projections, which cover five years. It is based on several overall assumptions regarding the development of the economy, volume growth, competition, exchange 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 average growth rate after the forecast period of 5 years is set at 2 per cent (0%) in line with anticipated inflation.

WACC
The discount rate applied has been calculated as the WACC (weighted average cost of capital) and totals 9.5 per cent (9.0%) 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 with regard to the risk-free interest rate, market risk premium, and beta value.

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 value in use of the cash-generating units. The sensitivity analysis shows that even if the significant parameters change, a significant surplus value still exists.

Note 14 Tangible fixed assets (SEK k)

	The Group		Parent Company	
Buildings and land [1]	**2014**	**2013**	**2014**	**2013**
Cost at beginning of the year	4,232	17,719	4,232	4,232
Sales and disposals	13	–13,487	13	–
Capital expenditure	–	–	–	–
Accumulated cost at year-end	4,245	4,232	4,245	4,232
Depreciation at beginning of the year	–2,945	–16,220	–2,945	–2,733
Sales and disposals	–	13,487	–	–
Depreciation for the year	–212	–212	–212	–212
Accumulated depreciation at year-end	–3,158	–2,945	–3,158	–2,945
Book value at year-end	**1,087**	**1,287**	**1,087**	**1,287**

1) The value of the Group's buildings corresponds to the incurred cost of improvements to rental properties. SEK 13,487 thousand refers to previous reclassifications of the said improvements which have subsequently been depreciated in full.

Note 14 Continued

	The Group		Parent Company	
Equipment, tools, fixtures and fittings	**2014**	**2013**	**2014**	**2013**
Cost at beginning of the year	158,774	159,817	147,142	143,531
Reclassification	–	–	–	–
Capital expenditure	8,916	3,619	8,916	3,619
Sales and disposals	–39,636	–4,636	–38,768	–7
Exchange rate differences	–	–26	–	–
Accumulated cost at year-end	128,054	158,774	117,291	147,142
Depreciation at beginning of the year	–132,103	–125,246	–121,137	–112,035
Depreciation for the year	–9,836	–9,640	–9,506	–9,109
Sales and disposals for the year	39,673	2,783	38,820	7
Exchange rate differences	–	–	–	–
Accumulated depreciation at year-end	–102,267	–132,103	–91,823	–121,137
Book value at year-end	**25,788**	**26,671**	**25,468**	**26,006**

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

	The Group		Parent Company	
Equipment, tools, fixtures and fittings	**2014**	**2013**	**2014**	**2013**
Cost	266	266	266	266
Accumulated depreciation	–266	–191	–266	–191
Book value at year-end		**75**		**75**
Future minimum lease payments have the following due dates:				
Within 1 year	–	–	–	–
Between 1 and 5 years	–	–	–	–
Total	**–**	**–**	**–**	**–**

Depreciation totalling SEK 75 thousand (SEK 53 k) has been charged to the profit/loss.

Note 15 Participations in Group companies (SEK k)

	Parent Company	
	2014	**2013**
Opening balance	604,212	604,312
Divestments	–	–100
Shareholders' contributions made	51,371	43,930
Impairment loss	–51,371	–43,930
Closing balance	**604,212**	**604,212**

Subsidiary company:	**Corporate ID no.**	**Registered office**	**Number of shares**	**Share of capital**	**Book value, 2014**	**Book value, 2013**
BioPhausia AB [1)]	556485–0153	Stockholm	342 564 194	100%	604,112	604,112
Medivir UK Ltd,	3496162	Essex, England	2 000 007	100%	–	–
Medivir Personal AB	556598–2823	Huddinge	1 000	100%	100	100
Total					**604,212**	**604,212**

Medivir HIV Franchise AB was divested in 2014.

