Annual Report 2016

MEDIVIR

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












Medivir in brief

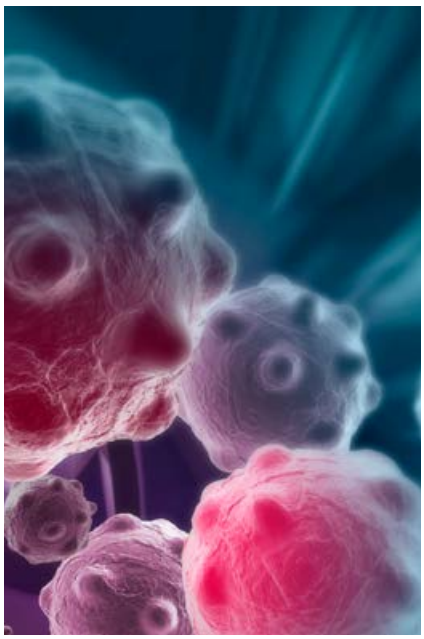
Medivir develops innovative pharmaceuticals for the treatment of cancer. The company specializes within protease inhibitor research and nucleotide/nucleoside science.

The research is conducted in all phases of pharmaceutical development, from idea to clinical phase III studies. The development work is conducted both in-house and through partnerships.

Research and development

At Medivir we work in all phases of drug discovery. Some projects we run in-house and some projects we run in conjunction with various partners. The company's current research and development focus is within oncology.

Read more on pages 15–16.



Cancer

Medivir has chosen to focus on cancers of high unmet medical need, where existing therapies are not very successful and there is a great opportunity to provide real benefit to patients who have few treatment options.

Read more on pages 17–18.

Our projects

Medivir is currently conducting research and development operations primarily within oncology. The R&D portfolio comprises eight pharmaceutical projects, six of which are being conducted in-house and two in collaboration with partners. The in-house projects are primarily in the oncology area, but also include projects addressing the RS virus and osteoarthritis. The external projects are both in the area of infectious diseases.

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 pharmaceutical products.

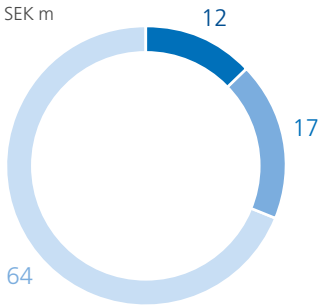
Read more on pages 19–27.

2016

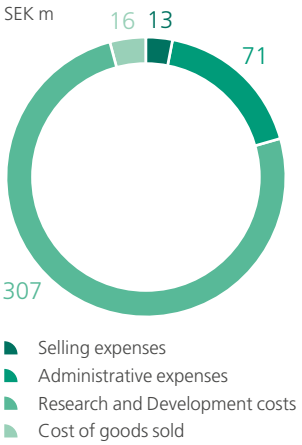
Significant events

- Medivir focuses on oncology, and reorganises in order to achieve significant cost structure savings.
- Medivir divests its BioPhausia (Nordic Brands) pharmaceutical company to Karo Pharma.
- Medivir's nucleotide-based polymerase inhibitor for the treatment of liver cancer, MIV-818, enters non-clinical development.
- Medivir strengthens its clinical pipeline through agreements to acquire a portfolio of clinical stage oncology programmes.
- Medivir's fusion inhibitor for the treatment of RSV infections, MIV-323, enters non-clinical development.
- Osteoarthritis trial evaluating MIV-711: the trial can continue without modifications after a successful third review of safety data.
- Janssen Research & Development, LLC., has launched an open-label phase IIb trial of a combination treatment including simeprevir, odalasvir and AL-335 (JNJ-4178) in treatment-naïve and treatment-experienced non-cirrhotic patients with chronic hepatitis C infection.

Net turnover



Operating expenses



Key ratios[1)]

SEK m	2016	2015	2014	2013	2012
Net turnover[2)]	93	474	1,767	446	171
Operating profit[2)]	–313	55	1,189	25	–201
Liquid assets	1,698	1,078	1,396	402	297
Equity/assets ratio, %	90	90	91	86	81
Number of employees	117	127	141	128	117

[1)] A voluntary redemption programme offering Medivir's shareholders the opportunity to redeem one in every four shares at a price of SEK 129 was approved at an Extraordinary General Meeting held after the end of 2016. The redemption process will entail the transfer of SEK 857.5 million of the company's liquid assets to the shareholders.

[2)] 2015 and 2016 have been recalculated to correspond to the continuing operations.

2016 in figures[1)]

Net turnover

SEK 93.0 m

2015: SEK 474.3 m

of which royalties for Simeprevir

SEK 60.3 m

2015: SEK 418.6 m

Profit after tax from continuing operations

SEK −294.9 m

2015: SEK 31.7 m

Earnings per share from total operations

Basic

SEK 10.50

2015: SEK 2.59

Diluted

SEK 10.47

2015: SEK 2.56

Liquid assets

SEK 1,698.5 m

2015: SEK 1,077.9 m

Equity/assets ratio, %

90.2%

2015: 89.7%

[1)] A voluntary redemption programme offering Medivir's shareholders the opportunity to redeem one in every four shares at a price of SEK 129 was approved at an Extraordinary General Meeting held after the end of 2016. The redemption process will entail the transfer of SEK 857.5 million of the company's liquid assets to the shareholders.

The new Medivir

In 2016, we carried out a transformation designed to increase the streamlining, focus, and efficiency of our operations. In short, we created a new Medivir.

We implemented several measures in 2016 to achieve a more streamlined and efficient Medivir. One key step in this process was the shift to a dedicated focus on research and development, resulting in the sale of BioPhausia, the company that handled the commercial sales of our pharmaceuticals in the Nordic region. We considered a separate listing of BioPhausia, but ultimately concluded that a sale to Karo Pharma AB was the best option. This move generated concrete value for our shareholders in the form of a resolution at an EGM after the end of the financial year to disburse the net proceeds of the sale in the form of a voluntary redemption offer. There was also a sound industrial logic to the sale, as the pharmaceutical portfolio was transferred to a company with a sales and marketing focus.

Focus on cancer

We also decided that our R&D would focus exclusively on oncology, i.e. cancer, and to this end, acquired two interesting late clinical phase oncology projects, remetinostat and birinapant (pages 23–25). The acquisition strengthens and balances our research portfolio and gives us a greater breadth of projects in different phases, shifting the emphasis from early research to clinical development. The acquired projects are within our core competence areas and in indications where there is both a great medical need and very attractive commercial potential.

It is also important to emphasise that our research will continue to be based on our proven scientific platform, which is ideally suited to certain types of cancer research. This opportunity to combine the application of our core competencies with areas of substantial patient need is what makes oncology so commercially interesting.

Strong early research

The strength of our early research and its ability to supply our clinical pipeline with new projects is clearly shown by our great improvements in productivity and development of no less than 3 new candidate drugs over the past 2 years.

The latter half of 2016 saw both MIV-323 (RSV infections), and MIV-818 (liver cancer), progress to preclinical development, and in Q3 of the year, we also out-licensed MIV-802 (hepatitis C), which we selected as a candidate drug in late 2014. We will, in line with our new focus on oncology, continue to develop MIV-818 in-house, but will be seeking a partner for the further development of MIV-323.

One other project that I am particularly keen to highlight is our osteoarthritis study, MIV-711, which is now fully enrolled and in a very interesting phase, and where we expect to be able to present results during Q3 2017. Osteoarthritis is another area with exceptional potential and where the medical need is very substantial, and it is our hope that the trials will confirm earlier promising results. Once these results are in, we can proceed to identify a partner for this project.

Our partner, Janssen Research & Development, also announced during 2016 that they are building on previous promising results by initiating a phase IIb study of the combination of simeprevir, odalasvir and AL-335 for the treatment of hepatitis C. The hope is that simeprevir will achieve a new, more sustained sales success as a component of this combination regimen.

Important milestones in 2017

The transformation means that we can look forward to several important milestones in 2017 and a continuous news flow over the next few years with interesting potential for value creation. This includes the results of the MIV-711 osteoarthritis project, clinical trials as part of our new cancer projects with remetinostat and birinapant, preclinical trials for the MIV-818 liver cancer project, and Janssen's continued trials of the simeprevir combination treatment. We also have very exciting projects in the early research phase, and which will take decisive steps forward in 2017 and the years ahead.

Cost-effective development of new pharmaceuticals is an important component of our business concept, and to this end, we completed a reorganisation of the early research and administrative functions during the year, and which is expected to yield annual savings totalling ca. SEK 110 m.

It is important to us that we conduct our operations in a sustainable manner, and we are supported in these efforts by regulations and industry standards that naturally integrate many of the most important sustainability issues into our operations. Fundamentally, Medivir creates sustainable value by developing pharmaceuticals that can extend and improve the quality of people's lives.

Huge value creation potential

Medivir's impressive ability to develop new candidate drugs is naturally based, to a large extent, on the competence and commitment of our employees, and I would like to thank every single one of them for the important contributions they have made during a year of change and stress. It is, nevertheless, also a matter of great regret to me that our cost-cutting measures resulted in around 40 employees having to leave the company during the year.

I am, however, convinced that the extensive transformation we completed in 2016 has laid an excellent foundation for Medivir's future development. Our strong and balanced R&D portfolio – based on our scientific platforms in the areas of protease inhibitors and nucleosides/nucleotides – offers huge potential for building value in both the short and long-term. It is, therefore, with a sense of pride and great confidence, that I can state that now is the right time to hand over the baton to a new CEO, Christine Lind. I would like to take this opportunity to thank all of our engaged shareholders, the Board of Medivir, and every single employee and business partner, for the stimulating years I have had as CEO of Medivir and to wish the company every success in the future. I will continue to be a Medivir shareholder and will be following the progress with great interest!

Niklas Prager, CEO

"We are in a strong position today, with highly skilled employees and several promising development projects.

It is, therefore, with a sense of pride and great confidence, that I can state that the spring of 2017 is the right time to hand over the baton to a new President & CEO, Christine Lind."

Vision, business concept and strategy

Vision | Improving life for cancer patients through transformative drugs.

Business concept | Medivir is a research and development company that harnesses a unique combination of scientific knowledge, collaborative spirit and extensive industry experience to discover and develop transformative cancer drugs efficiently.

Strategic priorities

Medivir has four overall strategic priorities. They are based on our leading research and development expertise and proven business development capabilities.

1

CONSISTENTLY DISCOVER AND DELIVER WELL DIFFERENTIATED ONCOLOGY DRUG CANDIDATES

Ensure a constant flow of well differentiated oncology projects and progress high potential candidate drugs into clinical development.

2

EFFICIENTLY DEVELOP DRUGS THROUGH THE CLINICAL PHASES

Drive efficient cross-functional development of candidate drugs from Medivir's in-house research, or those from in-licensing or acquisition, to create products that meet the needs of patients and other decision-makers.

3

BE A RESPECTED COLLABORATOR AND GENERATE INCOME FROM PARTNERSHIPS

Partner projects from the research and development pipeline when collaborators can meaningfully enhance the value and thereby generate income in the form of milestone payments and royalties.

4

BE AN ATTRACTIVE PLACE TO WORK

Nurture a creative, stimulating and professional culture that attracts skilled and innovative employees, and encourages their retention and development.

Achieved milestones in 2016

Medivir achieved a number of important milestones in 2016 in terms both of its projects and its operations in general.

- Phase IIa study initiated for the MIV-711 osteoarthritis project and enrolment of patients completed during the year, according to schedule.
- Janssen reported positive data from a phase IIa study and initiated a phase IIb study of triple combination treatment with simeprevir for the treatment of patients with hepatitis C.
- MIV-818, which is being developed for the treatment of liver cancer, entered non-clinical development.
- MIV-323, which is being developed for the treatment of RSV infections, entered non-clinical development.
- Partnership agreement reached for MIV-802, which is being developed for the treatment of hepatitis C.
- The project portfolio was strengthened through the acquisition of two clinical stage oncology programmes.

Milestones for 2017

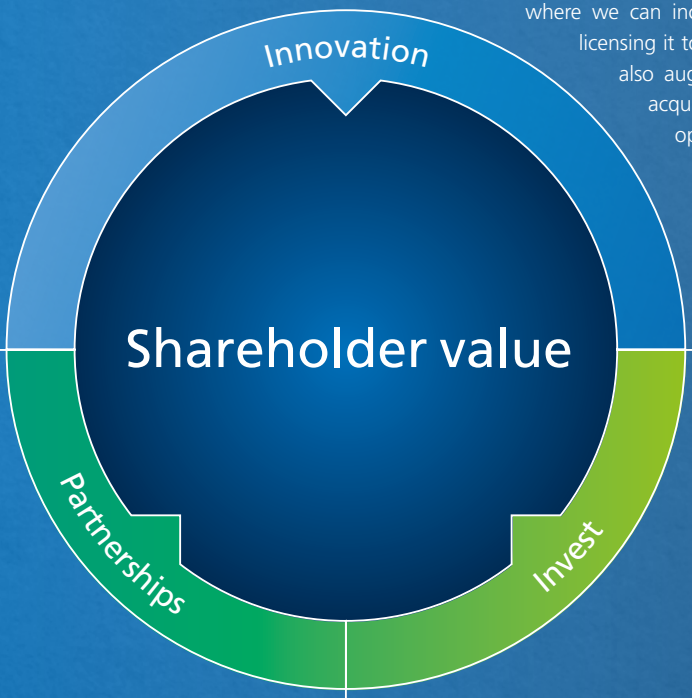
- Data from the ongoing phase IIa study of MIV-711, which is being developed for the treatment of patients with osteoarthritis, will be presented in the third quarter of 2017.
- Phase I/II study of birinapant in combination with Keytruda™ in patients with solid tumours will be initiated in the second quarter of 2017.
- Phase I/II study of birinapant in patients with platinum-resistant ovarian cancer will be initiated in the first quarter of 2017.
- Phase III study of remetinostat in patients with a form of lymphoma (CTCL) will be initiated in the latter half of 2017.
- Data from the phase IIb combination study involving simeprevir will be published by Janssen in late 2017.

Medivir's business model

Using our scientific platform and applying cutting-edge science focusing on oncology, we will attract talent and relevant partners to our projects, and by streamlining our processes and maximizing the potential of each project, we will increase shareholder value.

Innovation

Medivir has documented successful R&D operations that build long-term value, with research based on the company's established scientific platform. Our focus is on oncology and is orientated towards areas with a substantial need for new medical treatments that can generate real patient benefit. Medivir progresses projects from the discovery phase through clinical development. The development portfolio acquires new projects through the transformative candidate drugs for cancer indications developed in-house by Medivir and which offer real development potential. The projects are conducted in-house to the point where we can increase the project's value by out-licensing it to a partner. The project portfolio is also augmented through in-licensing and acquisitions. The pharmaceutical development work is highly efficient and the projects are closely related to Medivir's scientific platform.



Partnerships

Medivir out-licenses the projects at the point when collaboration with a partner can increase the projects' value. The projects are usually out-licensed to global pharmaceutical companies who assume responsibility for the cost-intensive late phase development and for global commercialisation. This helps spread the risk and ensures access to the resources and financing necessary for the projects to succeed. These collaborations and partnerships generate income through milestone payments during development and through royalties after a product has reached the market. Medivir's expertise and efficiency are important foundations for building value within the research portfolio and for forging and maintaining good relationships with in- and out-licensing partners.

Invest

Medivir strengthens and expands both the scientific platforms and the project portfolio through a constant flow of projects in the company's core area of oncology. Selected projects are progressed through clinical phases. Future research results are secured by attracting, retaining and developing skilled and innovative employees who help create a corporate culture characterised by cutting-edge scientific expertise, efficiency and quality.

The oncology market

The market for oncology drugs is rapidly changing and a majority of patients are still underserved.

According to a report from the IMS Institute for Healthcare Informatics[1], in the last five years, over 70 new oncology treatments have been launched to treat over 20 different tumor types. Among these new options are immuno-oncology drugs, which have dramatically changed the treatment of various cancers. Immuno-oncology therapies are medicines that use the body's immune system to fight cancer, but do not target the cancer tumor itself. While these new drugs have been approved with meaningful survival benefits, and at high cost, a majority of patients still are underserved. New immuno-oncology therapies still do not work in many patients.

The recognition of oncology as a series of diseases rather than a single disease area, with the complexities therefore in development, has also lead to an increase in development of targeted agents. Targeted agents are drugs that block the growth and spread of cancer by interfering with specific molecular targets that are involved in the growth, progression, and spread of cancer. Approximately 20–30 per cent of the volume of new treatments introduced in the last five years are targeted agents. In the global development pipeline for cancer, almost 90 per cent of the drugs are targeted agents.[2]

Certain indications within oncology impacting larger patient populations, for example non-small cell lung cancer and melanoma, have received the majority of attention in development. Orphan cancer diseases, cancers that are relatively rare, however, can represent a meaningful opportunity for development. In order to foster interest in drugs for orphan diseases, the US FDA and EU EMA health authorities have orphan designations, which include rare cancers, that come with assistance to gain marketing authorisation, and extended market exclusivity periods, among other benefits.[3]

Tackling difficult diseases requires harnessing the power of many

Combination treatments are a key trend in oncology development. There are over 500 companies actively developing oncology agents, including almost all of the top 20 global pharmaceutical companies and more than 40 per cent of drugs are being developed in collaborations.[4] Is it expected that many of the new treatment combinations will include an immuno-oncology agent.

Speed to market has increased dramatically

In the US, in the last three years, the median time from patent filing to FDA approval has decreased by almost one year, primarily from having advanced mid-to-late-stage drugs more quickly and gaining approval sooner. This reduced time to approval has allowed almost half of the new treatments in the last three years to be brought to patients more quickly.[5] The FDA has a series of processes that may be contributing to this reduction in time, including "Breakthrough Therapy" designation introduced in 2012. Breakthrough Therapy designation is a process designed to expedite the development and review of drugs that are intended to treat a serious condition and for which preliminary clinical evidence indicates that the drug may demonstrate substantial improvement over available therapy.[6]

Access, pricing and reimbursement are continuing issues

Global oncology costs in 2015 were estimated to be $107 billion and expected to exceed $150 billion in 2020.[7] The US continues to be the largest oncology therapy market, accounting for almost half of worldwide oncology costs in 2015. Only in North America and Western Europe is the access to new cancer medicines relatively high, with commercial availability to more than 60 per cent of the new therapies. Even so, despite high availability, public insurance program reimbursement in these same regions are country specific and may not be automatic upon approval. Decisions on drug reimbursement are based on a variety of factors including severity of disease, therapeutic effect of the product, and pricing. The intersection of cost-effectiveness and quality of life benefits will continue to be an important focus area in oncology drug development. It is expected that drugs with significant benefit to patients over current treatments or where there are no existing treatments are more likely to receive reimbursement.

Medivir's focus in oncology in areas of high unmet need

Our current development projects address several of the oncology market trends: orphan indications of CTCL and HCC. Development in combinations including with immuno-oncology agents, such as Merck's Keytruda™ in order to enhance the therapeutic effect for patients. Targeted therapies, such as our liver-targeting nucleotide for liver cancer, MIV-818. In each of our development projects we focus on bringing benefit to patients with high unmet need and in ways that currently available treatments are not addressing.

[1] IMS Institute for Healthcare Informatics, Global Oncology Trend Report: A Review of 2015 and Outlook to 2020, June 2016.
[2] IMS Health, R&D Focus, IMS Institute for Healthcare Informatics, May 2016.
[3] For further information, please see http://www.fda.gov and http://www.ema.europa.eu/ema/
[4] IMS Institute for Healthcare Informatics, Global Oncology Trend Report: A Review of 2015 and Outlook to 2020, June 2016.
[5] IMS Institute for Healthcare Informatics, Global Oncology Trend Report: A Review of 2015 and Outlook to 2020, June 2016.
[6] US FDA Breakthrough Therapy. http://www.fda.gov/ForPatients/Approvals/Fast/ucm405397.htm
[7] IMS Institute for Healthcare Informatics, Global Oncology Trend Report: A Review of 2015 and Outlook to 2020, June 2016.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The pharmaceutical development process

The development of a new pharmaceutical normally takes between 10 and 15 years. The initial phases can involve testing thousands of compounds, with the most promising selected as candidate drugs. Safety and efficacy are tested during the preclinical development phase, before the trials on humans begin during the clinical trials phase. Additional clinical trials are sometimes carried out after approval and launch in order to optimise use.

Optimisation phase

The molecules' properties are optimised with regard to safety, efficacy and pharmacokinetics, and their potential benefits in comparison with other similar pharmaceuticals are evaluated. This work results in the selection of one or more candidate drugs for further development.

Preclinical development

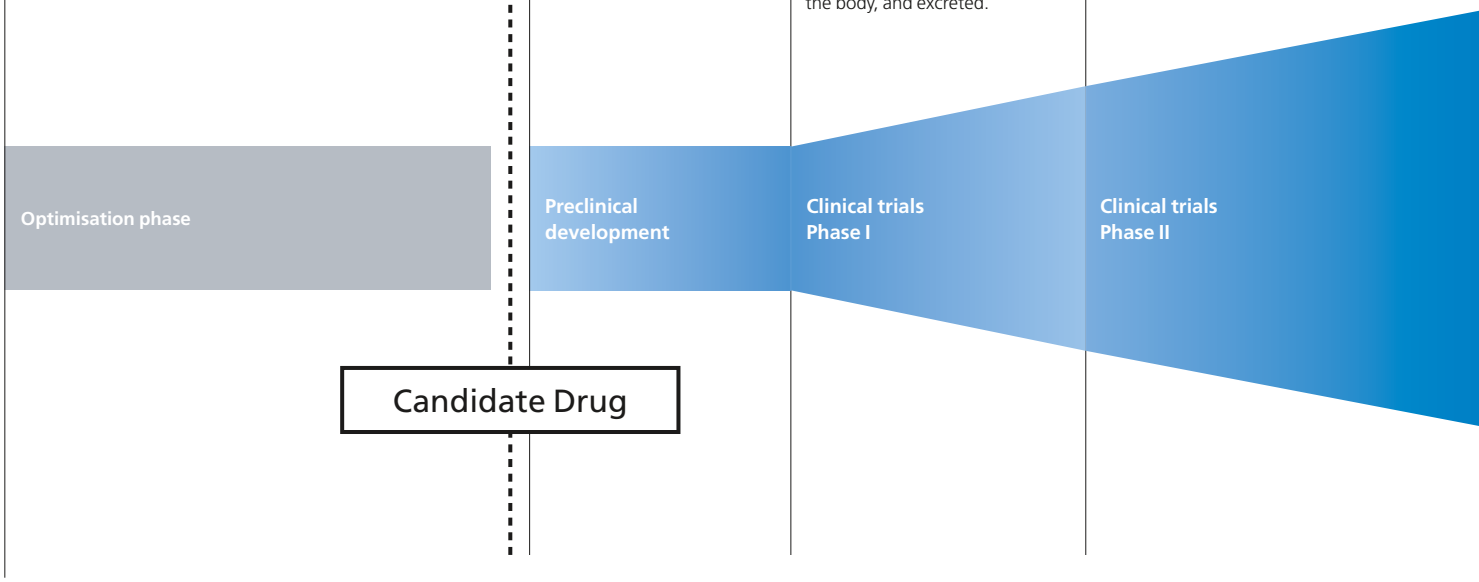
A systematic and comprehensive evaluation is performed in order to establish whether the substance is safe enough to enter trials on human beings. If these studies show that the substance has an appropriate safety and efficacy profile, an application is made to the relevant regulatory agencies and ethical review boards for permission to initiate clinical studies, together with details of the design of these trials.

Clinical trials

Clinical trials for a new pharmaceutical product involves studies or trials conducted on human beings. These trials are carefully regulated by the requirements of the regulatory agencies. Before a clinical trial can begin, both the regulatory agency and ethical review boards must approve the design of the clinical trial. The process involves several different phases (phase I-IV). Phase IV studies are conducted in parallel with approved usage of the pharmaceutical.

Phase I
Test subjects:
20 to 100 subjects. Usually these are healthy volunteers but the studies may also include patients with the disease in question.
Duration of studies: Between a few months up to a few years.
Purpose: To establish safe doses and identify possible adverse events, and to understand how the pharmaceutical is absorbed, transported round the body, and excreted.

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



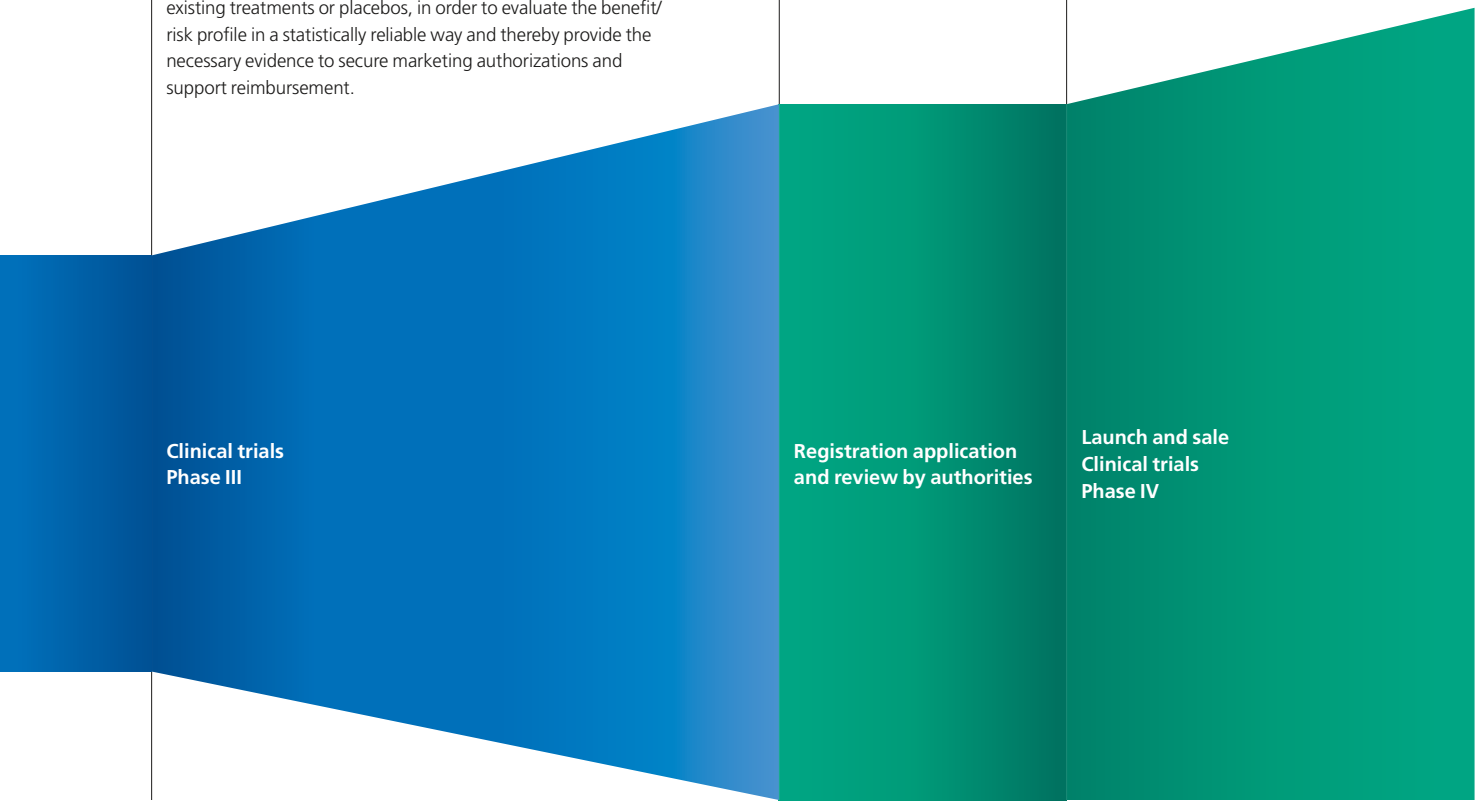
Phase III
Test subjects: Between several hundred and several thousand patients with the disease/symptoms.
Duration of studies: This phase can take up to several years.
Purpose: To study the efficacy and adverse events profiles in larger patient groups, including comparative studies with existing treatments or placebos, in order to evaluate the benefit/risk profile in a statistically reliable way and thereby provide the necessary evidence to secure marketing authorizations and support reimbursement.

Registration

Before a pharmaceutical product is approved an application for a licence to market the pharmaceutical has to be submitted. The regulatory agencies conduct a detailed review of the comprehensive documentation submitted by the company and then decide on whether to approve the pharmaceutical, and in which patient populations. This stage also involves price negotiations with the relevant authorities and purchasers.

Launch and sale

Additional clinical trials may be conducted once a pharmaceutical has been approved by a medicines agency and launched on the market, in order to optimise the drug's usage. These so-called phase IV or post marketing surveillance trials are conducted in parallel with sales. These are so-called phase IV studies and are conducted in parallel with sales. Approved usage also forms part of the studies.

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Focus on oncology

Medivir's operations are based on the company's established and proven scientific platform. Our research and development resources are focused on our core area of oncology.

Scientific platform
Medivir's scientific platform is based on cutting-edge expertise in protease inhibitor design and nucleotide/nucleoside science.

Proteases are a group of enzymes that play a decisive role in the development of numerous conditions, from infectious diseases to cancer. Protease inhibitors are often used in combination with nucleoside analogues in the treatment of HIV and hepatitis C. Medivir has historically targeted viral proteases in its R&D work, with simeprevir as the clearest example of our success to date.

Nucleoside analogues are the building blocks that make up DNA and RNA, and these molecules play a key part in the treatment of virtually all (viral) diseases for which an effective antiviral treatment exists. The development of Xerclear (Zoviduo®), which was approved for the treatment of labial herpes in 2009, is proof of Medivir's successful research based on nucleoside analogues.

Medivir's current R&D programme is focused on oncology – an area in which our scientific platform offers considerable scope for the development of innovative drugs – and we have identified two particular areas of significant potential:

- The design of protease inhibitors where there is a clear link to one or more forms of cancer and a well-defined opportunity to improve treatment outcomes;
- The know-how in selectively targeting pharmaceuticals to the liver as part of the company's nucleotide-based hepatitis C inhibitor project can be utilised to steer cancer drugs, for example in the treatment of liver cancer.

The company is continuously evaluating new oncology projects that could strengthen our R&D portfolio. The main criteria are that new projects must be commercially interesting, which is assessed on the basis of medical need and the competitive climate, and that the development programme is scientifically and financially feasible.

Research projects
Medivir's early stage research portfolio currently comprises a number of projects evaluating, amongst other things, protease inhibitors as new immuno-oncology drugs, evaluating the potential for delivering nucleotide-based drugs directly to a specific organ, and evaluating DUB inhibitors. Successful research projects are selected as new candidate drugs and transferred to the clinical development portfolio.

Clinical development portfolio
The company's development portfolio comprises:

- Remetinostat is focused on the early-stage treatment of a form of blood cancer that presents in the skin.
- Birinapant is a substance currently being studied in two separate clinical studies focusing, respectively, on solid tumours, and on high-grade serous carcinomas, including ovarian cancer.

Acquisitions in 2016 resulted in the addition of Remetinostat and Birinapant to the portfolio.

- MIV-818 for the treatment of hepatocellular cancer, HCC, which is the most common form of liver cancer.
- Medivir is also conducting a development project with MIV-711 – a cathepsin K inhibitor for the treatment of osteoarthritis.

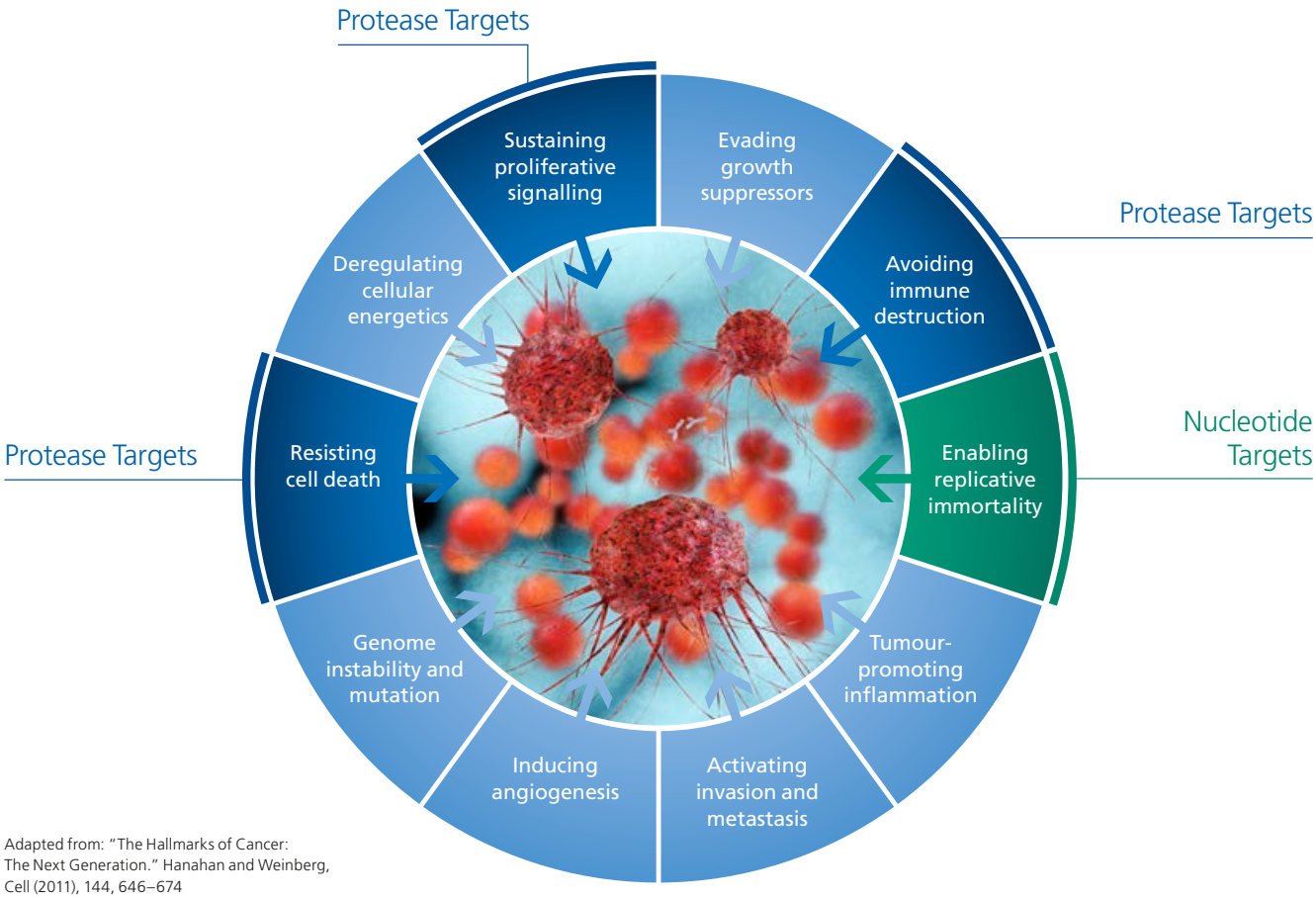
Medivir has the resources and expertise necessary to progress projects all the way up to various phases of clinical studies. The company endeavours to optimise the value of its projects and then to out-licence the projects to global pharmaceutical companies (partners) who have the resources and infrastructure necessary to conduct multinational clinical programmes as a basis for parallel international registration and subsequent global commercialisation.

The decision to focus Medivir's operations exclusively on oncology resulted in the launch of discussions with regard to partnerships for all of the remaining R&D assets in the area of infectious diseases during the year. Medivir's preclinical phase RSV project, where the intention is to out-licence the project for further development by a partner, is one example.

Partnership projects
Medivir is currently working on the development of two projects in collaboration with other pharmaceutical companies:

- An antiviral combination treatment that includes simeprevir, an HCV NS3/4A protease inhibitor approved for the treatment of chronic hepatitis C infection, is being developed in collaboration with Janssen Pharmaceuticals.
- MIV-802, a nucleotide-based polymerase inhibitor for the treatment of hepatitis C, is being developed in collaboration with Trek Therapeutics.

Medivir approaches to cancer drug discovery



Adapted from: "The Hallmarks of Cancer: The Next Generation." Hanahan and Weinberg, Cell (2011), 144, 646–674

Figure: Medivir's approaches to the discovery of novel anticancer drugs. While cancer represents a large number of diseases that are characterized by aberrant cellular proliferation, there is an increasing recognition that cancers are characterized a number of common features, which Hanahan and Weinberg have termed the hallmarks of cancer (Hanahan and Weinberg, Cell (2011), 144, 646–674). Medivir's approaches to the discovery of novel anticancer drugs is based on its core scientific platforms of nucleoside and nucleotide science, and protease inhibitor design. Nucleotides target processes that are essential for the sustained replication of the cancer cell's genetic material. Proteases are involved in a number of other processes that are essential to initiate and sustain tumour growth. The areas in which Medivir has active projects are highlighted in the figure.

Organisation

Medivir's research and development is organised to combine cost-effectiveness, quality, and flexibility. This is achieved through a small, in-house organisation with cutting-edge competence in protease inhibitor design and nucleoside science, and through partnerships with other external partners. All external activities in the field of synthetic chemistry are, for example, conducted by a research unit at GVK BIO in India.

The transition to an exclusive focus on oncology resulted in a reduction in the number of early research phase projects during the year, coupled with an expansion of the company's clinical phase pipeline. Rationalisation measures were, furthermore, implemented in the administration and commercial support functions. These measures resulted in substantial savings but also, unfortunately, in around 40 employees leaving the company.

Patents

Patent protection and regulatory protection, such as data exclusivity, orphan drug exclusivity, and paediatric extension, are key components of pharmaceutical development, both for those projects that are developed in-house and those that are in-licensed. Medivir has established a comprehensive and systematic process for securing and continuously monitoring its patent protection. The portfolio currently comprises around 26 patent families, with over 150 national patents awarded. In 2016, Medivir sought new patent families, primarily within the HCC and RSV projects, and acquired two patent families that protect remetinostat and six that protect birinapant. In the USA, the FDA has approved orphan drug designation of remetinostat for the treatment of CTCL.

Cancer

Medivir's research and development focuses on the development of new cancer drugs through the application of the company's expertise in protease inhibitor design and nucleoside/nucleotide science.

What is cancer?
A cancerous tumour occurs when cells divide in an uncontrolled manner: quite simply, the cells do not know when to stop dividing. Genetic changes result in the cells stimulating both their own growth and the growth of blood vessels to and from the tumour. Cancer cells are, furthermore, not responsive to incoming signals to stop dividing, and are unable to die like ordinary cells. The aggregate effect is that the cells are unable to operate normally.

When tumours grow, they become more aggressive and start invading surrounding tissues. The cancer cells often spread to other tissues too, forming subsidiary tumours (metastases). Cancer treatment is rendered more difficult by the fact that when the tumour is exposed to different treatment methods, they can cause an evolutionary selection process or mutations to occur in the cancer cells within the tumour, and this may result in resistance developing and a relapse occurring.

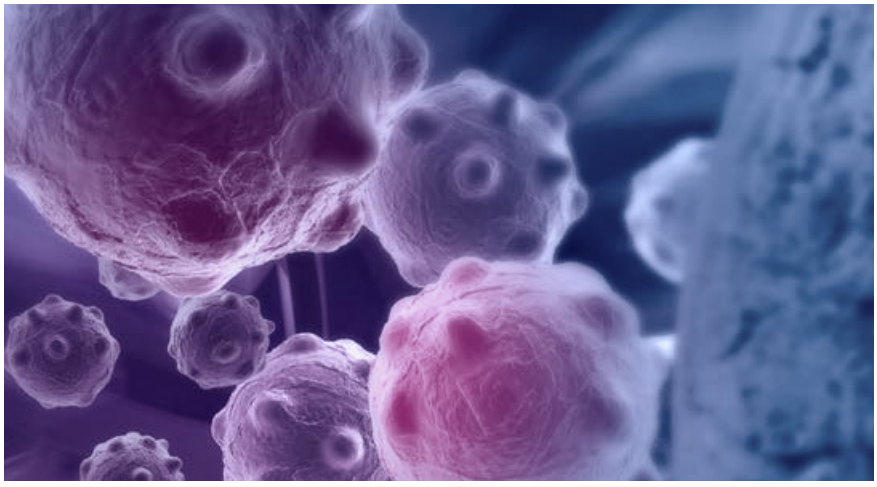
What are the different types of cancer?
There are many different types of cancer, with very different characteristics and prognoses. They have been traditionally described by factors such as: location of disease (e.g. lung, colon, prostate, liver); tissue of origin (carcinoma, sarcoma, lymphoma), cell type (e.g. hepatocellular carcinoma, mantle cell lymphoma, Small Cell Lung Cancer); Stage (e.g. Child-Pugh for HCC or Gleason score in prostate).

Some cancer types respond well to current therapies, but many do not. The molecular classification of cancer is emerging as a better way to stratify patients for therapy e.g. HER2 positive breast cancers respond well to trastuzumab (Herceptin™) and EML4-ALK positive Non-Small Cell Lung Cancers respond well to crizotinib (Xalkori™).

In which types of cancer is Medivir most interested and why?
Medivir focuses on cancers of high unmet medical need, where existing therapies are not very successful and there is a great opportunity to provide real benefit to patients who have few treatment options. The choice of the tumour type of focus will vary greatly depending on the individual project and the activity and role of drug targets in different cancer types, and sub-populations of cancer patients within one type that expects to respond well to treatments.

Some cancer types of particular interest to Medivir include hepatocellular carcinoma (HCC), cutaneous T-cell lymphomas (CTCL), solid tumours and high-grade serous carcinomas (ovarian cancers), which are all highly aggressive diseases with poor treatment options and very low overall survival rates on the best current treatments today.

See pages 22–25 for more detailed descriptions of our oncology projects.



What is Medivir's approach to the development of cancer drugs?

Physically removing the cancer *(radical surgery)*

When cancer can be detected relatively early, then for many cancer types, surgical removal of the tumour remains the most effective therapy. However, in most cases, the tumour can never be completely removed and other approaches are almost always taken to treat the cancer.

Killing cancer cells

Chemotherapy and radiotherapy remain mainstays of cancer therapy today, focused on direct inhibition of proliferation by damaging DNA (nucleosides 5FU, doxorubicin, radiotherapy) or cell division (e.g. taxanes, paclitaxel).

Medivir's approach: *Selective delivery of nucleotide-based pharmaceuticals to tumours in the specific organ, e.g. the liver.*

See HCC Project, page 22.

Inhibition of key cancer growth and survival pathways

There has been an explosion of interest in the modern era of cancer therapy in identifying cellular pathways that are important for cancer and considerable success in designing inhibitors of these pathways. The use of imatinib (Gleevec™) to target BCR-ABL in chronic myelogenous leukemia and the use of erlotinib (Tarceva™) to target EGFR in non-small cell lung cancer demonstrate that the inhibition of specific cellular pathways can lead to therapeutic benefit.

Medivir's approach: *It is now recognized that the ubiquitination system can regulate many important cancer pathways and that using deubiquitinase (DUB) inhibitors could provide a novel approach to targeting them. Medivir is applying our strength in protease inhibitor design to investigate multiple DUB targets.*

Targeting host cells

Cancers are dependent on the host organism to survive and evolve to use host cells to their advantage. Two of the important host systems are listed below, which can open up opportunities for cancer therapy.

Angiogenes – the generation of new blood vessels to provide nutrients and oxygen to feed the tumour is an essential requirement for cancer growth. An example of an angiogenesis inhibitor is sorafenib (Nexavar™) which is approved for the treatment of HCC and renal cell carcinoma.

Evading the immune response – cancers suppress the host immune system by a variety of methods to hide themselves from attack. We are witnessing the blossoming of immuno-oncology where a number of biological agents that stimulate the immune response have led to spectacular responses in clinical studies. Notably, no small molecule approaches have yet been successful in activating the immune system, but could be great successes in the future.

Medivir's approach: *Identify and evaluate protease inhibitors which may have a role in regulating the immune response to assess their potential as new immuno-oncology agents.*

Our projects

Medivir is currently conducting research and development operations primarily within oncology. The R&D portfolio comprises eight pharmaceutical projects, six of which are being conducted in-house and two in collaboration with partners. The in-house projects are primarily in the oncology area, but also include projects addressing the RS virus and osteoarthritis. The external projects are both in the area of infectious diseases.