1) Holdings in BioPhausia AB:

Oy Cross Pharma AB	1896628–4	Finland	1,000	100%
Glycovisc BioTech AB	556535–0005	Stockholm	5,000	100%
Medivir A/S	30587014	Denmark	5,000	100%
Medivir OY	2012608–1	Finland	1,000	100%

Note 16 Financial assets held for sale (SEK k)

	The Group		Parent Company	
	2014	2013	2014	2013
Epiphany Biosciences				
Opening book value	14,165	14,165	14,165	14,165
Accumulated impairment loss	–14,165	–14,165	–14,165	–14,165
Closing book value	–	–	–	–
Presidio Pharmaceuticals Inc.				
Opening book value	4,628	4,628	4,628	4,628
Accumulated impairment loss	–4,628	–4,628	–4,628	–4,628
Closing book value	–	–	–	–
Total	–	–	–	–

In 2012, valuations carried out by independent parties showed 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. Testing of fair value did not give rise to any changes in value in 2014. As of 2014, the opening book value and accumulated impairment losses are reported as totals per share holding, in that the financial assets holding would otherwise have been reported with a book value of zero (SEK 0 k) under both the opening and closing book value from the end of 2013.

Note 17 Other long-term receivables (SEK k)

	The Group		Parent Company	
	2014	2013	2014	2013
Opening book value	10,001	–	–	–
Acquisitions for the year	–	15,001	–	–
Impairment for the year	–1	–	–	–
Reclassification to current receivables	–7,500	–5,000	–	–
Closing book value	**2,500**	**10,001**	–	**–**

Note 18 Inventories (SEK k)

	The Group		Parent Company	
	2014	2013	2014	2013
Finished goods	23,609	23,982	3,608	–
Raw material inventories	–	–	–	–
Goods in repackaging	–	–	–	–
Total	**23,609**	**23,982**	**3,608**	**–**

Impairment of inventories totals SEK 575 thousand (SEK 2,717 k). The impairment has been charged to Cost of goods sold.
Cost of goods sold includes cost of goods of SEK –76,452 thousand (SEK –244,071 k).

Note 19 Prepaid costs and accrued income (SEK k)

	The Group		Parent Company	
	2014	2013	2014	2013
Prepaid rent	4,173	3,912	2,489	2,278
Licensing fees	4,122	2,283	4,122	2,283
Accrued milestone payments	–	–	–	–
Accrued royalty income	220,440	10,944	220,440	10,944
Service agreements	44	1,077	44	1,060
Connection to external databases	1,218	775	1,218	775
Other items	2,381	3,156	1,420	2,655
Total	**232,378**	**22,146**	**229,732**	**19,995**

Note 20 Cash and cash equivalents (SEK k)

	The Group		Parent Company	
	2014	2013	2014	2013
Fixed income and bond funds	1,309,583	370,588	1,309,583	370,588
Cash and bank balances	86,038	31,632	43,329	9,805
Total	**1,395,621**	**402,220**	**1,352,911**	**380,393**

Note 21 Interest-bearing liabilities (SEK k)

	The Group		Parent Company	
	2014	2013	2014	2013
Long-term interest-bearing liabilities				
Bank loans	–	40,000	–	40,000
Total long-term interest-bearing liabilities	**–**	**40,000**	**–**	**40,000**
Current interest-bearing liabilities				
Bank loans	40,000	–	40,000	–
Total current interest-bearing liabilities	**40,000**	**–**	**40,000**	**–**
Unutilised credit facilities				
Overdraft facility	–	–	–	–

Note 22 Accrued costs and deferred income (SEK k)

	The Group		Parent Company	
	2014	2013	2014	2013
Accrued holiday pay	17,113	17,670	16,899	17,456
Restructuring costs	14,938	12,104	14,938	12,104
Accrued research costs	6,200	3,260	2,479	3,260
Accrued production costs	–	1,100	–	–
Deferred rental income	4,604	4,266	–	–
Accrued social security contributions	3,871	2,843	3,850	2,821
Deferred royalty payments	20,837	5,425	20,837	5,425
Deferred product costs	–	4,710	–	–
Deferred licensing costs	–	2,062	–	2,062
Deferred performance-related pay	8,511	–	8,511	–
Other items	8,265	8,056	7,058	6,935
Total	**84,339**	**61,497**	**74,570**	**50,062**

Note 23 Pledged assets (SEK k)