Proprietary projects

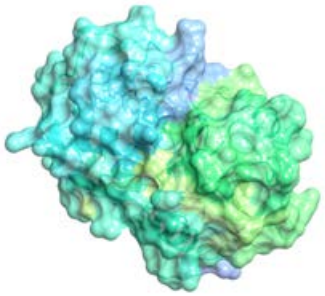
Project/Mechanism	Disease area	Discovery	Preclinical	Phase I	Phase II	Phase III	Market
		Preclinical phase		Clinical phase			
Remetinostat Topical HDAC inhibitor	**Cutaneous T-cell lymphoma**						
MIV-711 Cathepsin K inhibitor	**Osteoarthritis**						
Birinapant SMAC mimetic	**Solid tumors***						
	High-grade serous carcinomas						
MIV-818 Nucleotide DNA polymerase inhibitor	**Hepatocellular carcinoma**						
MIV-323 Fusion protein inhibitor	**RSV-infection**						

***** Combo with Keytruda™

Partnered projects

Project/Mechanism	Disease area	Partner	Discovery	Preclinical	Phase I	Phase II	Phase III	Market
			Preclinical phase		Clinical phase			
Olysio (simeprevir)	**Hepatitis C**	**Janssen**						
JNJ-4178 AL-335+odalasvir+simeprevir	**Hepatitis C**	**Janssen**						
Xerclear	**Labial herpes**	**GSK and Meda**						
MIV-802 Nucleotide NS5B polymerase inhibitor	**Hepatitis C**	**Trek Therapeutics**						

MIV-711 for the treatment of ostheoarthritis



MIV-711 is a highly selective cathepsin K inhibitor that was invented by Medivir scientists. Up to 40 per cent of the population over the age of 65 suffer from osteoarthritis, which is the most common form of joint disease. MIV-711 has the potential to be a disease-modifying treatment for OA.

A major goal of OA research is to identify drugs capable of slowing, stopping or even reversing the progression of the disease, referred to as Disease Modifying Osteoarthritis Drugs (DMOADs). Recent scientific work suggests that two separate processes, bone resorption and cartilage degradation, are involved in the development and progression of OA. Future treatments for OA should target both processes in order to prevent further disease progression.

Mechanism of Action

Cathepsin K is a protease that breaks down collagen, a protein that plays an important role in the structural integrity of both bone and cartilage. Medivir's research has shown that inhibition of cathepsin K can reduce the rate of joint destruction in preclinical models of osteoarthritis, supporting the development of MIV-711 as a DMOAD.

Disease area

Osteoarthritis is the most common form of joint disease and is characterised by pain and varying degrees of inflammation in one or more joints. The joints most commonly affected are the knees, hips and hands. Typically, the patient experiences pain in conjunction with movement or when the joint is supporting weight. Some patients also experience swelling and pain, even when the joint isn't being used. The osteoarthritic joint is characterized by a gradual loss of cartilage together with an increasing formation of abnormal bone structures in the vicinity of the joint which can be visualized with imaging techniques. Clinically, the gradual disease progression in the joint is expressed as a continuous worsening of the disease severity in terms of pain and joint function which in turn makes the patient ever more immobile. The vicious cycle is completed as the immobility leads to life style changes that drive weight gain which in turn puts more stress on the diseased joints further accelerating joint disease progression. The overall OA disease progress also aggravates other life style related medical problems such as cardiovascular and metabolic diseases.

The incidence of osteoarthritis is increasing, as the population ages and obesity becomes more common. The total affected population is estimated to reach 95 million by 2020 in the seven major markets. The only treatments currently available are symptomatic i.e. pain relief, combined with physiotherapy and weight loss. In more severe cases, surgical intervention, including prosthetic replacement of the entire joint, is necessary. There is, therefore, a substantial need for treatments that can stop the progress of both cartilage breakdown and bone deformation in affected joints.

Project overview

A successful clinical phase I trial in healthy volunteers has been conducted. The trial evaluated the safety, tolerability, pharmacokinetics and pharmacodynamics (effect on biomarkers of bone and cartilage turnover) of different doses of MIV-711 or placebo, administered once daily for up to 28 days. The results showed that treatment with MIV-711 is safe and well tolerated at doses that cause substantial reductions of biomarkers of bone resorption and cartilage degradation. When dosed at 100 mg once daily, MIV- 711 reduced biomarkers of bone resorption and cartilage degradation by up to 98 per cent and 55 per cent, respectively, compared with placebo. These reductions in biomarkers were of a similar magnitude to the biomarker reductions observed at doses of MIV-711 that reduced the rate of joint destruction in preclinical models of OA.

The positive results from the phase I study supported the further development of MIV-711 as a DMOAD. The consistent effects of MIV-711 on biomarkers in preclinical models of OA and in human volunteers provide confidence that relevant doses of MIV-711 have been selected for evaluation in the ongoing phase II program. Medivir is currently conducting a phase IIa study (MIV-711-201) evaluating 6 months of treatment with two doses of MIV-711 in patients with moderate knee OA. The study is fully enrolled and includes 244 patients. Completion of the trial is expected in Q3 2017. There is also an ongoing extension study (MIV-711-202) for eligible patients who have completed six months of treatment in MIV-711-201. The objective of this study is to evaluate safety, tolerability and efficacy of an additional 6 month's treatment with MIV-711.

Facts and figures | MIV-711

- Cleavage of type I collagen by cathepsin K results in release of the C-terminal telopeptide of collagen type I (CTX-I), a biomarker that has been used extensively as a surrogate measure of bone resorption. Likewise, cathepsin K-dependent cartilage degradation can be assessed by measuring the C-terminal telopeptide of collagen type II (CTX-II), which is a fragment confirmed to be released during cartilage degeneration in OA. In OA patients, increased CTX-II levels are associated with loss of cartilage integrity and are linked to disease burden, and progression.
- MIV-711 has been shown to modify the progression of disease in preclinical models of OA, while at the same time reducing the levels of these two biomarkers. The reductions in biomarkers of bone resorption and cartilage degradation in the preclinical models of OA were similar to those observed when MIV-711 was administered to healthy volunteers.

MIV-323 for the treatment of RSV infection

MIV-323 is a fusion inhibitor candidate drug that has been developed by Medivir scientists for the treatment of respiratory syncytial virus (RSV). RSV cause life-threatening infections, especially in children. Treatment of RSV infection represents a large unmet medical need.

Mechanism of Action

MIV-323 is a small molecule inhibitor of the RSV Fusion (F) protein that is suitable for oral administration. The RSV F protein is an essential virus-encoded protein required for the virus to enter cells of the respiratory tract, and is a clinically- validated RSV target. Inhibiting the activity of the F protein will result in reduction of the severity and incidence of RSV-associated disease caused by RSV infections of the human upper and lower respiratory tract.

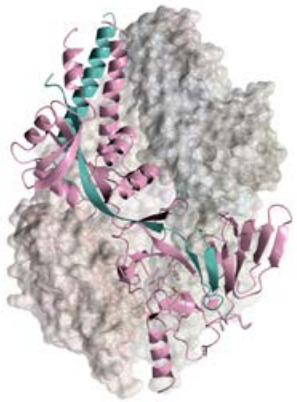
Disease area

RSV infects the lungs and the upper airways and can cause bronchiolitis and pneumonia. In healthy adults, RSV infection is usually restricted to the upper respiratory tract causing disease that is often limited to mild cold-like symptoms lasting up to two weeks. However, elderly patients, especially those with chronic heart or lung conditions, and patients who are immunocompromised e.g. those who have undergone transplantations, are at increased risk for severe RSV-associated disease. Further, RSV infection accounts for substantial morbidity and mortality among infants and is a common reason for them being hospitalised, with an even greater outpatient burden of disease. It is estimated that RSV accounts for 64 million total infections per year (WHO data). Among children below the age of 5 there are 33.8 million lower respiratory tract infections reported for 2005, with 3.4 million of those requiring hospitalisation. These are estimated to have caused between 66,000 and 199,000 child deaths.

Project overview

The risk of death from respiratory causes in infants below 1 year of age is increased 9-fold for infants who have RSV infection as opposed to those that have influenza. Furthermore, severe RSV infection in early childhood is also associated with recurrent wheezing later in life. Inhaled ribavirin is the only approved treatment for RSV infection, but is of questionable benefit and is extremely difficult to administer. Palivizumab is an RSV-specific monoclonal antibody that is approved for the prevention of RSV infection, but it is only partially effective and is indicated only for the 3 per cent of infants that are born prematurely or have underlying severe chronic illnesses. Given that the standard of care for the vast majority of RSV-infected patients is limited to supportive therapy only, a large unmet medical need exists for therapies that both prevent and treat RSV infections in both elderly as well as pediatric patients. Clinical evaluations of experimental drugs for RSV have reached phase II, but to date the only efficacy data have come from healthy human adults who have been experimentally infected with RSV.

Medivir's RSV fusion protein inhibitor project was in-licensed in August 2014 in the discovery phase. Medivir scientists have systematically optimized the properties of these early molecules, resulting in the selection of MIV-323 as a candidate drug in late 2016. MIV-323 is currently in non-clinical development and the overall aim for the project is to find a partner for the clinical development and marketing of the project.



MIV-323 is a small molecule inhibitor of the RSV Fusion protein that is suitable for oral administration.

Facts and figures | MIV-323

- The F protein is conserved between RSV A and B subtypes, but no cellular counterpart of RSV F protein exists, and it shares no homology with human cellular proteins.
- Functional RSV F protein exists as homotrimeric glycoprotein complexes inserted into the virus envelope; a lipid membrane surrounding the interior nucleocapsid core of the virus.
- Attachment of the virus to receptors located at plasma membrane surfaces of respiratory epithelia triggers F protein to undergo extensive conformational shift, which exposes a hydrophobic fusion peptide that inserts into the membrane of the opposing host cell to initiate membrane fusion and consequent virus entry into host cells.
- RSV F inhibitors are 'triggering antagonists'; they bind to the F protein and prevent the conformational change required for the protein to initiate virus infection.

MIV-818 for the treatment of liver cancer

Liver cancer is the second highest cause of cancer- related death worldwide. Of the different forms of liver cancer, hepatocellular carcinoma (HCC) is the most prevalent. Medivir is developing drugs to deliver therapeutics to the liver to treat this devastating disease.

Mechanism of Action

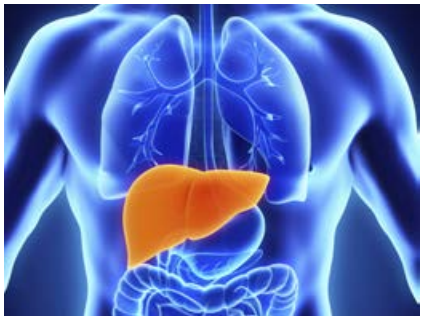
Medivir has developed technologies that have been proven to selectively deliver the active metabolites of nucleoside and nucleotide analogues to the liver, based on its long-standing interests in discovering improved treatments for chronic hepatitis B virus and hepatitis C virus infection. For example, oral administration of MIV-802, Medivir's nucleotide analogue for the treatment of HCV infection that has been partnered with Trek Therapeutics, gives exposures of the active drug in the liver that are 100x greater than in other organs. This technology has now been applied to liver cancer, and MIV-818 has been developed as an orally administered therapeutic with a high level of anti-tumour activity that is targeted for delivery to the liver. The intention is to maximize delivery of the drug to the tumour or tumours, while minimizing the systemic toxicity caused by exposure of MIV-818 and its metabolites to the rest of the body. The objective is to improve the anti-tumour effect while simultaneously reducing adverse events by introducing a solution that is more convenient for patient and care provider alike in the form of an orally administered drug.

Disease area

Liver cancer is the second leading cause of cancer-related death worldwide, and one of the fastest growing cancers in the US, based on incidence and mortality. Hepatocellular carcinoma (HCC) is the most common cancer of the liver. Risk factors for HCC include chronic infection with the hepatitis B or hepatitis C viruses, metabolic diseases such as non-alcoholic steatohepatitis (NASH) and diabetes, as well as use and abuse of alcohol and tobacco.

Project overview

Many chemotherapeutic drugs that are successfully used to treat other cancers have failed to show efficacy in patients with HCC, often because severe adverse effects of the drug in the liver and elsewhere in the body prevent therapeutic drugs levels from being reached in the liver. One successful approach that circumvents this problem is known as TACE, a surgical procedure that targets chemotherapeutic agents to the tumour and blocks its blood supply, while limiting drug exposure elsewhere. This allows the chemotherapeutic drug to be delivered at effective concentrations in the liver while reducing systemic toxicity. This procedure has been shown to benefit patients with intermediate stage HCC, but is technically challenging, risky and has some restrictions that prevent its use in a large proportion of patients.



The only approved therapy for advanced HCC is the multi-targeted kinase inhibitor sorafenib (Nexavar™). Clinical studies show that recently diagnosted patients receiving this treatment had a mean overall survival (OS) of approximately 11 months, compared 8 months among patients who received placebo. Following disease relapse, there is no recommended treatment available today. Taken together with the poor overall prognosis for patients diagnosed with intermediate and advanced HCC, there is a tremendous unmet medical need in the treatment of this devastating disease.

MIV-818 is in non-clinical development with the current aim to perform the safety studies required for the initiation of the first clinical study.

Facts and figures | MIV-818

- From a genetic perspective, HCC is a very diverse disease, with few of the known oncogenic driver mutations that have been characterised in other tumour types. This has contributed to the lack of success of molecularly targeted agents in HCC, to date. Medivir's approach to delivering a cytotoxic agent to the liver cancer cells should overcome this obstacle to molecularly targeted agents.
- Liver metastases from other tumour sites (principally from colorectal cancer, but also from breast, ovarian and pancreatic cancer) are a major cause of death. Medivir's approach has the potential to treat these liver metastases and could greatly increase the number of patients who might benefit.
- Intrahepatic cholangiocarcinoma, a cancer of the bile duct that is located inside the liver tissue, accounts for about 15 per cent of liver cancers. It has an equally dismal prognosis and no effective chemotherapy treatment. Patients with this disease might also be expected to benefit from MIV-818.

Remetinostat for the treatment of cutaneous T-cell lymphoma

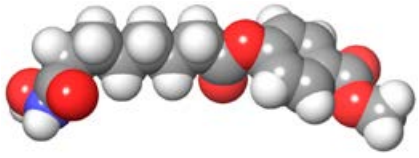
Cutaneous T-cell lymphoma (CTCL) is an orphan disease. Remetinostat is expected to be an important additional treatment option for patients who suffer from this cancer, and the dermatologists who treat them.

Mechanism of Action
Remetinostat is a novel histone deacetylase inhibitor (HDAC) being developed for topical use for the treatment of CTCL. It was designed to be active in the skin in order to treat the disease, but to be rapidly broken down and inactivated in blood, in order to limit the adverse effects associated with systemic exposure to HDAC inhibitors.

Disease area
CTCL is an orphan disease in both the US and Europe. The annual incidence is 1,000–3,000 and has an estimated prevalence in the US of ~20,000, with similar numbers of patients in EU5. Approximately 75 per cent of CTCL patients have early stage (IA-IIA) disease. In the early stages of CTCL the disease is confined to the skin and is predominantly indolent, with most patients remaining in this stage of disease for many years. While disease progression is slow for most patients with early-stage CTCL, their tumours result in significant morbidity and quality of life issues, including clinically significant pruritus (itch). Since they remain in this stage for an extended period they usually require long-term treatment. The 1st line of treatment for these patients is topical steroids of increasing strength. 2nd line treatment options are limited once steroids become ineffective, or when their side effects become limiting. The second-line options lack sustained efficacy and/or tolerability and are often highly irritating. Consequently there is a substantial level of unmet need in patients whose lesions are not responding to current therapy or who continue to experience side effects like clinically significant pruritus, especially for continuous and extended treatment over large lesion areas. Remetinostat is expected to have the potential to capture a significant market share based on its clinical profile balancing efficacy, safety and tolerability.

Project overview
A successful phase I study of remetinostat was completed, in which 28 days of dosing with the drug was shown to be safe and well-tolerated and have an encouraging efficacy profile with an overall response rate of 28 per cent compared to 0 per cent in the placebo arm. An open-label phase II study of three different dose schedules of remetinostat in patients with early-stage CTCL is close to completion. Interim data from this study demonstrated an efficacy profile appropriate for early stage CTCL in a highly treatment experienced population. Furthermore remetinostat showed a very favourable safety profile, with no adverse events that are typically associated with systemic HDAC inhibitors. Planning is currently underway for phase III to start in H2 2017 with a potential launch in 2021.

We are currently also exploring other indications for remetinostat where a topical HDAC inhibitor could be very beneficial to treat skin diseases caused by local immune activation.



Remetinostat is a novel inhibitor being developed for topical use for the treatment of CTCL.

Facts and figures | Remetinostat

- Gene expression can be regulated by non-heritable (epigenetic) modifications of DNA, including acetylation of histones. HDAC enzymes regulate this epigenetic process by removing these acetylations from histones, and causing subsequent changes in gene expression that lead to altered cellular differentiation and anti-tumour effects.
- HDAC inhibitors have been approved for the treatment of late-stage CTCL, demonstrating the proof of concept of this mechanism of action. However, they cause a range of systemic toxicities that mean they cannot be used in early-stage disease. Thus there is a clear opportunity for remetinostat to provide benefit to early stage CTCL patients who cannot be treated with these systemic HDAC inhibitors.
- In the US the expected addressable market for early-stage CTCL is $900 million.
- The early stages of the disease is confined to the skin
  - Stage IA involves <10 per cent of skin
  - Stage IB involves >10 per cent of skin
  - Stage IIA has stage IA or B skin involvement with additional limited involvement of lymph nodes

Birinapant for the treatment of solid tumours and for ovarian cancers

Birinapant is a bivalent peptidomimetic of the SMAC protein (Secondary Mitochondrial Activator of Caspase). To date birinapant has been dosed in approximately 450 patients across 9 studies. The studies have primarily involved patients with refractory solid tumors & hematological malignancies (dominated by ovarian, colorectal, acute myeloid leukemia and Myelodysplastic syndromes).

Overall birinapant has shown acceptable safety and tolerability for further development in oncology indications. The current plans are to study birinapant clinically in combination with Keytruda™ for the treatment solid tumors and in an Investigator-Initiated study at UCLA for high-grade serous carcinoma (HGSC) in combination with platinum-based chemotherapy.

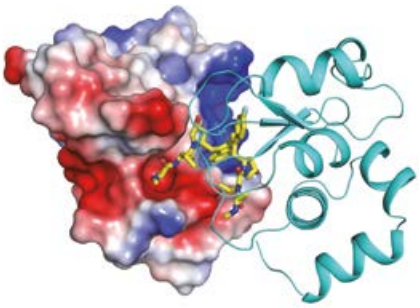
Mechanism of Action

Birinapant is a targeted cancer therapeutic belonging to the class of small molecule, peptidomimetic IAP antagonists known as SMAC mimetics. SMAC mimetics act to antagonize the activity of a group of proteins known Inhibitor of Apoptosis Proteins (IAPs). Birinapant is a particularly potent antagonist of two members of the IAP family, cIAP-1 and cIAP-2. cIAP-1 and -2 are ubiquitin ligases whose expression can protects cells from apoptosis and cause pro-survival effects of TNF-α and related ligands. When birinapant binds to cIAP-1 or -2 it causes the protein to ubiquitinate itself, which in turn drives the degradation of the protein. In this way birinapant suppresses the levels of cIAP-1 and cIAP-2, and therefore switches cell signaling to drive tumour cell apoptosis in the presence of TNF-α. Birinapant has been shown to give rise to sustained and substantial reductions of cIAP1 levels in Peripheral Blood Mononuclear Cells (PBMCs) and tumour tissue at doses of >11 mg/m^2.

Combination study with Keytruda™ for the treatment of solid tumours

Disease area

Keytruda™ is a PD-1 antagonist and a key part of the immuno-oncology (IO) revolution that's transforming care for cancer patients. Revenues from the sale of PD-1 antagonists currently total $3.2B[1)] annually and the market is growing with additional treatments in late-stage trials. Keytruda™ is approved for the treatment of melanoma, NSCLC (non-small-cell lung carcinoma) and HNSCC (head and neck squamous cell carcinoma). However, while some patients derive enormous benefits from the use of a PD-1 antagonist, the benefits can be limited in many patients. The identification of combination regimens to enhance the proportion of patients benefitting from IO therapy is a major trend in cancer research.



Birinapant is a SMAC mimetic that is being developed to target a range of cancer indications.

Study overview

One way that immune cells attack cancer is by releasing TNF within the tumour. By reducing cIAP levels, birinapant enhances the pro-apoptoic effects of TNF-α, while reducing the pre-survival effects. Furthermore birinapant has been shown to have direct effect on T-cell co-stimulation, leading to an enhanced anti-tumour immune response. Combining birinapant with a PD-1 antagonist such as pembrolizumab (Keytruda™), which acts to release the brakes on the immune system, is therefore expected to lead to an enhanced anti-tumour response. There are a number of publications on combinations of SMAC mimetics and other immunotherapies that support this hypothesis, showing superiority of the combination compared with either agent alone. This includes recently published preclinical data that show that birinapant in combination with a PD-1 antagonist has superior anti-tumour activity compared to either drug alone in a preclinical model of glioblastoma.

Medivir intends to start a combination study with Keytruda™ in collaboration with Merck during 2017. The initial phase of the clinical study is aimed at identifying the correct dose of birinapant to use in combination with Keytruda™ in patients with solid tumours, and the subsequent phase will then investigate whether the combination has enhanced efficacy in patients with one of four different forms of cancer.

[1)] Source: Merck and Bristol Myers Squibb financial reports

Birinapant for the treatment of high-grade serous carcinomas

Disease area

High-grade serous carcinomas (HGSC) are a group of cancers believed to be derived from cells from the fallopian tube that may present as ovarian, endometrial, tubal or peritoneal cancer. HGSC is ~70 per cent of ovarian carcinoma, and ~90 per cent of advanced (stage III/IV) ovarian carcinomas. Treatment with platinum drugs is standard of care, but most patients relapse within 6–18 months. There are today few options available for patients who relapse, and chemotherapy remains the standard of care even for platinum-resistant carcinomas. The ovarian cancer market size overall is USD 840 million[2] and expected to reach > USD 1,500 million by 2024. Sales in the second-line platinum-resistant and -refractory treatable segments totaled approximately USD 75 million in 2014 and are expected to grow to approximately USD 210 million in 2024[2].

Study overview

Some tumours have high levels of expression and activity of cIAPs, and may be dependent on them for survival. A tumour-initiating, CA125- subset of cells resistant to platinum in HGSCs has been identified by UCLA researchers[3], and it appears that expression of cIAPs, the molecular targets of birinapant, correlates with birinapant susceptibility. These stem-like cells are highly susceptible to the combination of platinum drugs and birinapant in ~50 per cent of patients. The UCLA team has developed a bioassay that will allow selection of patients expected to benefit from this combination therapy. Medivir intends to support an investigator-initiated phase I/II study at UCLA. This will evaluate the combination of birinapant with platinum-based chemotherapy in patients with newly diagnosed or recurrent HGSCs with evidence of susceptibility to birinapant. Medivir will provide birinapant, with full rights to generated data.

Facts and figures | Birinapant

cIAP1 and cIAP2 are ubiquitin E3 ligases that target substrate proteins for destruction by the proteasome. Medivir is targeting the Ubiquitin-Proteasome System in complementary ways through birinapant and through inhibition of Deubiquitinases (DUBs).

[2] Source: Decision Resources
[3] DM Janen et al, Nature Commun. (2015) 6:7956

Partnered projects

When a partnership can increase the value of a project, it is out-licensed to partners, usually in the form of global pharmaceutical companies, who assume responsibility for late phase development and commercialisation. The partnership generates revenues in the form of milestone payments and royalties once a product has reached the market. Medivir currently has two such partnership projects.

Simeprevir/OLYSIO®

Simeprevir is an inhibitor of the HCV NS3/4A protease that has beenjointly developed by Janssen R&D Ireland and Medivir AB. Simeprevir (OLYSIO®) was approved in the USA in 2013 and granted marketing authorisation in the EU in May 2014. Additional marketing authorisations were subsequently granted in many other countries around the world. Simeprevir is approved as part of an antiviral combination treatment regimen for chronic genotype 1 and 4 hepatitis C infection in adult patients with compensated liver disease, including cirrhosis (the indications vary between different markets). Janssen is responsible for the global clinical development of simeprevir and owns the exclusive global marketing rights to the drug with the exception of the Nordic region, where Medivir has retained the marketing rights.

HCV NS3/4A protease inhibitors (PIs) block the enzyme activity leading, in turn, to arrest of virus replication in the host cell. Simeprevir is a second generation protease inhibitor with a high degree of potency, medium to high barrier to resistance, minor side effects, and better pharmacokinetics (including a once daily dosage) compared to first-generation PIs.

Partner
Janssen R&D Ireland (Johnson & Johnson)

Project status and Medivir participation
Simeprevir is approved for marketing in many countries around the world. Medivir receives royalties on sales of simeprevir.

JNJ-4178

JNJ-4178 is a combination of three direct acting antivirals: simeprevir, a protease inhibitor developed by Janssen and Medivir, AL-335, a nucleotide-based HCV polymerase inhibitor, and odalasvir, an HCV NS5A inhibitor. Janssen is responsible for the global clinical development of JNJ-4178. It is currently in phase II studies for hepatitis C.

Partner
Janssen (Johnson & Johnson)

Project status and Medivir participation
A phase IIb open-label study of the combination of simeprevir, odalasvir and AL-335, is ongoing in treatment-naive and treatment-experienced subjects with chronic hepatitis C virus infection without cirrhosis. This global, multi-center study includes clinical trial sites in North America, Europe and Asia and forms part of Janssen's global development program for JNJ-4178. The objectives of the phase IIb study are to investigate the efficacy, safety and pharmacokinetics of JNJ-4178/ AL-335 (800mg QD), odalasvir (25mg QD), and simeprevir (75mg QD) in treatment-naive and treatment-experienced non-cirrhotic subjects with chronic hepatitis C virus genotype 1, 2, 4, 5, and 6 infection.

There is also an ongoing phase IIa study of the same triple combination treatment in patients with or without compensated cirrhosis

Medivir will receive milestones and royalties, if the product is approved.

Xerclear

Medivir has successfully developed products all the way from concept to marketed products. In 2009, Xerclear (Zoviduo®) was approved for the treatment of labial herpes. The marketing rights to Xerclear in the USA, Canada and Mexico were divested in 2010, while the corresponding rights in Europe and the rest of the world have been out-licensed to GlaxoSmithKline, with the exception of China, where Medivir has appointed a local distributor, and Israel and South America where Medivir has retained the rights.

Partner
GlaxoSmithKline

Project status and Medivir participation
Medivir receives royalties on sales of Xerclear (Zoviduo®) from GlaxoSmithKline. In addition, Medivir would receive milestones when Zoviduo® is approved as an over the counter product on new markets.

MIV-802

MIV-802 is a nucleotide based NS5B polymerase inhibitor invented by Medivir scientists that has been designed to deliver the drug selectively to the liver, which is where the hepatitis C virus replication occurs. Nucleotide-based inhibitors of the viral polymerase play a key role in many of the most effective combination treatments for hepatitis C, since the effective members of this class combine a number of favourable properties:

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

Preclinical data indicate that MIV-802 can be used effectively in combination with all other classes of antiviral agents used to treat HCV, and that it has potent antiviral activity against all HCV genotypes and a high barrier to resistance.

Partner
Trek Therapeutics

Project status and Medivir participation
The exclusive rights to develop and commercialize MIV-802 globally, excluding China, Taiwan, Hong Kong and Macau, were licensed to Trek Therapeutics in August 2016. BioPhausia, formerly a subsidiary of Medivir, now part of Karo Pharma, holds option rights to commercialize MIV-802 containing products in the Nordics and certain Western European countries.

Under the terms of the agreements, Medivir is entitled to receive milestones based on successful clinical development and royalties capped at a mid-teens percentage upon commercialization of MIV-802 containing products.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Sustainable development

Medivir supports sustainable values by researching and developing pharmaceutical products that can extend and improve the quality of people's lives.

The operations are conducted in compliance with regulatory guidelines and industry standards. Combined, these integrate many of the most important sustainability issues into our operations. Medivir's sustainability work therefore focuses on conducting research and development in accordance with ethical rules and guidelines, on taking into account the environmental impact of both its own operations and those of our suppliers and contractors throughout the product lifecycles, and on ensuring that we provide a safe and developmental work environment that is attractive to both today's and tomorrow's employees.

Product development in a regulated environment

Pharmaceutical development takes place in a strictly regulated environment. The evaluation of product risks and safety aspects is both a regulated and an integral part of every phase of the product development process.

Trials and studies are required throughout the preclinical and clinical phases of development, in order to ensure that the resulting drugs are both efficacious and safe. These trials and studies, which are carried out both by Medivir and contracted, specialist companies, are structured in accordance with applicable standards, guidelines, and directives, e.g. Good Clinical Practice (GCP). Both risk and benefit assessments are conducted. Official regulatory approvals are always required for clinical studies, which are then carried out within the framework of the regulatory and ethical regulations of the countries in question. The requisite permits from regulatory authorities and ethics committees are only issued when Medivir is able to demonstrate satisfactory risk and benefit assessments.

Consideration for the environment

Medivir's biggest contribution to reducing its environmental footprint comes from the development of substances which have the desired beneficial effect but which also have a minimal environmental impact from a lifecycle perspective.

Medivir takes a systematic approach to its operations' direct environmental footprint in line with the company's environmental policy, and focuses on reducing energy and resource consumption and improving waste management. Medivir endeavours to reduce its resource consumption by recycling materials wherever possible, and the company has established strong routines for recycling paper, plastic consumables, glass packaging and cardboard. Environmental issues also form part of the assessment aspect of all procurement processes for goods and services.

Medivir also works continuously to reduce its use and handling of environmentally hazardous substances and hazardous waste. Medivir uses subcontractors to manufacture the substances and products used in preclinical and clinical development. It therefore ensures that potential contractors and suppliers used in the preclinical and clinical phases of development are in compliance with all relevant environmental and other regulations before contracts are awarded, and follows up on these periodically in the case of long-term relationships. The research facility in Huddinge handles limited amounts of hazardous waste, primarily in the form of solvents and chemically contaminated materials. Hazardous waste that cannot be recycled shall be stored, processed and disposed of in accordance with specified hazardous waste handling guidelines.

Medivir is a knowledge-intensive company that wants its employees to be able to attend international conferences and meetings in order to promote development and the exchange of ideas and experiences. We are, however, also keen to reduce the environmental impact caused by unnecessary business trips by encouraging conference calls and online meetings.

Employees

Medivir's ambition is to have the industry's most satisfied employees. Our HR work is based on, amongst other things, the conviction that developmental potential is an important driving force for our employees and that Medivir's success is based on the ability to collaborate, both internally and externally.

The company is keen to attract, recruit and develop skilled personnel with a strong commitment to the operations and who are an ongoing source of ideas for the company's development. We recruit both nationally and internationally for key positions.

In 2016, Medivir's proactive HR work had to take a back seat to the more immediate and individual measures required as a result of our reorganisation and the consequent uncertainty amongst the company's employees.

Medivir's new values will be jointly formulated in 2017 by the management and personnel and will, amongst other things, form the basis for employeeship, and the rights and obligations that derive therefrom.

Employee development – the key to an innovative, high-performing corporate culture

Medivir aims, in order to achieve commitment on the part of every employee, to create an understanding both of the company's mission and goals and of the ways in which the individual employee's performance contributes to realising them. Every employee completes an annual evaluation and performance review in collaboration with his or her manager, and together, they set individual goals for the employee, based on the company's overall goals. The performance reviews are kept separate from the salary reviews and discussions of management by objectives.

The career ladder – a clear process for promotion

Medivir believes in offering all of its employees good opportunities for both skill development and a career path within the company. Employees are afforded the opportunity to work across a wide range of areas, thereby encouraging widespread knowledge acquisition and promoting extensive responsibility at an early stage in their careers. The company endeavours to meet its employees' development requirements by offering new roles with greater responsibilities and authority. A clear process for promotions has been established within the R&D organisation.

A year characterised by organisational changes

The sale of the commercial company, BioPhausia, coupled with a major reorganisation within the research-based company resulted in around 40 members of staff becoming surplus to requirements in 2016, and the majority of the redundancies were implemented during the year. The severance terms for employees made redundant have been mutually agreed via individual agreements and after negotiations with the local trade unions. All employees have also, in addition to the individualised solutions, been given access to support from the Trygghetsrådet (TRR) organisation for a period of up to two years in a five year period from the date when their employment ceased. The organisational changes have affected both our employees and the way we will operate in future.

Working climate

Medivir endeavours to create a working environment that promotes health and well-being in the belief that a good working climate lays the foundation for job satisfaction, low sick leave rates, good relationships, and low staff turnover rates.

Employees' perceptions of the working climate are primarily captured via regular employee surveys. Management and individual managers attach great weight to the information obtained from the employee survey and endeavour to make changes in line with the results.

The most recent employee survey, which was conducted in 2015, showed that perceived stress is the most common workplace risk in the operations. The psychosocial work environment is an important factor in preventing the perception of negative stress amongst our employees. In 2016, we focused on working with the corporate health care system to provide one-on-one counselling and other support measures for those employees requesting them in conjunction with the reorganisation. Medivir has, therefore, elected to postpone the new employee survey until 2017.

All employees were informed in 2016 about the new work environment regulations that came into force during the year, and specially tailored training programmes were provided for all managers. Health & Safety representatives have completed in-depth training in work environment activities.

Diversity and equal opportunity

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 approximately 80 employees who work in three different countries and represent around 15 different nationalities.

Medivir is a workplace that promotes diversity. The company offers a full service solution that facilitates relocation to Sweden and helps ensure a good start for the new employee and their entire family, in order to strengthen our ability to recruit employees from every corner of the world. The fact that the corporate language is English also facilitates the rapid integration of new employees who do not, as yet, speak Swedish. Knowledge of Swedish is, however, vital to the employees' social lives outside work and the company accordingly offers Swedish language training for all employees who do not have Swedish as their native language. The training, which is provided once weekly in the office and via Skype, has become an important integration project that brings together employees from all levels in the company.

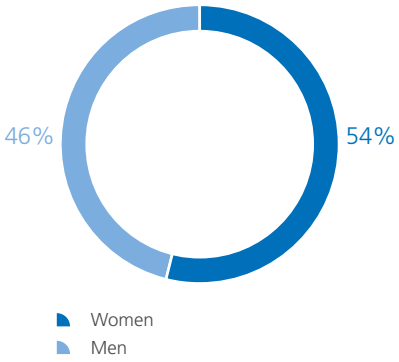
Medivir's gender balance is good throughout the company, with approximately 54 (55) per cent of the workforce made up of women. At the end of the year, Medivir's management team, including the President & CEO, comprised six people, two of whom were women and four, men. At the end of the year, the Board of Directors comprised six people elected by the Annual General Meeting, including the Chairman of the Board, two of whom were women and four, men. The Board also includes one female Board Member appointed by the local trade unions.

Recruitment, salaries and benefits

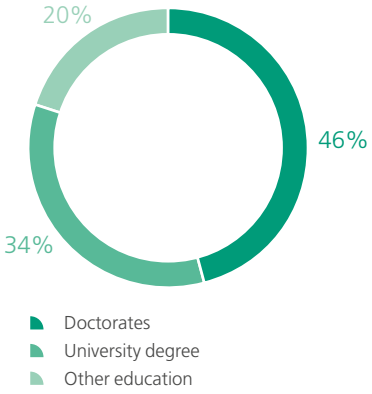
Favourable employment conditions are a prerequisite of Medivir's ability to recruit and retain skilled employees. The company applies individual and differentiated pay scales and endeavours to offer market rate remuneration and benefits packages. Salaries are set on the basis of locally agreed salary criteria.

Medivir will begin the process of clarifying its offering as an employer to potential employees in 2017, both inside and outside Sweden. We will do this with the help of, amongst other things, an expanded social media presence.

Gender breakdown



Education breakdown



Sick leave

Average sick leave rate, 2016: 2.33%

Average sick leave rate, 2015: 1.01%

The Medivir share

Medivir's class B share has been listed on the Nasdaq Stockholm 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 26,966,037 (26,966,037) shares in Medivir AB at the year-end, 606,358 (606,358) of which were class A shares and 26,359,679 (26,359,679) class B shares with a nominal value of SEK 6. The average number of shares during the year was 26,941,310 (29,048,032). 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 157.2 million (SEK 157.2 m) and the equity totalled SEK 1,732.9 million (SEK 1,450.1 m).

Shareholders

There were a total of 8,984 (9,497) shareholders at the year-end, 1,561 (1,581) of whom held 1,000 or more shares. The fifteen biggest shareholders accounted for 59 (41.3 per cent) per cent of the total number of shares and 50.7 (51.2 per cent) per cent of the total number of votes. Foreign owners accounted for 39.5 (43.1 per cent) per cent of the total equity.

Share price performance and turnover, 2016

Medivir's share price rose by 50.2 per cent from SEK 65.25 to SEK 98.00 in 2016. The Nasdaq Stockholm's Mid Cap index (OMX-SPI) rose by 9.3 per cent during the same period. Medivir's market capitalisation at the end of 2016 was SEK 2.58 (1.73) billion, based on the closing price paid at the year-end of SEK 98.00. A total of 18,531,875 Medivir shares were traded on the Nasdaq Stockholm in 2016, corresponding to a turnover rate of 69 per cent. The average daily trading volume during the year was 73,249 shares. The Medivir share is primarily traded on the Nasdaq Stockholm.

MEDIVIR'S 15 LARGEST SHAREHOLDERS 31 DECEMBER 2016[1)]

Name	Class A Shares	Class B Shares	% of votes	% of capital
Bo Öberg	284,000	182,991	9.3	1.7
Nils Gunnar Johansson	243,500	57,065	7.7	1.1
Nordea Investment Funds	0	2,197,454	6.8	8.2
MSIL IPB Client account	0	2,046,542	6.3	7.6
Credit Suisse SA	0	1,716,552	5.3	6.4
HealthInvest Value Fund	0	1,706,838	5.3	6.3
HealthInvest Microcap Fund	0	1,126,100	3.5	4.2
UNIONEN	0	1,032,172	3.2	3.8
Christer Sahlberg	78,858	20,898	2.5	0.4
Svea Ekonomi AB	0	696,186	2.2	2.6
Avanza Pension	0	649,558	2.0	2.4
JPM Chase NA	0	475,364	1.5	1.8
Danica Pension	0	425,073	1.3	1.6
Hans Sköld	0	384,672	1.2	1.4
Clearstream Banking SA	0	346,844	1.1	1.3
Total, 15 largest shareholders	**606,358**	**13,064,309**	**50.7**	**59.0**
Total, other shareholders		13,295,370	49.3	41.0
TOTAL	**606,358**	**26,359,679**	**100**	**100**

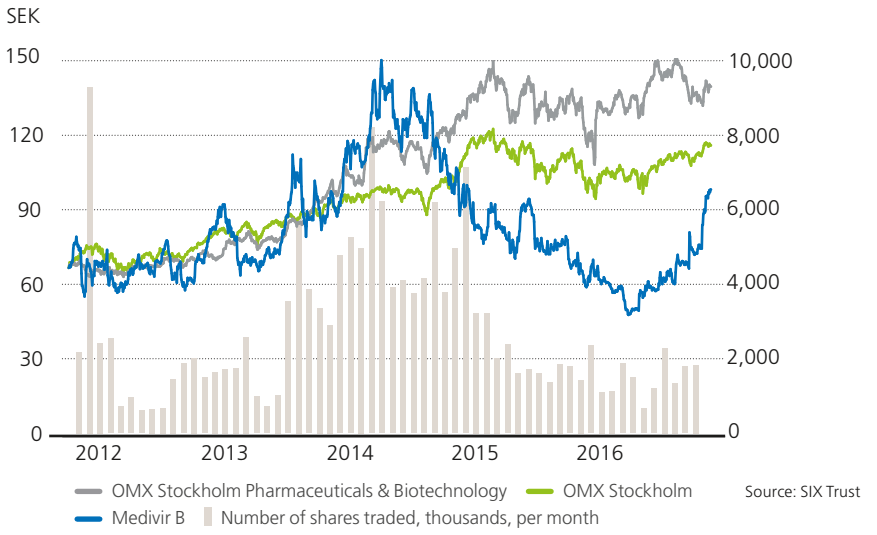
[1)] Source: Euroclear Sweden. Ownership data in the table may comprise composite data from multiple entries in Euroclear's statistics. These composite entries are designed to show an institution's or private person's total holdings in Medivir. This composite entry approach has not been taken in other tables for the Medivir share.

SHAREHOLDER BREAKDOWN BY SIZE OF HOLDING 31 DECEMBER 2016

	No. of shareholders	No. class A shares	No. class B shares	% of capital	% of votes
1–100	4,009		151,840	0.56	0.47
101–1,000	3,659		1,427,654	5.29	4.40
1,001–5,000	939		2,071,370	7.68	6.39
5,001–20,000	244		2,476,360	9.18	7.64
20,001–100,000	99	78,858	4,179,567	15.79	15.32
100,001–	34	527,500	16,052,888	61.49	65.78
Total	8,984	606,358	26,359,679	100.0	100.0

Source: Euroclear Sweden

SHARE PRICE PERFORMANCE AND TURNOVER 2012–2016



Source: SIX Trust

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. At the end of 2016, Medivir had one active share-related incentive plan, LTI 2014. The LTI 2013 incentive plan expired during Q2 2016 and ca. 80,500 shares from the buyback programme were distributed to the participants. The net effect of the active plan, based on certain assumptions such as share price performance, participation and staff turnover, including social security contributions and the dissolution of LTI 2013, increased the profit/loss for the period by SEK 1.2 million. 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). 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 pages 71–72.

Shareholder agreement and pre-emption

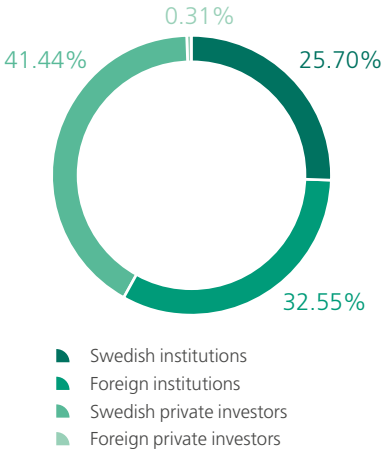
There is an agreement between the holders of Medivir's class A shares whereby the parties undertake to abide by the decisions on current issues mutually agreed before the General Meeting. If, during their preparatory decisions, the parties are unable to agree on a particular issue, the decision shall 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.

Transfer authorisation

The Board of Directors was authorised, for the period up to the next Annual General Meeting and on one or more occasions, to resolve to transfer the company's own shares. At the end of 2016, Medivir's holding of its own shares, acquired at an average price of SEK 80.0, totalled 49,455 (130,000). The 80,545 shares transferred during the year have been used within the framework of the company's LTI 2013 incentive plan.

For full information, please see medivir.com/the share.

Shareholder categories



Source: VPC Analys

Analysts

Carnegie Investment Bank AB
Erik Hultgård

Penser Fondkommission
Johan Löchen

Svenska Handelsbanken
Peter Sehested

SHARE CAPITAL PERFORMANCE

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
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
2015	Redemption programme and bonus issue	6	858,635	157,158,770	606,358	26,359,679	26,966,037

Content

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 2016 financial year. All figures refer to the 2016 financial year of the Group, unless otherwise indicated. Comparisons, unless otherwise indicated, are made with the 2015 financial year.

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

Operations

The company was founded in 1988 as an offshoot of AstraZeneca's antiviral research unit. Today's Medivir develops innovative pharmaceuticals for the treatment of cancer. The company specialises in research into protease inhibitors and in the science of nucleotides and nucleosides. The research is conducted in all phases of the pharmaceutical development chain, from concept to clinical phase III studies. The development is conducted both in-house and in partnership with other parties. The company's commercial organisation, which supplied a portfolio of specialty care pharmaceuticals for the Nordic market, was divested during the year. Medivir was listed in 1996 on the Nasdaq Stockholm Stock Exchange's Mid Cap list.