	The Group		Parent Company	
	2014	2013	2014	2013
Floating charges	54,250	54,250	–	–
Shares in subsidiaries	–	–	–	–
Total	**54,250**	**54,250**	**–**	**–**

Note 24 Discontinued operations

On 25 June 2013, Medivir announced the sale of its parallel imports operations conducted through the Cross Pharma AB subsidiary, including the Polish company, Prodlekpol. The transaction of 30 June resulted in a capital loss of SEK 46.4 million. The consolidated value of Cross Pharma AB was SEK 57.3 million, which referred primarily to goodwill and trademarks and brands. The capital loss also included transaction costs and an exchange rate profit/loss of SEK 10.1 million. Payment for the shares totalled SEK 19.7 million, SEK 4.7 million of which was paid in cash, leaving a remaining balance due from the purchaser of SEK 15 million, on 31 December 2013. In Q3 2013, receivables totalling SEK 115.0 million were paid by the purchaser, Unimedic. Cash and cash equivalents in Cross Pharma AB totalled SEK 4.8 million. The total cash flow from the sale of Cross Pharma amounted to SEK 114.9 million.

The divestment in 2013 has been reported separately as discontinued operations in the Income Statement in accordance with IFRS 5. Discontinued operations are reported separately from continuing operations in the Income Statement with retroactive effect for previous periods. Parallel imports are reported as discontinued operations below. The remaining receivable from the purchaser, Unimedic, on 31 December 2014 was SEK 10 million.

Profit/loss for the period for the discontinued operations, Parallel imports	**2014**	**2013**
Operating income	–	213,006
Operating expenses	–	–203,784
Operating profit/loss		**9,222**
Profit/loss from divestment of operations	–	–46,389
Financial items	–	–628
Profit/loss before tax		**–37,796**
Tax	–	446
Profit/loss after tax		**–37,350**

Cash flow attributable to discontinued operations		**2013**
Cash flow from operating activities	–	26,896
Cash flow from investing activities	–	–
Cash flow from financial activities	–	–9,260
Cash flow for the period		**17,636**

The discontinued operations' assets on the transaction date		
Trademarks and brands	–	–
Goodwill	–	–
Tangible fixed assets	–	–
Inventories	–	–
Other current assets	–	–
Total	**–**	**–**

The discontinued operations' liabilities on the transaction date		
Deferred tax liability	–	–
Long-term liabilities	–	–
Current liabilities	–	–
Total	**–**	**–**

Note 25 Events after the end of the financial year

Reorganisation of Medivir's management group
The company's management group was reorganised in order to enhance the efficiency and increase the focus of the company's operations. In the wake of the change, the company's management group comprised six persons, including the CEO. Previously, the group comprised eight persons. Two new functions were established in conjunction with the reorganisation, namely Strategic Business Development, which comprises a consolidation of Corporate Development and Business Development, and Finance & Administration, which comprises a consolidation of the former Finance & Administration function and Corporate Affairs & IR. The new organisation came into force on 1 March 2015.

COMMIT and ACCORDION-I phase II studies initiated
Enrolment in a further two phase II studies of simeprevir began in February 2015.

The COMMIT study, which aims to study the efficacy and safety of a 12-week treatment regimen with simeprevir and daclatasvir and involves genotype 1b HCV-infected patients with advanced liver disease – METAVIR scores F3 or F4 (cirrhosis).

The ACCORDION-I study which aims to study the efficacy and safety of simeprevir, daclatasvir and sofosbuvir. This is a two-arm study of genotype 1 HCV-infected patients, where patients with early stages of liver fibrosis will receive a 6-week course of treatment, while those with cirrhosis of the liver will receive an 8-week course of treatment.