Medivir is currently conducting research and development operations primarily within oncology. The R&D portfolio comprises eight pharmaceutical projects, six of which are being conducted in-house and two in collaboration with partners. The in-house projects are primarily in the oncology area, but also include projects addressing the RS virus and osteoarthritis. The external projects are both in the area of infectious diseases.

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 pharmaceutical products. For a detailed description of Medivir's research areas and project portfolio, see pages 15–27.

Significant events in 2016

Creation of a new Medivir

Reorganisation and focus on oncology

In October, Medivir announced a reorganisation of the company's operations and substantial cost-cutting in the early research operations and administrative functions. The Board of Directors decided that the company's future orientation will be streamlined and that the operations will focus exclusively on oncology, based on Medivir's scientific platforms and expertise in the areas of protease inhibitors and nucleotide/nucleoside science. Partnering discussions for all of the remaining R&D assets in the area of infectious diseases were initiated before the end of the year. This also applies to MIV-711, as soon as the phase IIa programme has been completed. The reorganisation is expected to generate annual savings totalling ca. SEK 110 million on previous cost levels within the relevant operational areas. An exclusive focus on oncology, coupled with a reduction in the number of projects in the early research phase, will entail the elimination of approximately 25 positions and a reduction of the early research costs by around SEK 60 million from current levels. The reduced early research organisation will create the flexibility to strengthen our expertise and capacity in clinical development and enable an expansion of the company's pipeline in the form of clinical phase oncology projects. Rationalisations within administration and commercial support functions simultaneously generates the remaining savings of around SEK 50 million per annum on previous levels and resulted in around 20 positions in these departments became surplus to requirements.

Divestment of the commercial operations

In November, the company announced that it had agreed the divestment of Medivir's subsidiary company, BioPhausia AB (Nordic Brands), to Karo Pharma AB for a consideration of SEK 908 million on a cash and debt-free basis, including a normalised working capital. The transaction closed at the end of December 2016. Medivir's Board of Directors had previous tasked the management with investigating the potential for separating the Group's operations into two independent companies, with the aim of separately listing the commercial operations. In the meantime, the commercial operations, i.e. the Nordic Brands (BioPhausia AB) product portfolio, attracted significant interest from several prospective buyers. In a structured process of evaluating a sale versus a separate listing, the Board of Directors of Medivir concluded that a divestment of BioPhausia AB to Karo Pharma was the best alternative for BioPhausia, Medivir and Medivir's shareholders.

Strengthening and expanding the clinical pipeline

At the end of December, the company was also able to announce that it had reached an agreement to acquire two clinical stage oncology programmes from Tetralogic Pharmaceuticals Corporation. The programmes acquired will advance and expand Medivir's clinical pipeline and comprise remetinostat, an HDAC-inhibitor for topical treatment, and birinapant, a bivalent SMAC mimetic, together with all intellectual property and data associated with Tetralogic's HDAC inhibitor and SMAC mimetic projects. The acquisition was structured to include an upfront cash payment, but with the majority of the financial consideration tied to the achievement of clinical development goals, regulatory approvals, and sales-based milestones. Medivir also assumed agreements and certain obligations with regard to third parties, including the Merck agreement regarding Keytruda™. The acquisition includes the following potential payments to Tetralogic and other third party licensees:

- An upfront cash consideration of USD 12 million.
- Remetinostat: up to USD 20 million for development milestones including regulatory filings.
- Remetinostat: up to USD 45 million tied to regulatory approvals.
- Remetinostat: tiered royalty payments capped at an aggregate of 13 per cent.
- Remetinostat: additional commercialisation milestones up to USD 31 million, primarily based on substantial sales achievement levels.
- Birinapant: up to USD 20 million for development milestones and research support.
- Birinapant: tiered royalty payments capped at an aggregate of 10 per cent.
- Birinapant: up to a further USD 110 million for commercialisation milestones, primarily based on substantial sales achievement levels.

Optimisation of the capital structure

Medivir's Board of Directors announced, in conjunction with the closure of the divestment of the commercial operations in December, that a notice convening an Extraordinary General Meeting would be issued, at which a proposal would be submitted for the approval of the Meeting regarding the transfer to the company's shareholders of the net proceeds of the divestment of BioPhausia (approximately SEK 870 million, corresponding to approximately SEK 32/share) to the shareholders by means of a voluntary share redemption programme for all shareholders.

Internal projects

MIV-711 Osteoarthritis

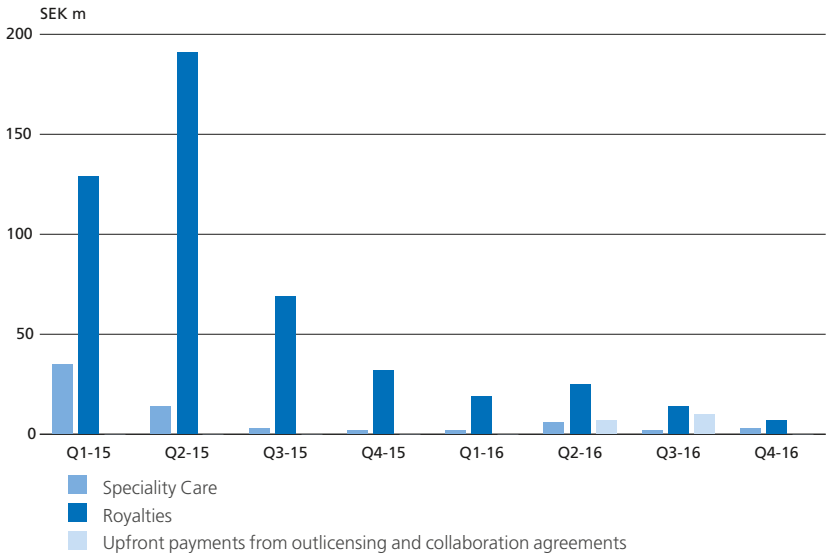
In January, Medivir initiated a phase IIa study of MIV-711 for the treatment of knee osteoarthritis, and the enrolment of patients for a randomised, double-blind clinical phase IIa study of the proprietary cathepsin K inhibitor, MIV-711, in patients with moderate knee osteoarthritis. The study enrolled around 240 patients over three arms, each with approximately 80 patients, and compares the results of treatment with once daily MIV-711 100 mg and 200 mg against a placebo. The study's primary goal is to evaluate both the effect of six months of treatment with MIV-711 on clinical knee joint pain and on knee osteoarthritis, assessed using magnetic resonance imaging (MRI), and the safety and tolerability of MIV-711. Data from the study is expected to be available in the third quarter of 2017.

In September, the company announced that it had also initiated an extension study and that the first patient had been enrolled in the open label, phase IIa extension study that is expected to enrol approximately 50 patients from the MIV-711-201 study. All eligible patients in this study will be treated with 200 mg MIV-711 once daily. Consenting patients will be eligible to roll over into the extension study either if they have a favourable response to MIV-711 or if their disease has worsened following placebo treatment. The first objective of the study is to assess the safety and tolerability of six additional months of treatment with MIV-711, as well as its effect on knee joint structure assessed using MRI, in patients who have shown evidence of a response to MIV-711 treatment. The other objective of the study is to explore the safety, tolerability and efficacy of six months of treatment with MIV-711 in patients previously on placebo whose osteoarthritis has worsened over the preceding six months of placebo treatment. It is expected that data from the MIV-711-202 extension study will be available in the first half of 2018.

At the end of October, the company announced that enrolment for the phase IIa study evaluating MIV-711 for the treatment of osteoarthritis had been fully enrolled with 244 patients, divided into three arms of approximately 80 patients each. An independent data monitoring committee has met on three pre-determined occasions to evaluate unblinded safety data from the study. Based on its review of accumulated safety data after the first 150 subjects had completed three months of osteoarthritis treatment, the committee has, in common with the two previous evaluations, recommended that the phase IIa study should continue without any modifications.

Breakdown of net turnover

(SEK m)	2016	2015
Upfront- and milestone payments	16.7	–
Pharmaceutical sales	12.3	53.9
Royalties	64.0	420.4
Total	**93.0**	**474.3**



Scientific platform delivered two candidate drugs

In November, the company announced that MIV-818 had been selected as a candidate drug from its nucleotide-based DNA polymerase inhibitor project for the treatment of hepatocellular carcinoma (HCC), and MIV-818 accordingly entered non-clinical development.

One month later, the company announced that MIV-323 had also been selected as a candidate drug from its fusion inhibitor project for the treatment of respiratory syncytial virus (RSV) infection, and had entered non-clinical development.

Global partnership projects

Simeprevir

In September, updated interim results from an ongoing phase IIa study being conducted by Alios BioPharma Inc., a company within Janssen Pharmaceutical Companies (Janssen), were announced. The results showed that 100 per cent of patients receiving treatment for as little as six weeks with a triple combination of simeprevir (75 mg, QD), AL-335 (800 mg, QD) and odalasvir (50 mg, QOD) achieved SVR12 (sustained virologic response 12 weeks after the completion of treatment). The study was designed to determine the safety, pharmacokinetics, and efficacy of different dosing regimens containing odalasvir and AL-335, with or without simeprevir, in treatment-naive patients with genotype 1 hepatitis C virus infection for treatment durations of six or eight weeks. In all of these cohorts, the dosing regimens were generally well-tolerated. The majority of adverse events were mild and the most commonly reported events were headache, fatigue, and upper respiratory tract infection. As previously reported in an abstract, there was one serious adverse event that resulted in premature discontinuation of the study drugs. The case entailed a patient with a Mobitz Type 1 2nd degree atrioventricular block and was deemed probably related to odalasvir and possibly related to AL-335 and simeprevir. The event was not associated with clinical or echocardiographic abnormalities, did not require any therapeutic intervention, and resolved following treatment discontinuation. The patient went on to achieve SVR24. No clinically significant laboratory, echocardiography or ECG abnormalities were reported, with the exception of this single serious adverse event.

In November, Medivir announced that Janssen Research & Development, LLC., part of Janssen Pharmaceutical Companies within Johnson & Johnson (Janssen), had initiated an open-label phase IIb study of combination treatment of simeprevir, odalasvir and AL-335 (JNJ-4178) in treatment-naive and treatment-experienced patients with chronic hepatitis C virus infection without cirrhosis. This global, multi-centre study includes clinical trial sites in North America, Europe and Asia and forms part of Janssen's global development programme for JNJ-4178. The objectives of the phase IIb study are to investigate the efficacy, safety and pharmacokinetics of JNJ-4178/ AL-335 (800 mg, QD), odalasvir (25 mg, QD), and simeprevir (75 mg, QD) in treatment-naive and treatment-experienced non-cirrhotic subjects with chronic hepatitis C virus genotype 1, 2, 4, 5, and 6 infection. Patients in the study will receive the triple combination for either six or eight weeks, and the primary efficacy endpoint will be the percentage of patients with a sustained virologic response 12 weeks after the end of treatment (SVR12).

Based on interim results from the study, the triple combination of simeprevir (75 mg, QD), odalasvir (25 mg, QD) and AL-335 (400 mg, QD) has been selected for further development. The triple combination is also being evaluated in a phase IIa study of patients with genotype 3 hepatitis C infection, with or without compensated cirrhosis.

MIV-802

In August, Medivir out-licensed the rights to MIV-802 to Trek Therapeutics, and thereby entered into a licensing agreement with Trek for the exclusive rights to develop and commercialise MIV-802 globally, with the exception of China, Taiwan, Hong Kong and Macau. MIV-802 is a nucleotide-based polymerase inhibitor under development for the treatment of hepatitis C virus infection. Under the terms of the agreement, Medivir is entitled to receive milestone payments based on the achievement of clinical development goals and royalties capped at approximately 15 per cent from the commercialisation of products containing MIV-802.

The Group's results and financial position

The Group reports its continuing operations in a single segment comprising research and development.

Revenues and results

Net turnover in the continuing operations for the period from January–December totalled SEK 93.0 million (SEK 474.3 m), corresponding to a decrease of SEK 381.3 million. The remaining pharmaceutical sales operations posted revenues of SEK 12.3 million (SEK 53.9 m) due to reduced sales of OLYSIO®.

The value of Janssen's global sales of simeprevir during the period totalled USD 106 million (USD 621 m), generating royalty income of SEK 60.3 million (SEK 418.6 m).

Royalty income from GlaxoSmithKline's global sales of Xerclear (Zoviduo) during the year totalled SEK 3.7 million (SEK 1.8 m).

A milestone payment of SEK 6.5 million (SEK 0 m) was received from GlaxoSmithKline during the period and the out-licensing of MIV-802 generated a further non-recurring payment of SEK 10.2 million (SEK 0 m).

The cost of goods sold totalled SEK –15.9 million (SEK –38.3 m), corresponding to a decrease of SEK 22.4 million. The gross profit was SEK 77.1 million (SEK 436.0 m), corresponding to a decrease of SEK 358.9 million and equating to a gross margin of 82.9 per cent (91.9%).

The transformation of the company and the consequent reorganisation as a dedicated research and development company have been charged to the operations' costs in the sum of SEK –52.6 million during the period. The administrative costs for the period consequently totalled SEK –70.7 million (SEK –57.3 m). Research and development costs totalled SEK –307.1 million (SEK –278.4 m) in an increase according to

plan of SEK 28.7 million. The increase was due to the advancing of the company's research portfolio and to the fact that more projects or studies are now being progressed in later phases than was previously the case. Other operating income/expenses fell by SEK 2.0 million, mainly due to exchange rate effects. Operating expenses totalled SEK –389.5 million (SEK –380.6 m), corresponding to an increase of SEK 8.9 million, SEK 52.6 million of which comprised non-recurrent costs.

The operating profit/loss was SEK –312.4 million (SEK 55.4 m), corresponding to a decrease of SEK 367.8 million.

The profit/loss from divested shares in subsidiary companies totalled SEK 534.8 million (SEK 0.0 m) and net financial items totalled SEK 5.7 million (SEK –9.2 m), corresponding to an increase of SEK 14.9 million due to unrealised profits attributable to year on year market valuations of short-term interest-bearing investments.

The profit/loss for the period from continuing operations totalled SEK –294.9 million (SEK 31.7 m) while the profit/loss for the period from discontinued operations was SEK 577.7 million (SEK 43.4 m).

The tax income for the period was SEK 11.9 million (SEK –14.5 m). The Group's tax expense is based on a tax rate of 22 per cent. Deficits in the Parent Company, Medivir AB, are not capitalised and no deferred tax has, therefore, been credited to the profit/loss.

Cash flow and financial position

Liquid assets, including short-term investments with a maximum term of three months, totalled SEK 1,698.5 million (SEK 1,077.9 m) at the period end, corresponding to an increase of SEK 620.6 million. The corresponding amount at the beginning of 2016 was SEK 1,077.9 million (SEK 1,395.6 m). Royalty payments for the fourth quarter totalled SEK 7.1 million and are not included in liquid assets at the period end. Pledged assets at the period end totalled SEK 90.0 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 –182.3 million (SEK 347.4 m), with changes in working capital accounting for SEK 7.4 million (SEK 216.1 m) of this total.

The cash flow from investing activities was SEK 803.2 million (SEK –15.0 m), of which SEK 908.3 million is attributable to the divestment of the BioPhausia AB subsidiary company. SEK –105.1 million of the total primarily relates to the acquisition of research assets from Tetralogic Inc.

The cash flow from financing activities amounted to SEK 0.0 million (SEK –651.6 m).

Investments, depreciation and amortisation

A total of SEK –10.1 million (SEK –10.0 m) was invested in tangible fixed assets during the period and related to the purchase of research and office equipment, and IT systems.

Depreciation and amortisation of tangible and intangible fixed assets during the period were charged to the profit/loss for the period in the sum of SEK –10.9 million (SEK –10.5 m) and SEK –0.8 million (–7.5 m), respectively.

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 innovations. 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 and milestone costs during the period totalled SEK 5.2 million (SEK 25.6 m) and SEK 3.3 million (SEK 0.0 m), respectively.

Patents

Patent protection and regulatory protection, such as data exclusivity, orphan drug exclusivity, and paediatric extension, are key components of pharmaceutical development, both for those projects that are developed in-house and those that are in-licensed. Medivir has established a comprehensive and systematic process for securing and continuously monitoring its patent protection. The portfolio currently comprises around 26 patent families, with over 150 national patents awarded. In 2016, Medivir sought new patent families, primarily within the HCC and RSV fusion inhibitor projects, and acquired two patent families that protect remetinostat and six that protect birinapant. In the USA, the FDA has approved orphan drug designation of remetinostat for the treatment of CTCL.

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.

Research

Pharmaceutical research and development is associated with a high level of risk. Many of the projects begun will be abandoned during the process when the substances being developed either prove unable to demonstrate the desired effect or display risks of unwanted side effects. Nor is Medivir the only company to be carrying out research projects in its focus areas, and competing research projects may, therefore,

enjoy successes that make completing a project less attractive for marketing reasons.

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. A number of Medivir's most significant competitors develop and market pharmaceuticals addressing the same diseases as those upon which Medivir is focusing. Once a product has been approved, competitors may also have both greater manufacturing and distribution capacity than Medivir and superior pharmaceutical sales and marketing prospects.

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.

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, non-clinical 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 facilities 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. Production processes must, furthermore, take into account the environment, working conditions, and human rights.

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 presently account 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 compound 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 compound is unsafe or ineffective. If Medivir is unable to obtain authorisation for its existing or future candidate drugs, itwill 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
Developing new pharmaceutical products is expensive and takes a long time. Medivir's revenues depend on the ability, over time, to out-license or commercialise its research projects and thereby obtain non-recurrent revenues in the form of milestone payments, ongoing royalty payments, or sales revenues. The future profit performance is uncertain. 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 pages 73–75.

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. Transactions with related parties have occurred during the period with a combined value of SEK 1.5 million (SEK 12.3 m), of which royalty payments to Uppsala Hallbechem AB (Board Member, Anders R Hallberg) comprised SEK 0.5 million (SEK 3.3 m) and to Sybesam AB (Board Member, Bertil Samuelsson) comprised SEK 1.0 million (SEK 9.0 m). Bertil Samuelsson is no longer a Member of the Board and is consequently only classified as a related party for the period from January–June 2016. The company purchased no additional services from related parties during the period.

Information security
The importance of protecting the company's information 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 with external organisations in order to continuously improve and quality assure its information security.

Employees
At the period end, Medivir had 117 (127) employees (recalculated as full-time positions), 54 per cent (55%) of whom were women. 21 (7) of these employees have been given notice but have not, as yet, ceased their employment.

Environmental work and occupational health & safety
Medivir creates sustainable values by taking to market products that help improve the quality of/extend people's lives. Medivir also strives to be a responsible business partner and employer and consequently conducts an active programme of environmental and occupational health & safety work that ensures the company complies fully with all environmental and occupational health & safety-related legislation. Medivir's Occupational Health & Safety Policy, and our Environmental Policy, both emphasise the importance of maintaining a good working environment and of minimising the environmental impact of our operations.

Medivir works systematically to ensure efficient resource management. Our goal is to recycle everything that can be recycled, and the company has established comprehensive routines for recycling paper, consumable plastic, glass packaging, and cardboard.

Any hazardous waste that cannot be recycled is stored, processed and disposed of in accordance with established guidelines for hazardous waste management. Medivir's research facility in Huddinge handles small amounts of hazardous waste, primarily in the form of solvents and chemically contaminated materials. Medivir works continuously to reduce its use of environmentally hazardous substances. The company is not involved in any environmental disputes.

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. Formal responsibility for occupational health & safety issues is delegated within the line management structure. An occupational health & safety group, comprising managers, health & safety representatives, and employees, works continuously with these issues and carries out regular health & safety inspections. The company has documented safety routines and employees receive ongoing training in safety issues.

The operations' 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, health risks can be minimised. All work with chemicals is carried out in ventilated facilities and all fume hoods and secure benches are fitted with alarms and are inspected regularly.

Personal safety equipment and protective clothing are used.

Incident reporting is an important tool in improving occupational health & safety and all incidents and accidents are, therefore, followed up. No workplace accidents were reported to the Swedish Work Environment Authority in 2016.

The Parent Company in brief
Medivir AB (publ.), corporate ID no. 556238–4361, is the Parent Company of the Group. The operations comprise research and development, marketing and sales, and administrative and managerial functions. The Parent Company's net turnover totalled SEK 131.0 million (SEK 500.8 m). Sales to Group companies amounted to SEK 38.0 million (SEK 37.5 m).

The gross profit totalled SEK 115.0 million (SEK 443.0 m). Operating costs totalled SEK –426.3 million (SEK –359.6 m), while

the operating profit was SEK –311.3 million (SEK 83.4 m), corresponding to a decrease of SEK 394.7 million. The profit/loss from participations in subsidiary companies totalled SEK 675.5 million (SEK –23.5 m) and comprise the profit on the divestment of the BioPhausia AB (Nordic Brands) subsidiary company of SEK 305.0 million as well as dividends from subsidiaries totalling SEK 370.5 million. Net financial items amounted to SEK 4.0 million (SEK –8.8 m), corresponding to an improvement of SEK 12.8 million resulting from unrealised profits attributable to positive market valuations of short-term, interest-bearing investments. The tax for the period totalled SEK 0.2 million (SEK –9.8 m).

The profit for the period was SEK 406.3 million (SEK 3.4 m), corresponding to an increase of SEK 402.9 million.

Liquid assets, including short-term investments with a maximum term of three months, totalled SEK 1,692.5 million (SEK 941.3 m), of which SEK 90.0 million is pledged until 15 December 2017.

Events after the end of the financial year

The creation of the new Medivir

Christine Lind has been appointed as the new CEO of Medivir AB, succeeding Niklas Prager, a Board Member who accepted the role of CEO in 2014 when the company was facing the need for a major operational transformation. Christine Lind will take over as CEO on 1 April 2017 and will, until then, continue in her current position of EVP – Strategic Business Development. Niklas Prager will continue as CEO until 1 April and will also be available to Christine until the AGM on 3 May, in order to ensure an optimal, smooth transition.