The Nomination Committee's proposal for a new Board of Directors
The composition of the 2014-2015 Nomination Committee was as follows:

- Anders Algotsson, Chairman of the Nomination Committee, representing AFA Försäkring
- Maria Rengefors, representing Nordea Fonder
- Birgitta Stymne Göransson, Chairman of the Board of Medivir AB
- Bo Öberg, representing the class A shareholders

The Nomination Committee has agreed, ahead of the upcoming 2015 Annual General Meeting, to propose that a new Board of Directors be appointed by means of the re-election of the Board's existing Members, namely Anna Malm Bernsten, Anders Ekblom, Anders Hallberg, Bertil Samuelsson and Birgitta Stymne Göransson, and the new election of two Members, namely Johan Harmenberg and Helena Levander. The Committee also proposes the re-election of Birgitta Stymne Göransson as Chairman of the Board.Björn C. Andersson has declined re-election and Niklas Prager resigned his seat on the Board in September 2014 in conjunction with his appointment as President & CEO of the company.

Voluntary redemption programme
A voluntary share redemption programme was initiated on 3 February. Shareholders were afforded the option of registering with the programme, between 10 and 24 February, and by the end of the application period, a total of 4,293,990 shares had been registered for redemption, 53,642 of which were class A shares and 4,240,348 class B shares, corresponding to a take-up rate of 96.2 per cent. A cash sum totalling ca. SEK 601.2 million was transferred to the shareholders, corresponding to SEK 140 per share redeemed, for disbursement around 17 March 2015.

New data on Simeprevir presented
New clinical data for simeprevir have been presented at the 24th Conference of the Asian Pacific Association for the Study of the Liver (APASL) in Istanbul, Turkey. Six oral and poster presentations on three clinical studies spanning over several development programs including simeprevir in different treatment combinations, durations and populations were held.

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 results of 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 results of operations. The Directors' Report for the Group and the Parent Company provides a true and fair view of the development of the Group's and the Parent Company's operations, financial positions and results of operations and describe significant risks and uncertainty factors facing the companies included in the Consolidated Accounts.

Huddinge, 24 March 2015

Björn C Andersson
Member of the Board

Susana Ayesa Alvarez
Member of the Board

Anna Malm Bernsten
Member of the Board

Anders Ekblom
Member of the Board

Anders Hallberg
Member of the Board

Bertil Samuelsson
Member of the Board

Birgitta Stymne Göransson
Chairman of the Board

Christian Sund
Member of the Board

Niklas Prager
President & CEO

Our Audit Report was submitted on 1 April 2015

Öhrlings PricewaterhouseCoopers AB

Hans Jönsson

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 2014, except for the corporate governance report on pages 40-51. The annual accounts and consolidated accounts of the company are included in the printed version of this document on pages 28-83.

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 in accordance with the Annual Accounts Act and of the 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 judgement, 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 opinions.

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 2014 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 2014 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. Our opinions do not cover the corporate governance report on pages 40-51. 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 2014. We have also conducted a statutory examination of the corporate governance report.

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 and that the corporate governance report on pages 40-51 has been prepared in accordance with the Annual Accounts 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.

Furthermore, we have read the corporate governance report and based on that reading and our knowledge of the company and the group we believe that we have a sufficient basis for our opinions. This means that our statutory examination of the corporate governance report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

Opinions
We recommend to the annual meeting of shareholders that the profit be appropriated 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 content is consistent with the other parts of the annual accounts and consolidated accounts.