The Extraordinary General Meeting of Medivir AB (publ.) held on 2 February 2017 approved the proposal submitted by the Board for a voluntary redemption programme entailing 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 the redemption of a maximum of 6,738,655 shares, comprising 151,589 class A shares and 6,587,066 class B shares. Shareholders will receive one redemption right for every share in the company. Four (4) redemption rights entitle the holder to redeem one (1) share of the same share class. The company shall pay the sum of SEK 129 for every share redeemed. The repayment to the shareholders will total a maximum of SEK 869,286,495.

Internal projects

The MIV-711 study can continue without modification after a successful fourth review of safety data. This was announced after the independent data monitoring committee linked to the ongoing, randomised, double-blind phase IIa study, MIV-711-201, had held its fourth and final planned meeting.

The Nomination Committee's proposal for a new Board of Directors ahead of the 2017 AGM

The composition of the 2016–2017 Nomination Committee was as follows:

- Maria Rengefors, representing Nordea Fonder
- Anders M Hallberg, Chairman of the Nomination Committee, and representing HealthInvest Partners AB
- Bo Öberg, representing the class A shareholders
- Anna Malm Bernsten, Chairman of the Board of Medivir AB

The Nomination Committee has agreed, ahead of the upcoming 2017 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 Anders Ekblom, Anders R Hallberg, Helena Levander and Anna Malm Bernsten, and the new election of two Members, namely Bengt Julander and Bengt Westermark. The Committee also proposes the election of Anna Malm Bernsten as Chairman of the Board. Thomas Axelsson and Johan Harmenberg have declined re-election.

Summary of future development work

Medivir's future investments will be in oncology, where the company will continue to build on its leading expertise in the design of protease inhibitors and nucleotide/nucleoside research. Ongoing projects outside of this disease area will be prepared for out-licensing. Medivir has a strong capital base and a number of projects in the core area of oncology in both early and late development phases, and which are expected to generate long-term shareholder value.

Proposed treatment of unappropriated earnings

The Board of Directors propose that the unappropriated earnings available for disposition totalling SEK 1,572,577,467 be carried forward.

	SEK
Share premium reserve	1,334,771,962
Accumulated loss	–168,494,174
Net profit for the year	406,299,679
Total	**1,572.577,467**

Dividend

The Board of Directors proposes that no dividends be paid for the 2016 financial year.

Results of the voluntary redemption programme

Upon completion of the application period, a total of 6,647,060 shares have been registered for redemption, whereof 131,589 series A shares and 6,515,471 series B shares, corresponding to an acceptance level of 98.6 per cent. In total, cash proceeds of approximately SEK 857.5 million will be distributed to the shareholders, corresponding to SEK 129 per redeemed share, to be paid around 24 March 2017.

Following completion of the redemption programme, the total number of outstanding shares in Medivir will amount to 20,318,977 shares, whereof 474,769 series A shares and 19,844,208 series B shares, and the total number of votes will amount to 24,591,898 votes.

Corporate Governance Report

The Chairman's Statement

Medivir places great emphasis on sound corporate governance. It is a key factor in building and retaining confidence amongst shareholders and other stakeholders, and an important element of the Board's mandate to represent strategy, continuity and a long-term approach.

In 2016, the Board focused almost exclusively on the transformation of the company carried out during the year – a transformation without equal during my eleven years on the Board of Medivir. It has meant a considerably higher number of Board Meetings than normal, regular contacts, and intensive work in between. This work was characterised throughout by close and constructive collaboration, both on the part of the Board and its committees, and with the CEO and management group. We have been guided by our determination to create the best possible shareholder value by establishing both a clear strategic orientation that streamlines the operations and an exclusive focus on oncology, and by targeting a higher percentage of late phase projects.

The Board has both wide-ranging and in-depth expertise in the fields of medical research, commercial development, and capital markets. This combined expertise has been highly valuable in ensuring our ability both to evaluate complex research projects and to structure the research portfolio and organisation efficiently – which also increases the potential for clearer external valuation. I would particularly like to thank Niklas and my colleagues on the Board for the extremely fruitful partnership during the year, but would also, of course, like to pay tribute to the entire management group who excelled not only in their production of first rate decision-making material, but in the way they carried out their operational duties. I would also like to thank the employee representatives and to stress their contribution, not least in view of the fact that we, in parallel with our strategic work, carried out a review of our methodology and cost structure that unfortunately resulted in around 40 employees becoming surplus to requirements.

I am convinced that the past year's strategic work has enhanced Medivir's ability to create long-term value.

Anna Malm Bernsten
Chairman of the Board

The Medivir Group comprises 6 companies. The Parent Company 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 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.

Compliance with the Swedish Code of Corporate Governance (Code)

Medivir has applied the Code since 1 July 2008 and has undertaken to follow best practice, wherever possible, with regard to corporate governance. A minor deviation from point 9.7 of the Corporate Governance Code occurred in 2016 with regard to the three year vesting period requirement for share-price related incentive programmes. For further information, see page 49. The company has not otherwise deviated from any of the provisions of the Code.

Decision-making at shareholders' meetings

Medivir's shareholders exercise their right of decision at the AGM and any EGM. Class A shares carry 10 votes, while class B shares carry 1 vote. See pages 32–33 for information on Medivir's share and shareholders.

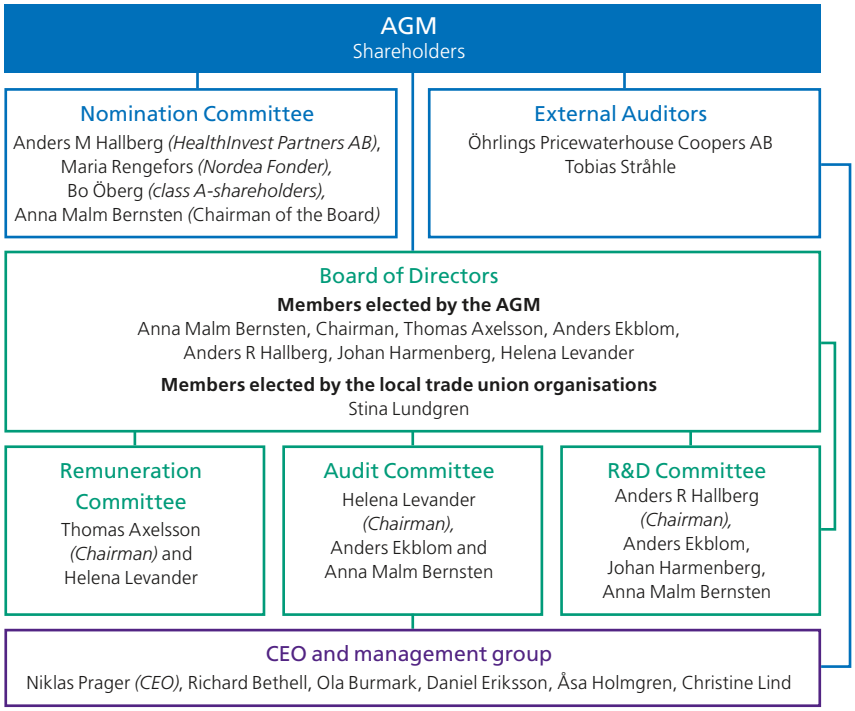
Annual General Meeting

Shareholders exercise their control over the company at the AGM or at EGMs. Minutes from and information on Medivir's General Meetings can be found on the website.

2016 AGM

The AGM was held on 3 May 2016. 138 (153) shareholders attended, either in person or through proxies, representing 47.97% (33.75%) of the votes. Attorney-at-Law, Erik Sjöman, was elected Chairman of the Meeting. Matters resolved by the Board were:

- The re-election of the Board Members, Anna Malm Bernsten, Anders Ekblom, Anders R Hallberg, Johan Harmenberg and Helena Levander. The new election of one Member, Thomas Axelsson. Anna Malm Bernsten was elected Chairman of the Board.
- The Auditor's fee for the period until the next AGM shall be payable upon approval of their invoice within the framework of the amount quoted.
- Remuneration guidelines to senior executives.
- Procedures for the appointment of the Nomination Committee and its work.
- The Directors' fees for the period until the next AGM were maximised at SEK 2,750,000, divided as follows: the Chairman of the Board shall receive SEK 575,000 and other Members who are not employed by the company shall each receive SEK 240,000. Remuneration for committee work shall be paid in a sum of SEK 655,000, to be divided into SEK 210,000 in respect of the Audit Committee (of which SEK 80,000 shall be paid to the convening officer and SEK 65,000 to each of the other 2 members), SEK 115,000 in respect of the Remuneration Committee (of which SEK 65,000 shall be paid to the convening officer and SEK 50,000 to one other member), and SEK 330,000 in respect of the R&D Committee (of which SEK 90,000 shall be paid to the convening officer and SEK 80,000 to each of the other 3 members). The Meeting also approved the proposal that Board Members who have placed special emphasis on commercial development and other structural measures on behalf of the company, over and above their Board duties shall, as approved by the Board, be eligible to receive reasonable remuneration for such work, but no more than a combined maximum of SEK 320,000.
- Authorisation of the Board on one or more occasions before the next AGM, 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% of the total number of class B shares outstanding after utilisation of the authorisation[1)].
- Authorisation of the Board on one or more occasions before the next AGM, to transfer the company's own shares. At the end of 2016, Medivir held 49,455 (130,000) of its own shares, acquired at an average price of SEK 80.0. The 80,545 shares transferred during the year have been used within the company's LTI 2013 incentive plan.



The model reflects the situation as of 30 December 2016.

[1)] The authorisation was not utilised in 2016.

2017 AGM

Medivir's 2017 AGM will be held at 14.00 (CET) on 3 May at the IVA conference centre, Grev Turegatan 16, Stockholm. Shareholders wishing to raise a matter for consideration by the AGM must submit a written request to the Board of Directors in good time prior to the Meeting. The Board can be contacted by letters in the post to: *Styrelsen, Medivir AB, Box 1086, 141 22 Huddinge, or by emails to: info@medivir.se. See also www.medivir.com.*

Nomination Committee

The Nomination Committee procedure adopted at the 2016 AGM means that the Chairman of the Board shall contact the 3 biggest shareholders in terms of the number of votes at the end of the 3rd quarter 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 also be a member of the Nomination Committee. The Committee members shall jointly elect a Chairman to lead the work of the Committee.

Shareholders wishing to contact the Nomination Committee can do so by letters in the post to: *Valberedningen, Medivir AB, Box 1086, 141 22 Huddinge, Sweden or by emails to: valberedning@medivir.se.*

Nomination Committee duties

The duties have changed over the years in order to comply with the requirements of the Code. The primary duty of the Committee continues, however, to be to propose candidates for election to the Board of Directors. The 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. The Committee must also take into consideration all applicable rules governing the independence of the Board Members. The Committee shall also draw up proposals for resolution by the AGM regarding the remuneration and fees payable to:

- Board Members who are not employed by the company and who are elected by the AGM.
- The Auditor.
- The members of the Nomination Committee.

The Committee has not, to date, proposed the payment of any remuneration to its members. The Committee proposes candidate auditors in consultation with the Audit Committee. The Nomination Committee is tasked with proposing a candidate for election as Chairman of the AGM.

The work of the Nomination Committee ahead of the 2017 AGM

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

The Chairman of the Board is responsible for the annual appraisal of the work of the Board, 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 Committee is thus able 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 Committee has held 4 meetings, at which all members were present, by 28 February 2017. The Committee's full proposals for the 2017 AGM were published in conjunction with the issue of the notice convening the AGM.

Members of the Nomination Committee

The Nomination Committee prior to the 2017 AGM (appointed by the biggest shareholders in terms of the number of votes held on 30 Sept. 2016).

Name	Representing	Proportion of votes, % 2016-09-30
Bo Öberg	Class A-shareholders	19.6
Anders M Hallberg	HealthInvest Partners AB	8.9
Maria Rengefors	Nordea Fonder	6.2
Anna Malm Bernsten	Chairman of the Board, Medivir (Convenor)	0
Total		**34.7**

Duties and work of the Board of Directors

The primary duty of the Board 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 Board manages and decides on Group-wide issues such as:

- Strategic orientation and significant objectives.
- Significant issues in relation to the optimisation of capital structure, investments, acquisitions and divestments.
- Monitoring of operations, information provision and organisational issues, inc. appraisals of the Group's executive management.
- Appointment and, when required, dismissal of the CEO.
- Overall responsibility for setting up efficient systems for internal monitoring and risk management.
- Significant policies.

The composition of the Board of Directors

The Members of the Board shall serve from the end of the AGM at which they were elected until the end of the next AGM. There is no limit on the number of consecutive periods during which a person may be a Board Member. The Board of Directors elected by the shareholders at the 2016 AGM until the end of the 2017 AGM comprised 6 Members of the Board and no Deputy Members, including the Chairman of the Board. The Board also includes one Member elected by the local trade union organisations. Women make up 43% of the Board.

The CEO, CFO and Secretary to the Board attend Board Meetings, other than in conjunction with matters where disqualification may be an issue or where it is inappropriate for them to attend, e.g. in conjunction with the evaluation of the CEO's work.

See pages 52–53 for a presentation of the Members of the Board.

Rules of Procedure and Board Meetings

The Board of Directors adopts written Rules of Procedure every year, 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 how the Board shall receive information and documentation in order to ensure its ability to take well-founded decisions. The Board adopts written instructions for the CEO 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 AGM. The Board normally also holds a minimum of 6 further Meetings each year. Four of these Meetings are held in conjunction with the publication of the Group's annual and interim 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, inc. telephone conferences, are held as required.

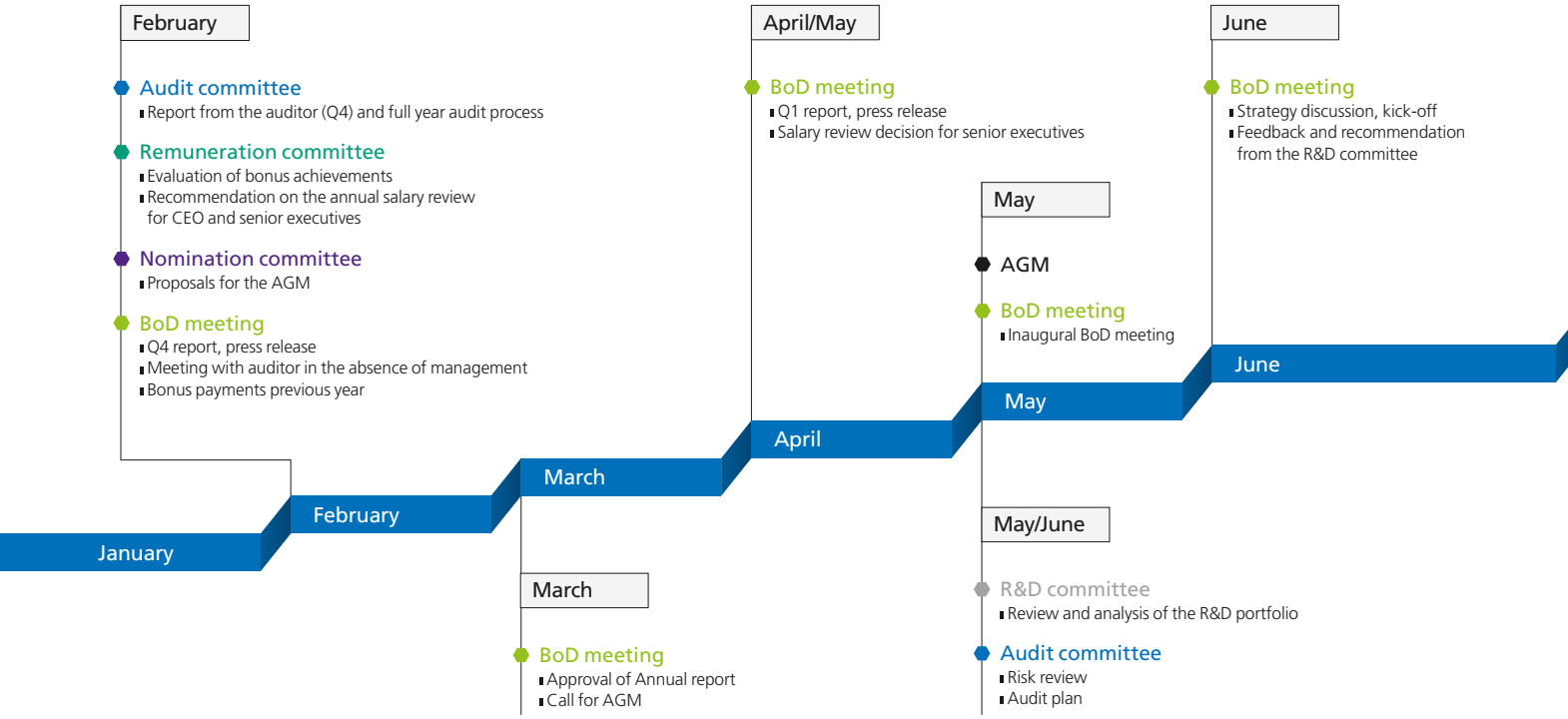
The duties of the Chairman of the Board

The Chairman 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 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 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 Board has evaluated its work during the year by means of an online questionnaire comprising ca. 50 questions in 7 areas. The area receiving the highest rating was that of the Chairman's role and competence, whilst scope exists for reviewing the distribution of responsibilities within the Board. The results of the evaluation have been submitted to the Nomination Committee. The Chairman represents Medivir on ownership issues.

The work of the Board of Directors in 2016

The Board has held 18 minuted Meetings in 2016. The attendance of the individual Members at these Meetings is shown in the table on page 47. All of the Meetings have followed an approved agenda which, together with the documentation for every item, was supplied to the Members before the relevant 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 review a relevant strategic issue. Reports on the work of the Committees are presented at each Board Meeting by the Chairmen of the respective Committees.

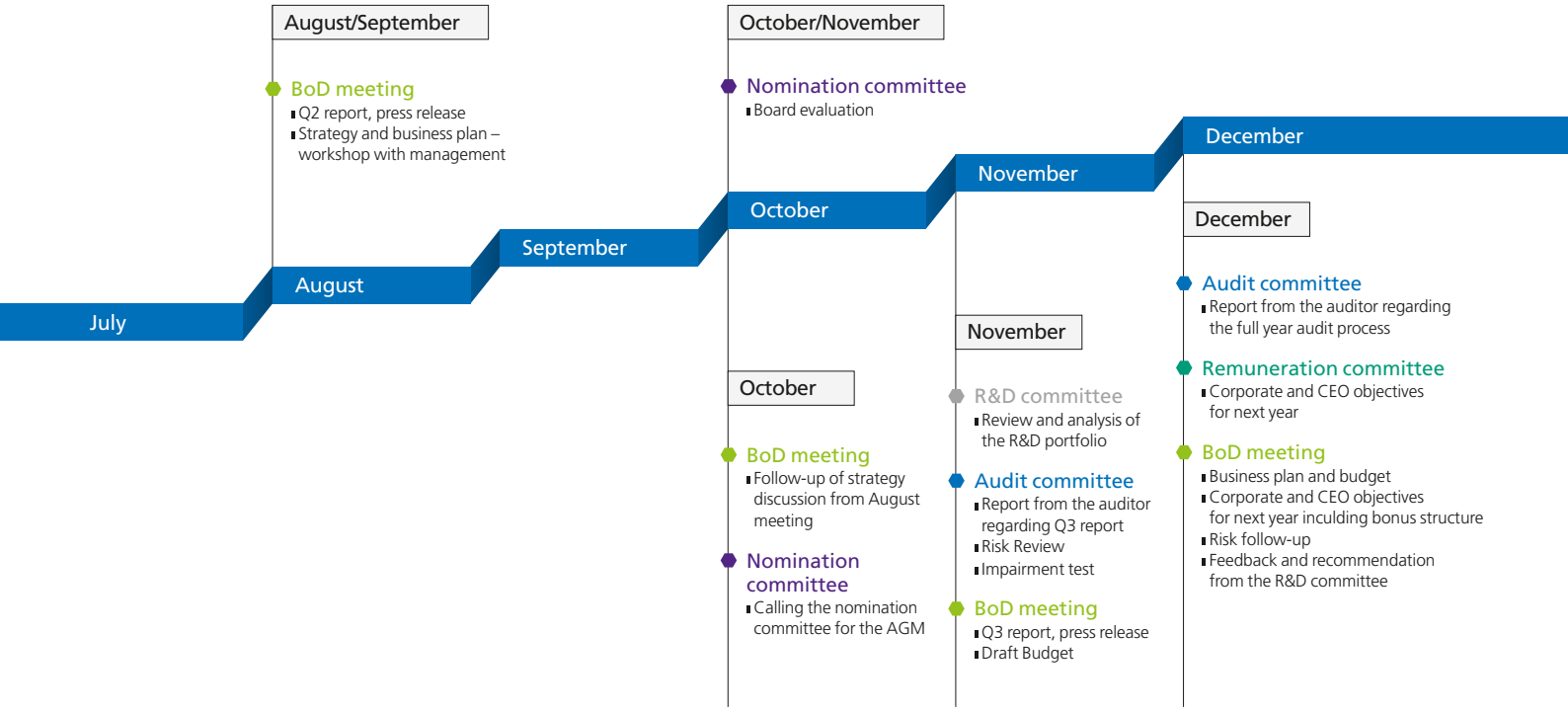
The Board's annual work



The Board of Directors' attendance anf fees (SEK k)[9]

				PRESENT (TOTAL NUMBER OF MEETINGS)				TOTAL REMUNERATION
Members elected by the AGM	**Elected**	**Born**	**Independent**	**Board Meetings**	**Remuneration Committee**	**Audit Committee**	**R&D Committee**	
Thomas Axelsson[1]	2016	1959	Yes	11 (13)	6 (6)			305,000
Anders Ekblom[2]	2014	1954	Yes	18 (18)				385,000
Anders R Hallberg[3]	2012	1945	No [4]	17 (18)				330,000
Johan Harmenberg	2015	1954	Yes	18 (18)				320,000
Helena Levander	2015	1957	Yes	18 (18)	8 (8)			370,000
Anna Malm Bernsten, Chairman of the Board	2006	1961	Yes	18 (18)	6 (6)			720,000
Bertil Samuelsson[5]	2014	1950	No [4]	3 (5)				–
Birgitta Stymne Göransson[6]	2013	1957	Yes	5 (5)	2 (2)			–
Remenuration for commercial development and other structural measures[7]	–	–	–					320,000
Members elected by the local trade union organisations								
Pia Appelqvist (Deputy Member)[8]	2015	1972		8 (9)				
Susana Ayesa Alvarez[8]	2013	1970		13 (15)				
Stina Lundgren[8]	2013	1979		15 (18)				
Veronica Werlinder[8]	2013	1966		11 (12)				

[1] Appointed at the 2016 AGM.
[2] Travel expenses totalling SEK 4 thousand (SEK 0 k) have, in addition to Directors' fees, been paid to Nxt Science AB in 2016.
[3] Royalties in accordance with pre-existing agreements have, in addition to Directors' fees, been paid to Uppsala Hallbechem AB in the sum of SEK 512 thousand (SEK 3,259 k) for 2016.
[4] Independent in relation to the company's major shareholders, but not independent in relation to the company and the company management.
[5] Resigned at the 2016 AGM. For remuneration, see also Note 5 on pages 71–72. Royalties in accordance with pre-existing agreements have, in addition to Directors' fees, been paid to SYBESAM AB in the sum of SEK 969 thousand (SEK 8,998 k) for 2016.
[6] Resigned at the 2016 AGM. For remuneration, see also Note 5 on pages 71–72.
[7] The 2016 AGM resolved that Board Members who have, in respect of commercial development and other structural measures that may be taken in order to generate added value for the shareholders, carried out work on behalf of the company over and above their Board duties shall, as approved by the Board, be eligible to receive reasonable remuneration for such work, but no more than a combined maximum of SEK 320 thousand.
[8] Pia Appelqvist resigned in July 2016. Susana Ayesa Alvarez resigned in November 2016. Stina Lundgren became an ordinary Member of the Board in November 2016, prior to which she was a Deputy Member. Veronica Werlinder resigned in September 2016.
[9] The table refers to fees paid to the Board of Directors during the period from May 2016 – April 2017 (2016). The fee payable to Members of the Board elected by the Annual General Meeting is determined by the Annual General Meeting in line with a proposal by the Nomination Committee. Fees for 2016 have been paid in the amounts shown in the above table, which excludes travel expenses. Differences arise between the maximum fee approved by the Annual General Meeting and the actual amount disbursed, as the actual amount disbursed during the calendar year is a combination of the fees paid between the two most recent General Meetings. See Note 5 on pages 71–72 for actual amounts disbursed.