Stockholm 1 April 2015
Öhrlings PricewaterhouseCoopers AB

Hans Jönsson
Authorized Public Accountant

Key ratios

The Group	2014	2013	2012	2011	2010	2009
EBITDA, SEK k	1,221,925	76,389	–165,254	134,151	–128,851	–129,425
EBIT, SEK k	1,188,731	25,164	–201,331	112,051	–136,726	–139,815
Operating margin, %	67.3	5.6	–118.0	21.9	–222.2	–544.4
Profit margin, %	67.5	6.2	–123.5	21.9	–218.1	–527.1
Debt/equity ratio, multiple	0.0	0.0	0.1	0.2	0.0	0.1
Return on:						
shareholders' equity, %	84.1	3.2	–21.4	13.8	–35.3	–61.3
capital employed, %	80.6	3.3	–17.6	14.0	–35.2	–61.2
total capital, %	75.2	3.3	–16.6	12.3	–28.8	–46.8
Equity/assets ratio, %	90.8	85.7	81.3	80.7	83.7	75.0
Average number of shares, '000	31,260	31,260	31,257	29,924	24,718	20,844
Number of shares at year-end, '000	31,260	31,260	31,260	31,254	28,593	20,844
Earnings per share, SEK						
Basic earnings per share, continuing operations	36.24	0.51	–7.49	3.75	–5.43	–6.49
Diluted earnings per share, continuing operations	35.90	0.51	–7.49	3.84	–5.43	–6.49
Basic and diluted earnings per share, discontinued operations	–	–1.19	–	–	–	–
Basic earnings per share, all operations	36.24	–0.68	–7.49	3.75	–5.43	–6.49
Diluted earnings per share, all operations	35.90	–0.68	–7.49	3.84	–5.43	–6.49
Equity per share, before and after dilution, SEK [1)]	63.42	27.27	27.99	35.05	21.24	7.38
Net worth per share, before and after dilution, SEK [1)]	63.42	27.27	27.99	35.05	21.24	7.38
Cash flow per share from operating activities, SEK	32.45	1.38	–4.47	1.91	–3.11	–6.48
Cash flow per share after investments, SEK	31.88	4.93	–4.69	–4.26	–3.34	–6.76
Cash flow per share after financing activities, SEK	31.88	3.37	–7.66	–3.71	20.39	–6.76
Dividend per share, SEK	0	0	0	0	0	0
Number of outstanding share warrants	294,486	249,110	394,400	712,507	803,647	760,000
Capital employed, SEK k	2,032,778	955,470	963,537	1,095,576	607,254	153,855

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.

Basic earnings per share
Profit/loss after financial items less full tax divided by the average number of shares.

Capital employed
Balance Sheet total less noninterest-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.

Diluted earnings per share
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.

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 capital employed
Profit/loss after financial items plus financial expenses as a percentage of average capital employed.

Return on equity
Profit/loss after financial items as a percentage of average equity.

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 cost for the year
The sum of current and deferred tax, taking into account changes in temporary differences and loss carryforwards.

Six-year summary

The Group, SEK k	2014	2013	2012	2011[2)]	2010	2009
INCOME STATEMENTS [1)]						
Net sales	1,766,989	446,146	170,647	512,626	54,912	25,684
Cost of goods sold	–174,018	–71,771	–61,315	–70,636	–770	–
Work performed by the company for its own use and capitalised	–	–	–	–	–	4,077
Other operating income	–	–	–	–	–	5,737
Selling expenses	–103,578	–70,486	–47,727	–84,749	–9,517	–
Administrative expenses	–62,518	–51,867	–59,690	–38,105	–29,533	–
Research and development costs	–245,754	–229,430	–203,352	–184,064	–153,398	–
Other operating income	15,223	6,347	4,607	14,658	7,852	–
Other operating expenses	–7,612	–3,775	–4,501	–34,791	–6,273	–
Operating expenses	–	–	–	–	–	–175,313
Operating profit/loss	1,188,731	25,164	–201,331	114,938	–136,727	–139,815
Profit/loss from financial investments	3,970	2,470	–9,441	25	2,499	4,427
Profit/loss after financial items	1,192,701	27,633	–210,772	114,963	–134,228	–135,388
Tax	–59,966	–11,619	–23,325	4,910	–	13
Profit/loss after tax	1,132,735	16,014	–234,098	119,873	–134,228	–135,375

	31 Dec. 2014	31 Dec. 2013	31 Dec. 2012	31 Dec. 2011	31 Dec. 2010	31 Dec. 2009
BALANCE SHEETS						
Intangible fixed assets	417,577	432,080	514,389	528,994	4,348	4,632
Tangible fixed assets	26,875	27,958	36,070	35,621	24,811	26,941
Financial fixed assets	2,500	10,001	–	9,659	18,793	18,793
Deferred tax receivable	–	43,187	49,238	78,385	–	–
Inventories and current receivables	341,317	80,025	179,771	167,833	30,299	11,254
Cash and cash equivalents	1,395,621	402,220	296,727	536,279	647,240	143,580
Equity	1,982,604	852,587	874,880	1,095,576	607,254	153,855
Deferred tax liability/provisions	–	–	–	–	–	–
Long-term interest-bearing liabilities	–	40,000	40,000	70,041	116	191
Long-term non-interest-bearing liabilities	–	–	448	610	–	–
Current liabilities	201,286	102,883	160,867	190,545	118,121	51,154
Balance Sheet total	2,183,891	995,470	1,076,195	1,356,772	725,491	205,200

1) As of 2010, the Income Statements are classified by function, while the Income Statements for 2008 to 2009 are classified by cost type. For details of the cost type breakdown, see Note 2. The increase in cash and cash equivalents in 2010 was due to, amongst other things, new share issues in Medivir AB in Q2 and Q4 of 2014.

2) Revenues from pharmaceutical sales via the BioPhausia operations acquired are included from 1 June 2011.

Glossary

Agitation
Serious and debilitating complication that can affect patients suffering from schizophrenia or bipolar disorder. Patients who experience agitation describe the condition as an internal feeling of stress that escalates to a dysfunctional condition.

Antiviral
Effective against viruses.

Biomarker
A biological or chemical effect which suggests that a substance may have an effect on a disease.

Candidate drug (CD)
Substance selected for further development to clinical trials. The requirement specifications used by Medivir conform to those used by major pharmaceutical companies.

Cathepsin K
A protease that can break down collagen in bones and cartilage.

Cathepsin S
A protease that plays a role in chronic pain and autoimmune diseases.

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 subjects.

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 organism'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.

HCV
See hepatitis C.

Hepatitis C
Jaundice caused by the human hepatitis C virus (HCV).

HIV (Human Immunodeficiency Virus)
Virus which damages the immune system, leading to AIDS.

IAS (International Accounting Standards)
See under 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
An endogenous protein with an antiviral effect.

Janssen
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.

Multiple sclerosis
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, replicate 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
Degradation of the cartilage in the body's joints.

Osteoporosis
Brittle bones.

Pegylated interferon
Interferon treated with polyethylene glycol in order to extend its half-life.

Pharmacokinetics
The study of the metabolism of pharmaceuticals by the human body.

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.

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 cleave proteins into smaller units.

RBV
See Ribavirin.

Replication complex inhibitor
A substance which, by either inhibiting NS5A or NS5B, prevents the replication of the HCV genome.

Resistance
A genetic change in a virus or bacterium which results in a reduction in the inhibiting effect of a substance.

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.

SBU
The Swedish Council on Health Technology

Share issue
Issuance of new shares in order to obtain new capital.

SVR
Sustained Virological Response.

Volatility
Variability.

Shareholder information

Forthcoming financial information, 2015
- Q1 Interim Report, published 5 May 2015.
- Q2 Interim Report, published 20 August 2015.

The reports will be available on Medivir's website, www.medivir.se, under the heading, Investor Relations, as of these dates.

Medivir sends its reports to all shareholders with the exception of those who, in conjunction with the registration of their securities accounts, declined all information.

For additional information on Medivir, please contact
Ola Burmark, CFO.
Phone: +46 (0)8 407 64 70
ola.burmark@medivir.com

2015 Annual General Meeting

The Annual General Meeting will be held at
the "IVA Konferenscenter" at Grev Turegatan 16, Stockholm, Sweden at 14.00 (CET) on Tuesday, 5 May.

Shareholders wishing to attend the Annual General Meeting shall:
- be entered in the register of shareholders maintained by Euroclear Sweden AB no later than 28 April 2015,
- notify the company of their intention to attend, no later than 28 April 2015, stating their name, address and telephone number, either by letters in the post to:
  Medivir AB, Blasieholmsgatan 2,
  SE-111 48 Stockholm, Sweden
  or by telephone: +46 (0)8 407 64 30
  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 attend 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 28 April 2015.

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Blasieholmsgatan 2, SE-111 48 Stockholm | Street address: Hovslagargatan 5
Phone +46 (0)8 407 64 30 | info@medivir.se | www.medivir.se