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

- Streamlining the operations to build an R&D company.
- Analysis and partitioning of the company into an R&D-focused operation and a commercial section.
- Investigation of and preparations for a separate listing of BioPhausia.
- Divestment of BioPhausia.
- In-licensing of late clinical phase oncology projects.
- Development of the project and research portfolio.
- Strategic and business intelligence analyses.
- Financial development, optimisation of the Group's capital structure.
- Interim Reports, Financial Statement, Annual Report.
- Collaborations and partnerships.

Board Committees

There are 3 consultative committees within the Board of Directors: Remuneration Committee, Audit Committee, R&D Committee.

The Remuneration Committee

The Committee advises the Board of Directors and has no independent right of decision.

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

The Committee has held 8 minuted meetings in 2016. The attendance of individual Members is shown in the table on page 47.

The Committee has also held consultations by telephone and email and 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.
- Review of the results of existing long-term incentive plans.
- Evaluation of the talent pool, contracts, and remuneration.

The Audit Committee

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 Committee is to support the Board 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 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 Committee has held 5 minuted meetings in 2016. The attendance of the respective Members is shown in the table on page 47. The CFO has 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 AGM, including the Auditor's audit plan.

The R&D Committee

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 strategic assessments and resource allocation within R&D. The Committee has an advisory role in relation to the company management with regard to specific scientific matters.

The Committee has held 2 minuted meetings in 2016, each of which lasted two days. The attendance of the respective Members is shown in the table on page 47.

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,

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

Function	Year	Fixed salary	Performance related pay	Benefits	Severance pay	Total	Pension	Total incl pension
CEO, Niklas Prager	**2016**	**3,832**	**1,583**	**736**		**6,151**	**846**	**6,997**
	2015	3,600	1,194	153		4,947	813	5,760
Other senior executives [1–3)]	**2016**	**7,740**	**1,689**	**663**		**10,092**	**1,576**	**11,668**
	2015	9,374	1,703	304	853	12,234	1,628	13,862
Total	**2016**	**11,572**	**3 272**	**1,399**	**0**	**16,243**	**2,422**	**18,655**
	2015	12,974	2,897	457	853	17,181	2,441	19,622

[1)] The management group, including the CEO, comprised six persons at the beginning of 2016. The post of EVP Commercial has been removed from the management group in 2016 (up to and including May) and the post of Chief Information Officer has been added (from Dec.).
[2)] Remuneration totalling SEK 1,206 thousand that was carried as an expense in 2014 has been disbursed in 2016 to former employees who were Other senior executives.
[3)] A total of SEK 2,208 thousand in remuneration that was carried as an expense in 2015 has been disbursed in 2016 to former employees who were Other senior executives.

the Articles of Association, and the CEO's Instructions. The Group management has a broad composition of individuals with in-depth and extensive experience of R&D, the registration and approval of pharmaceuticals, and the requisite expertise in commercial development, accounting, finance and communication. For a presentation of the Group management, see pages 54–55.
The role of the Group management is to:

- Set goals, allocate resources, and follow up on the operating units' results.
- Produce information and documentation that enables the Board to take well-founded decisions.
- Implement the strategy adopted by the Board for the entire organisation on the basis of the annual strategic work. Following up on established goals is a key tool in the management of our operational work.

Guidelines for remuneration to senior executives

Remuneration principles for senior executives are determined by the AGM. The guidelines for remuneration to senior executives 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 AGM-approved amendments to existing terms. 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. The fixed salary shall take into account the individual's areas of responsibility and experience. Performance-based pay, as a cash bonus, may comprise a maximum of 50% 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.

Evaluation of principles for remuneration to senior executives

Medivir has complied, in 2016, with the remuneration principles for senior executives approved by the AGM.

Long-term incentive plans

The purpose of long-term incentive plans is to generate the conditions for retaining and recruiting competent personnel and to offer employees an attractive opportunity to acquire a stake in the company, so as to encourage continued company loyalty by combining the interests of the shareholders and the employees. The 2013 and 2014 AGM´s 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. LTI 2013 was settled in June 2016 and 80,545 class B shares were allocated to those employees who had invested in the plan. The Board has concluded, in the light of the restructuring of the company, including the divestment of BioPhausia in December 2016, that there is no purpose to be served, from a personnel perspective, by allowing the LTI 2014 incentive plan to continue until its scheduled end point, with share allocation not occurring until the late spring of 2017. The Board decided to accelerate the allocation of LTI 2014, which entails a minor deviation from point 9.7 of the Corporate Governance Code with regard to the requirement for a three year vesting period. Allocation of LTI 2014 occurred in January 2017 and 38,042 class B shares were allocated to the employees who had invested in the plan. The company consequently has no current long-term incentive plan.

Election of Auditors

The duties of the Nomination Committee include proposing an auditor to the AGM.

Öhrlings PricewaterhouseCoopers AB (PwC) was appointed as the company's external auditors for a one-year period up to and including the 2017 AGM. Authorised Public Accountant, Tobias Stråhle, 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-Charge attends the AGM 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 different accounting and financial issues, such services are provided, subject to the approval of the Audit Committee.

Auditors' fees

Fees for auditing Medivir's accounts are determined by the AGM in line with proposals by the Nomination Committee. Auditors' fees in 2016 and 2015 are shown in the table to the left.

Auditors' fees (SEK k)

	2016	2015
PwC		
Audit engagement	1,066	1,176
Auditing services over and above the audit engagement	480	394
Tax advice	282	492
Other services	284	17
Subtotal	**2,112**	**2,080**
Other auditors		
Audit engagement	13	34
Subtotal	**13**	**34**
Total	**2,125**	**2,113**

The Board of Directors' internal controls report

Internal control
The following presentation comprises the Board of Directors' report on Internal Controls. The purpose of internal controls is to shed light on Medivir's systems for monitoring and controlling operational risks in relation both to strategy and operational practice and to compliance with legislative and regulatory requirements. It shall also provide reasonable assurance of the reliability of the external financial reporting. The internal controls 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, the CEO and other members of the management team. Medivir is also subject to the guidelines and regulations issued by the Swedish Medical Products Agency with regard to research and trials of potential new pharmaceutical products and to the commercial management and distribution of approved pharmaceuticals in the Nordic markets.

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.
- The company's quality process and its guidelines, which ensures compliance with the permits issued by the Swedish Medical Products Agency.
- Group-wide planning processes, such as the process for appraisal of the R&D portfolio, the budget process, and performance reviews.

The internal control environment comprises, in addition to external laws and regulations, policies and guidelines. These internal steering documents are updated regularly in line with changes in both internal and external requirements. The internal steering documents include:
- The Articles of Association
- The Board of Directors' Rules of Procedure and the written instructions for the CEO
- Guidelines for remuneration to senior executives
- The Quality Manual
- The Finance Policy
- The Information Policy
- The IT Policy
- The Accounting and HR manuals
- The Code of Conduct
- The Environmental Policy

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. 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:
- Strategic risks and external risks – such as regulatory approval, competition, price changes and patent protection.
- Operating risks – such as partnerships, uncertainty in the context of research projects, disruptions to production, data security and reliance on key persons and partnerships.
- Financial risks – such as liquidity, interest, currency and credit risks.

Medivir's risk assessment is designed to identify and evaluate the most significant risks and to ensure that there are sufficient control points in place during the processes to manage these risks. Policies and guidelines are important steering tools. For a more detailed presentation of risk exposure and the way in which Medivir handles it, see pages 38–40.

Control activities
Routines and activities have been structured to handle and action significant risks. The activities include half-yearly reviews of the research portfolio, internal audits of the quality manual and of compliance with documented routines for handling pharmaceuticals, reviews of significant suppliers, and monitoring and following up of financial analyses and key ratios.

Information and communication

Medivir has information and communication pathways that are designed to promote the completeness and accuracy of the external communication. 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. The Board of Directors and management receive ongoing reports on the Group's position, profit performance, and operational development in terms of the status both of research projects and other business-critical areas. The most important communication 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 operating areas and all financial reporting.

The Board's monitoring of the internal controls is primarily conducted through the Audit Committee, the R&D Committee and the Remuneration Committee. The internal quality department is tasked with ensuring that Medivir complies with and implements new rules and regulations regarding the handling of pharmaceuticals and that Medivir complies with the licences issued to the company. 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 Board of Directors

Thomas Axelsson

Born: 1959. Member of the Board since 2016 and Chairman of the Remuneration Committee.

Education: Has studied industrial economics at Linköping University's Institute of Technology.

Background: CEO of Vitrolife AB since 2011. Former CEO of the publically traded companies Stille AB and Artema AB as well as of a number of unlisted medical technology companies. Former Chairman of the Boards of SBL Vaccin AB, Neoventa Medical AB, Airsonett AB and other companies, primarily in the life science sector. Former Business Unit Director at Baxter.

Other directorships: No other directorships.

Shares in Medivir: 2,139 class B shares.

Anna Malm Bernsten

Born: 1961. Chairman of the Board. Member of the Board since 2006. Member of the Audit Committee and the R&D Committee.

Education: M.Sc. in Engineering.

Background: M.Sc. in Engineering with an extensive knowledge of the life sciences sector. Runs own consultancy firm operating in the fields of leadership strategy and business development. Experience of senior positions with, amongst others, GE Healthcare Life Sciences, Pharmacia, Assa Abloy, Medivir and Baxter Medical. Former President & CEO of Carmeda AB.

Other directorships: Chairman of the Boards of CEBA/Oatly AB and Björn Axén. Member of the Boards of Arcam, Cellavision, Neurovive, Pågengruppen. Former Member of the Board of BioPhausia AB.

Shares in Medivir: 1,634 class B shares.

Anders Ekblom

Born: 1954. Member of the Board since 2014. Member of the R&D Committee and the Audit Committee.

Education: Doctor of Medicine and Associate Professor in physiology at the Karolinska Institute.

Background: Physician (specialising in anaesthesia and intensive care), dentist.

Other directorships: Chairman of the Boards of the Karolinska University Hospital and TFS International AB, Member of the Boards of the Swedish Research Council, SwedenBio, AnaMar AB, Infant Bacterial Therapeutics AB, Mereo Biopharma Ltd, RSPR Pharma AB, and Viscogel AB, and a senior advisor to Phase4 Partners, UK.

Shares in Medivir: 1,792 class B shares.

Employee representative

Stina Lundgren

Born: 1979. Member of the Board, appointed by the Unionen trade union, since 2013.

Background: Ph.D. in Chemistry from KTH Royal Institute of Technology. Employed in 2008 as a Senior Research Scientist in the Chemistry Department.

Shares in Medivir: 1,338 class B shares.

Anders R Hallberg

Born: 1945. Member of the Board since 2012. Chairman of the R&D Committee.

Education: Professor of Medicinal Chemistry at Uppsala University's Faculty of Pharmacy.

Background: Held a number of positions as a scientific advisor at Astra Zeneca and smaller pharmaceutical companies between 1990 and 2006. Prior to this, he was the Head of the Medicinal Chemistry Department at Astra in Lund. Vice-Chancellor of Uppsala University between 2006 and 2011. He has published over 280 scientific articles, a large number of which are on the subject of pharmaceuticals for the treatment of infectious diseases, and co-inventor of a large number of granted patents. Member of the Royal Swedish Academy of Sciences, and the Royal Swedish Academy of Engineering Sciences. Awarded honorary doctorates in Sweden and other countries.

Other directorships: Member of the Boards of foundations and universities.

Shares in Medivir: 1,372 class B shares.

Johan Harmenberg

Born: 1954. Member of the Board since 2015. Member of the R&D Committee.

Education: Physician, Doctor of Medicine and Associate Professor in Virology at the Karolinska Institute. Scientific studies at MIT in Cambridge, USA.

Background: Previously worked as a researcher, Medical Director and Research Director at, amongst others, Roche, Astra, Pharmacia & Upjohn, Medivir and Algeta ASA. Former CEO of Axelar AB, Akinion AB and OncoReg AB and a former Member of the Board of Light-up AB and Oxypharma AB. He has published over 100 scientific articles and abstracts, the majority of which have been on the subject of pharmaceuticals and pharmaceutical development for the treatment of cancer and infectious diseases. He also runs a small real estate business. He is currently the Chief Medical Officer of Oncopeptides AB.

Other directorships: Member of the Boards of small, wholly-owned real estate companies.

Shares in Medivir: 3,000 class B shares.

Helena Levander

Born: 1957. Member of the Board since 2015. Member of the Remuneration Committee and Chairman of the Audit Committee.

Education: B.Sc. in Economics and Business Administration from the Stockholm School of Economics.

Background: Extensive experience of the financial and equity markets and of corporate governance issues. Previous employed by Neonet, Odin Förvaltning, Nordea Asset Management and SEB Asset Management, amongst others.

Other directorships: Founder and now Chairman of the Board of Nordic Investor Services AB. Member of the Boards of Concordia Maritime AB, Recipharm AB, NeuroVive Pharmaceutical AB and Stampen AB.

Shares in Medivir: 7,000 class B shares.

Refers to the shareholding on 28 February. See website for current holdings.

Management

Richard Bethell

Born: 1963

Title: Chief Scientific Officer.

Education: Doctor of Philosophy (D. Phil.) in chemistry from Oxford University.

Employed: 2013

Background: Former head of Biological Sciences at Boehringer Ingelheim (Canada) Ltd., Head of Therapeutic Research at Shire and various positions at Pfizer and GlaxoSmithKline in the field of development and research.

Shares in Medivir: 8,887 class B shares.

Ola Burmark

Born: 1969

Title: Chief Financial Officer.

Education: B.Sc. in Finance and Business Administration.

Employed: 2015

Background: Former CFO at OneMed AB and Aditro Holding AB, SVP Finance and M&A at Thule Group AB and Cell Network, Cash Manager at SCA Finans, and auditor at Ernst & Young.

Shares in Medivir: 8,000 class B shares.

Daniel Eriksson

Born: 1975

Title: Chief Information Officer

Education: PhD from Coventry University, BSc in Systems Science from Linkoping University

Employed: 2016

Background: Former Technical Director for G4S Risk Management, India Country Manager for Hill & Associates, e-Governance advisor for Iraqi authorities, CIO for the UN OPS Kosovo mission, as well as a series of positions with the UN and international organisations in roles re-lating to IT, security, decision support systems, innovation, and digitalisation.

Shares in Medivir: 0

Åsa Holmgren

Born: 1965

Title: Executive Vice President Strategic Regulatory Affairs and Market Access.

Education: M. Sc. in Pharmacy, trained at Uppsala University.

Employed: 2015

Background: Former Head of Regulatory Affairs at Orexo AB. Extensive experience from a number of large pharma-ceutical companies, including 12 years as Senior Global Regulatory Affairs Director at AstraZeneca, and, in particular, international, strategic duties within Regulatory Affairs. Åsa has also worked for AstraZeneca in Canada and Japan.

Shares in Medivir: 0

Christine Lind

Born: 1974

Title: Executive Vice President Strategic Business Development.

Education: B. Sc. Finance and Information Systems from New York University and Master of Business Administration from Columbia Business School.

Employed: 2015

Background: Previously Vice President, Business Development at LifeCell Corporation and 12 years of investment banking experience in biotech and pharma advisory and capital raising at Merrill Lynch & Co. and Gerard Klauer Mattison & Co.

Shares in Medivir: 5,353 class B shares.

Christine Lind will take up the position as CEO of Medivir on 1 April 2017.

Niklas Prager

Born: 1970

Title: President and CEO.

Education: MBA from the Stockholm School of Economics.

Employed: 2014

Background: 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: 55,248 class B shares.

Refers to the shareholding on 28 February. See website for current holdings.

Income statements

		THE GROUP		PARENT COMPANY	
SEK k	**NOTE**	**2016**	**2015**	**2016**	**2015**
Continuing operations					
Net sales	1	93,043	474,274	130,954	500,774
Cost of goods sold		–15,949	–38,268	–15,966	–57,815
Gross profit		**77,094**	**436,006**	**114,988**	**442,958**
Selling expenses		–13,011	–48,249	–14,444	–57,822
Administrative expenses		–70,658	–57,287	–157,201	–53,715
Research and development costs		–307,090	–278,375	–256,120	–257,815
Other operating income		4,477	5,051	6,980	23,102
Other operating expenses		–3,192	–1,718	–5,462	–13,285
Operating profit/loss	2, 3, 4, 5, 6	**–312,380**	**55,428**	**–311,259**	**83,424**
Profit/loss from participations in Group companies	7	1,429	–	675,452	–23,457
Other interest income and similar profit/loss items	8, 9	9,244	9	9,607	340
Interest expenses and similar profit/loss items	8, 10	–5,018	–9,234	–5,639	–9,145
Profit/loss after financial items		**–306,725**	**46,203**	**368,161**	**51,162**
Appropriations		–	–	37,921	–37,921
Tax	11	11,870	–14,495	218	–9,837
Net profit/loss for the year from continuing operations		**–294,855**	**31,708**	**406,300**	**3,404**
Net profit/loss for the year from discontinued operations	26	577,709	43,382	–	–
Net profit/loss for the year		**282,854**	**75,090**	**406,300**	**3,404**
Net profit/loss attributable to:					
Parent Company shareholders		282,854	75,090	406,300	3,404
Basic and diluted earnings per share	12				
Continuing basic operations, SEK		–10.94	1.09		
Continuing diluted operations, SEK		–10.94	1.08		
Discontinued basic operations, SEK		21.44	1.49		
Discontinued diluted operations, SEK		21.39	1.48		
Total basic operations, SEK		10.50	2.59		
Total diluted operations, SEK		10.47	2.56		
Average number of shares, ‘000		26,941	29,048		
Number of shares at year-end, ‘000		26,917	26,836		
Proposed dividend per share, SEK		0	0		

– = not applicable

Statement of comprehensive income

	THE GROUP		PARENT COMPANY	
SEK k	**2016**	**2015**	**2016**	**2015**
Net profit/loss for the year	**282,854**	**75,090**	**406,300**	**3,404**
Other comprehensive income				
Items that may be recycled to the profit/loss				
Translation differences	–1,291	2,230	–	–
Other comprehensive income for the period, net after tax	**281,563**	**77,320**	**406,300**	**3,404**
Total comprehensive income for the period	**281,563**	**77,320**	**406,300**	**3,404**

– = not applicable

Balance sheets

		THE GROUP		PARENT COMPANY	
SEK k	NOTE	31 Dec 2016	31 dec 2015	31 Dec 2016	31 dec 2015
ASSETS					
Fixed assets					
Intangible fixed assets					
Capitalised expenditure for research and development work		104,522	8,747	104,522	8,747
Product rights		2,754	233,602	2,754	3,134
Goodwill		–	150,420	–	–
Other intangible assets		4,578	5,253	4,578	5,253
Total intangible fixed assets	13	**111,854**	**398,022**	**111,854**	**17,134**
Tangible fixed assets					
Buildings and land		653	870	653	870
Equipment, tools, fixtures and fittings		21,303	25,413	21,303	25,189
Total tangible fixed assets	14	**21,956**	**26,283**	**21,956**	**26,059**
Financial fixed assets					
Participations in Group companies	15	–	–	100	604,212
Financial assets held for sale	8,16	–	–	–	–
Deferred tax receivable	11	1,002	–	–	–
Total financial fixed assets		**1,002**	**–**	**100**	**604,212**
Total fixed assets		**134,812**	**424,305**	**133,910**	**647,405**
Current assets					
Inventories	17	**432**	**18,696**	**432**	**2,307**
Current receivables					
Accounts receivable	8	12,808	23,888	12,508	16,900
Receivables from Group companies		–	–	22,240	24,260
Tax receivables		22,341	17,778	22,336	17,695
Other receivables	8	12,245	8,661	12,245	3,639
Prepaid expenses and accrued income	18	40,383	44,985	38,488	42,072
Total current receivables		**87,778**	**95,312**	**107,817**	**104,566**
Short-term investments					
Other short-term investments	8,19	1,504,645	860,416	1,504,645	860,416
Cash and bank balances	8,19	193,836	217,525	187,883	80,924
Total short-term investments		**1,698,481**	**1,077,942**	**1,692,528**	**941,341**
Total current assets		**1,786,691**	**1,191,950**	**1,800,777**	**1,048,213**
TOTAL ASSETS		**1,921,503**	**1,616,255**	**1,934,687**	**1,695,618**

– = not applicable

Balance sheets

SEK k	NOTE	THE GROUP 31 Dec 2016	THE GROUP 31 dec 2015	PARENT COMPANY 31 Dec 2016	PARENT COMPANY 31 dec 2015
EQUITY AND LIABILITIES					
Equity, the Medivir Group					
Share capital		157,159	157,159	–	–
Other capital contributed		1,153,475	1,152,185	–	–
Exchange rate differences		–3,103	–1,812	–	–
Accumulated profit/loss		425,381	142,577	–	–
Total equity, the Medivir Group	28	**1,732,912**	**1,450,109**	**–**	**–**
Equity, Medivir AB					
Restricted equity					
Share capital		–	–	157,159	157,159
Statutory reserve		–	–	–	0
Total restricted equity		**–**	**–**	**157,159**	**157,159**
Non-restricted equity					
Share premium reserve		–	–	1,334,771	1,333,532
Accumulated profit/loss		–	–	–168,494	–171,898
Net profit/loss for the year		–	–	406,300	3,404
Total non-restricted equity		**–**	**–**	**1,572,577**	**1,165,038**
Total equity, Medivir AB		**–**	**–**	**1,729,736**	**1,322,197**
Untaxed reserves	20	**–**	**–**	**–**	**37,921**
Provisions					
Deferred tax liability	11	–	–	–	351
Other provisions	21	–	–	30,349	–
Total provisions		–	–	**30,349**	**351**
Long-term liabilities					
Deferred tax liability	11	–	30,774	–	–
Total long-term liabilities		**–**	**30,774**	**–**	**–**
Current liabilities					
Accounts payable	8	56,813	37,053	56,813	28,883
Liabilities to Group companies		–	–	21,000	214,863
Provisions	21	30,349	–	–	–
Other liabilities		21,147	31,611	21,067	29,092
Accrued expenses and deferred income	22	80,282	66,709	75,722	62,311
Total current liabilities		**188,591**	**165,795**	**174,602**	**335,149**
Total equity and liabilities		**1,921,503**	**1,616,255**	**1,934,687**	**1,695,618**
Pledged assets	23				
Undertakings and Contingent liabilities	24				

– = not applicable

Changes in equity

The Group, SEK k	Share capital	Other capital contributed	Translation reserve	Accumulated profit/loss	Total equity	Number of shares
Opening balance, 1 January 2015	**156,300**	**1,761,747**	**–4,043**	**68,600**	**1,982,604**	**31,260,027**[1]
Net profit/loss for the year	–	–	–	75,090	75,090	–
Exchange rate differences	–	–	2,230	–	2,230	–
Total comprehensive income for the period	–	–	**2,230**	**75,090**	**77,320**	–
Employee stock option programme: value of employees' service	–	2,925	–	–	2,925	–
Redemption plan	–21,470	–579,689	–	–	–601,159	–4,293,990
Bonus issue	22,329	–22,329	–	–	–	–
Transaction costs	–	–	–	–1,486	–1,486	–
Fiscal effect on transaction costs	–	–	–	324	324	–
Buy-back of own shares	–	–10,419	–	–	–10,419	–
Closing balance, 31 December 2015	**157,159**	**1,152,236**	**–1,813**	**142,528**	**1,450,109**	**26,966,037**[2]
Opening balance, 1 January 2016	157,159	1,152,236	–1,813	142,528	1,450,109	26,966,037[3]
Net profit/loss for the year	–	–	–	282,854	282,854	–
Exchange rate differences	–	–	–1,291	–	–1,291	–
Total comprehensive income for the period	**–**	**–**	**–1,291**	**282,854**	**281,563**	**–**
Employee stock option programme: value of employees' service	–	1,240	–	–	1,240	–
Closing balance, 31 December 2016	**157,159**	**1,153,475**	**–3,103**	**425,381**	**1,732,912**	**26,966,037**[4]

[1] Opening number of shares in 2015: 660,000 class A shares and 30,600,027 class B shares, nominal value: SEK 5.
[2] Closing number of shares in 2015: 606,358 class A shares and 26,359,679 class B shares, nominal value: SEK 6 (of which 130,000 class B shares held by the company).
[3] Opening number of shares in 2016: 606,358 class A shares and 26,359,679 class B shares, nominal value: SEK 6 (of which 130,000 class B shares held by the company).
[4] Closing number of shares in 2016: 606,358 class A shares and 26,359,679 class B shares, nominal value: SEK 6 (of which 49,455 class B shares held by the company).
The nominal value has been calculated as the share capital divided by the total number of shares. Proposed dividend payment for 2016: SEK 0 per share.

Parent Company, SEK k	Share capital	Statutory reserve	Share premium reserve	Accumulated loss	Net profit/ loss for the year	Total equity	Number of shares
Opening balance, 1 January 2015	**156,300**	**827,971**	**1,104,653**	**–1,102,804**	**942,439**	**1,928,558**	**31,260,027**[1]
Appropriation of profits:							
Profit/loss for the previous year brought forward	–	–	–	942,439	–942,439	–	–
Net profit/loss for the year	–	–	–	–	3,404	3,404	–
Share saving plan: value of employees' service, Medivir AB	–	–	2,925	–	–	2,925	–
Transfer of statutory reserve in accordance with AGM resolution	–	–827,971	827,971	–	–	–	–
Redemption programme	–21,470	–	–579,689	–	–	–601,159	–4,293,990
Bonus issue	22,329	–	–22,329	–	–	–	–
Transaction costs	–	–	–	–1,426	–	–1,426	–
Fiscal effect on transaction costs	–	–	–	314	–	314	–
Buy-back of own shares	–	–	–	–10,419	–	–10,419	–
Closing balance, 31 December 2016	**157,159**	**–**	**1,333,531**	**–171,898**	**3,404**	**1,322,197**	**26,966,037**[2]
Opening balance, 1 January 2016	157,159	–	1,333,531	–171,898	3,404	1,322,197	26,966,037[3]
Appropriation of profits:							
Profit/loss for the previous year brought forward	–	–	–	3,404	–3,404	–	–
Net profit/loss for the year	–	–	–	–	406,300	406,300	–
Employee stock option programme: value of employees' service	–	–	1,240	–	–	1,240	–
Closing balance, 31 December 2016	**157,159**	**–**	**1,334,771**	**–168,494**	**406,300**	**1,729,736**	**26,966,037**[4]

[1] Opening number of shares in 2015: 660,000 class A shares and 30,600,027 class B shares, nominal value: SEK 5.
[2] Closing number of shares in 2015: 606,358 class A shares and 26,359,679 class B shares, nominal value: SEK 6 (of which 130,000 class B shares held by the company).
[3] Opening number of shares in 2016: 606,358 class A shares and 26,359,679 class B shares, nominal value: SEK 6 (of which 130,000 class B shares held by the company).
[4] Closing num¬ber of shares in 2016: 606,358 class A shares and 26,359,679 class B shares, nominal value: SEK 6 (of which 49,455 class B shares held by the company).
The nominal value has been calculated as the share capital divided by the total number of shares. Proposed dividend payment for 2016: SEK 0 per share.
– = not applicable

Statements of cash flow

Total operations, SEK k	NOTE	THE GROUP 2016	THE GROUP 2015	PARENT COMPANY 2016	PARENT COMPANY 2015
Operating activities					
Profit/loss after financial items		283,214	101,954	368,161	51,162
Adjustment for non-cash items	25	–463 968	38,268	–255 540	15,157
		–180 754	**140 222**	**112 621**	**66 319**
Tax paid		–8,920	–8,936	–12,310	–12,616
Cash flow from operating activities before changes in working capital		**–189 674**	**131,286**	**100 311**	**53,703**
Cash flow from changes in working capital					
Increase(–)/decrease(+) in inventories		–6,038	4,913	1,875	1,301
Increase(–)/decrease(+) in current receivables		–19,993	231,874	1,390	199,707
Increase(+)/decrease(–) in current liabilities		33 421	–20,685	–156 349	6,809
Cash flow from operating activities	26	**–182,284**	**347,387**	**–52,774**	**261,520**
Investing activities					
Divestment of subsidiaries	25	908,343	–	909,108	–
Purchase of intangible fixed assets		–96,220	–10,047	–96,220	–10,047
Purchase of tangible fixed assets		–10,101	–10,040	–10,101	–10,040
Sale of tangible fixed assets		1,174	–	1,174	–
Sale of/reduction in fixed assets		–	5,045	–	–
Cash flow from investing activities	26	**803,197**	**–15,042**	**803,961**	**–20,087**
Financing activities					
Amortisation of loan liabilities		–	–40,000	–	–40,000
Redemption programme		–	–601,159	–	–601,159
Buy-back of own shares		–	–10,419	–	–10,419
Transaction costs in conjunction with redemption programme		–	–	–	–1,426
Cash flow from financing activities	26	**–**	**–651,578**	**–**	**–653,004**
Cash flow for the year		**620,913**	**–319,232**	**751,187**	**–411,571**
Cash and cash equivalents at the beginning of the year		1,077,942	1,395,621	941,341	1,352,911
Exchange rate differences, cash and cash equivalents		–374	1,553	–	–
Cash and cash equivalents at the end of the year	19	**1,698,481**	**1,077,942**	**1,692,528**	**941,341**

– = 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 2016, 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.

Future changes to presentation principles for the Income Statement

Medivir will, as of 1 January 2017, present its Income Statement in accordance with the classification by cost type principle. The classification by function principle is currently applied (see under the "Income Statement" section below). This change in the accounting principle will be applied for the first time in the first Interim Report of 2017, and will only entail a revision of the structure of the Income Statement. The net profit presented for the periods will not be affected. The Other comprehensive income specification will not be affected by this change in principle and will continue to be specified and presented in the same way as in this Annual Report. The comparative figures for the Income Statement in the 2017 reports will be specified in accordance with the new format.

New and revised standards applied by the Group from 1 January 2016

None of the new or amended standards that have come into force and which apply to the 2016 financial year have had any impact on Medivir's consolidated accounts.

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 three 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. IFRS 15 comes into force on 1 January 2018. Proactive application is permitted. The Group's judgement is that the introduction of the standard will have no material effect and it does therefore not intend to implement early application.

In January 2016, IASB published a new leasing standard, IFRS 16 Leases, which will replace IAS 17 Leases and the associated interpretations, IFRIC 4, SIC-15 and SIC-27. The standard requires assets and liabilities attributable to all leasing agreements, with a few exceptions, to be reported in the Balance Sheet. This approach to the reporting is based on the view that the lessee has a right to make use of an asset during a specific period of time and, at the same time, has an obligation to pay for this right. The reporting by the lessor will, in every significant respect, remain unchanged. The standard is applicable to financial years commencing 1 January 2019 or thereafter. Proactive application is permitted. The EU has not, as yet, adopted the standard. The Group has not, as yet, evaluated the effects of IFRS 16.

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 Group 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 (SEK) 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.

Discontinued operations
The Income Statement includes a separate presentation of the profit/loss from discontinued operations. A discontinued operation is that part of the Medivir Group 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 with comparative figures. The subsidiary items included in the profit/loss from discontinued operations, together with disclosures in relation to the operation discontinued, are presented as supplementary disclosures in the Notes.

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

Financial instruments, reporting, disclosure and classification
For information on financial risks and investments, see Note 8, Financial Risks, on pages 73–75.

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 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.

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 historical 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 historical 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 69 (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 69, 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. Medivir is 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.

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 10 statement from the Swedish Financial Reporting Board.

In accordance with UFR 10, 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 2016, Alecta's surplus in the form of the collective consolidation ratio was preliminarily calculated by Alecta at 149 per cent (153%). 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.

Rights agreements
The Medivir Group has entered into various forms of agreement, both with parties external to the Group and with related parties, with regard to various rights linked to pharmaceutical development and finished pharmaceutical products (see above under the Intangible fixed assets section for the various kinds of rights acquired). Medivir may, depending on the nature and content of the agreement, have an existing or potential future undertaking to transfer resources to a party as remuneration for the rights and the use thereof. Medivir may consequently have rights in the Balance Sheet that may generate future revenues in the form of pharmaceutical sales or partnership agreements (see above under Revenues) but which may also result in another party receiving payments based on this return. This may result in Medivir reporting liabilities and provisions in the Balance Sheet with related costs in the Income Statement and/or disclosing contingent liabilities in the Notes. Different types of remuneration circumstances are presented below.

Royalty costs and provisions from in-licensed rights
Some of the pharmaceuticals that generate revenues for Medivir are based on inventions and rights that originally belonged to external parties and to which Medivir has obtained contractual right of disposal. Medivir makes payment for its right of disposal over these incorporeal rights in the form of royalties. The payments in these agreements are based on the revenues that Medivir receives from any milestone payments or sales of finished pharmaceutical products.

Royalty provisions are recognised when it is probable that payments will be made to the counterparty from whom the right was acquired and when the amount can be reliably estimated. Both of these preconditions for recognition as provisions are often not fulfilled until Medivir receives feedback and confirmation from the other parties that sales of the pharmaceutical product have occurred or on the successful completion of a pharmaceutical trial as part of a partnership agreement that generates a milestone payment to Medivir. The payments made to the rights holders may be made either to parties external to the Group or to related parties. Payments made to related parties are also reported as a supplementary disclosure (Note).

Contingent liabilities
Payments may have to be disbursed in future for a number of in-licensed rights on the basis of future events, such as a successful clinical phase pharmaceutical trial or future product sales. When the criteria for provision recognition (probable and reliable estimation of amounts) have not been met, but the possibility exists that future payments may have to be disbursed by Medivir for the usufruct, this fact is recognised as a Contingent liability in the Notes, together with estimations of the possible outcome.

Contingent assets
Other parties have acquired the usufruct for a number of the rights at Medivir's disposal (often as a result of Medivir having entered into so-called Out-licensing and collaboration agreements – see above under Revenues), and which may generate revenues for the Group in the future. These revenues are, however, contingent upon uncertain future events that are, to some extent, beyond the company's control. Such contingent assets are not reported as disclosures in the Notes until they become probable. When the reliable estimation of probable amounts is also possible, the assessments are transferred to those described in the Revenues section above, and receipt of the asset by Medivir is now consequently deemed to be virtually assured.

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 76. The various components of consolidated total tax are also explained in this Note.

Statement of Cash Flows
The Statement of Cash Flows has been reported by applying the indirect method. Reported cash flow only includes 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, on pages 78–79, for significant assumptions and a description of the effect of reasonable possible changes in the assumptions that form the basis for the calculations.

Tax
The deferred tax receivable has been calculated on the basis of the management's and Board of Directors' judgement of the future utilisation of the consolidated accumulated deficits within the foreseeable future. A revised judgement of the way in which the deductible loss carry forward can be recovered through future taxable surpluses may affect reported tax in the results of the operations and the balance in forthcoming periods. See also Note 11, on page 76.

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

01 Segment reporting

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

The Pharmaceuticals segment includes the Group's research portfolio, and the in-house developed pharmaceuticals, simeprevir and Xerclear.

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

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

	THE GROUP		PARENT COMPANY	
SEK k	**2016**	**2015**	**2016**	**2015**
Breakdown of net sales				
Out-licensing and collaboration agreements				
Non-recurrent payments	16,744	–	16,744	–
Research collaborations	–	–	–	–
Pharmaceutical sales	197,176	237,520	12,264	53,904
Royalties	64,036	420,370	64,036	420,370
Other services	–	–	37,911	26,500
Total	**277,955**	**657,890**	**130,954**	**500,774**
Geographic breakdown of net sales				
Sweden	162,143	190,870	6,779	28,157
Nordic region, other	35,032	46,651	5,485	25,746
Europe, other	10,288	1,816	10,288	1,816
USA	70,491	418,553	70,491	418,553
Rest of the world	–	–	–	–
Total	**277,955**	**657,890**	**93,043**	**474,272**
External customers who account for more than 10% of net sales				
Customer 1	155,364	418,553	60,254	418,553
Customer 2	60,254	190,870	10,288	–
Customer 3	–	–	10,237	–

The Parent Company's sales to Group companies totalled SEK 37,911 thousand (SEK 37,498 k). Purchases from Group companies totalled SEK 0 thousand (SEK 0 k). The Other services item refers to management fees invoiced to subsidiary companies by the Parent Company.

02 Costs by type of cost

	THE GROUP		PARENT COMPANY	
SEK k	**2016**	**2015**	**2016**	**2015**
Goods for resale	57,589	32,055	3,146	2,685
Other external costs	274,496	295,412	255,779	227,830
Personnel costs	173,384	178,639	173,051	178,639
Amortisation and depreciation of tangible and intangible fixed assets	33,460	40,234	11,757	18,013
Total cost of goods sold, sales, administration, and research and development	**538,929**	**546,341**	**443,732**	**427,167**
Amortisation and depreciation by function:				
Selling costs	22,077	22,938	374	718
Administration costs	2,528	3,510	2,528	3,510
Research and development costs	8,855	13,785	8,855	13,785

03 Intra-Group transactions

The Parent Company

Intra-Group sales totalled SEK 37,911 thousand (SEK 37,498 k). Intra-Group purchases totalled SEK 0 thousand (SEK 0 k).

04 Audit costs and audit consulting

	THE GROUP		PARENT COMPANY	
SEK k	**2016**	**2015**	**2016**	**2015**
PwC				
Audit engagement	1,066	1,176	806	930
Auditing activities over and above audit engagement	480	394	480	282
Tax advice	282	492	282	386
Other services	284	17	247	17
Total PwC	**2,112**	**2,080**	**1,815**	**1,615**
Other auditors				
Audit engagement	13	34	–	–
Total	**13**	**34**	**–**	**–**
Total	**2,125**	**2,113**	**1,815**	**1,615**

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.

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

	THE GROUP			
	2016		2015	
Average number of employees	**Women**	**Men**	**Women**	**Men**
Sweden	60	51	68	55
UK	1	1	3	1
Denmark	1	1	3	1
Norway	1	2	1	1
Finland	–	–	1	–
Total	**63**	**55**	**76**	**58**

	THE GROUP	
Salaries, remuneration, social security contributions, and pension costs, SEK k [1–7)]	**2016**	**2015**
Salaries and remuneration		
Niklas Prager (CEO from 15 September 2014)	6,151	4,947
Anna Malm Bernsten (Chairman of the Board from 3 May 2016[2)])	840	367
Björn C Andersson (Member of the Board until the AGM on 5 May 2015)	–	157
Anders Ekblom (Member of the Board from 8 May 2014)	385	368
Anders R Hallberg (Member of the Board)	330	322
Bertil Samuelsson (Member of the Board from 8 May 2014 to 3 May 2016)	160	231
Birgitta Stymne Göransson (Member of the Board from 6 May 2013, Chairman of the Board from 8 May 2014–3 May 2016)	360	592
Helena Levander (Member of the Board from 5 May 2015)	363	178
Johan Harmenberg (Member of the Board from 5 May 2015)	320	160
Thomas Axelsson (Member of the Board from 3 May 2016)	153	–
Total, Board of Directors and CEO [3)]	**9,061**	**7,320**
Other senior executives [4–5)]	10,092	12,234
Other employees [6–7)]	102,965	104,409
Salaries and remuneration, total	**122,118**	**123,963**
Statutory and contractual social security contributions	**31,344**	**30,479**
Pension costs		
Of which SEK 846 thousand (SEK 813 k) for the CEO	**17,981**	**19,277**
Total salaries, remuneration, social security contributions, and pension costs	**171,442**	**173,719**

[1)] The number of employees for the Parent Company, and their salaries, remuneration, social security contributions and pension costs correspond to those of the Group and this Note consequently only shows the figures for the Group.

[2)] At the Board Meeting held on 9 December 2016, the Board of Directors decided to pay the full additionally allocated fee of SEK 320 thousand to the Chairman of the Board, Anna Malm Bernsten, in remuneration for her work with commercial development and structural measures, when the substantial scale of her work in these areas in conjunction with the planned market listing of BioPhausia AB that subsequently resulted in the divestment of the company became apparent. Anna Malm Bernsten was not involved in this decision. This payment resulted in an increase of SEK 160 thousand in the total Directors' fees for 2016, while the figure for 2017 will be SEK 160 thousand lower than the total allocated.

[3)] The table shows the fees disbursed to the Board of Directors, half of which refer to the Board mandate period from May 2015 – April 2016 (disbursed in May 2016), and the other half of which refers to the Board mandate period from May 2016 – April 2017 (disbursed in December 2016).

[4)] Remuneration totalling SEK 1,206 thousand that was carried as an expense in 2014 was disbursed in 2016 to former employees who were classified as Other senior executives.

[5)] Remuneration totalling SEK 2,208 thousand that was carried as an expense in 2015 was disbursed in 2016 to former employees who were classified as Other senior executives.

[6)] Remuneration totalling SEK 3,093 thousand that was carried as an expense in 2015 was disbursed in 2016 to Other employees.

[7)] The total remuneration to Other employees in conjunction with contractual departure from employment during the year and which will be disbursed in 2017 and 2018, totalled SEK 27,093 thousand and SEK 3,098 thousand, respectively, in conjunction with the 2016 annual accounts.

The Board of Directors

SEK 2,910 thousand (SEK 2,373 k) was paid in Directors' fees to the Board of Directors of Medivir during the financial year, SEK 840 thousand (SEK 592 k) of which was paid to the Chairman of the Board. Members of the Board are also reimbursed for travel expenses in conjunction with Board Meetings, etc. There is no pension plan for the Board of Directors. The following sums, as approved by the Board of Directors, have also been disbursed: SEK 4 thousand (SEK 0 k) to Nxt Science AB (Anders Ekblom) and SEK 512 thousand (SEK 3,259 k) in royalties to Uppsala Hallbechem AB (Anders Hallberg) and SEK 969 thousand (SEK 8,998 k) to SYBESAM (Bertil Samuelsson), both in accordance with pre-existing contracts. Bertil Samuelsson resigned from the Board of Directors in conjunction with the AGM in May 2016.

Guidelines for remuneration to senior executives

Medivir shall 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 guidelines in their entirety are presented on Medivir´s web site.

Pensions

Pensions shall be premium-based for the CEO and other senior executives, and it can 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 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

Salaries and other remuneration paid to the CEO during the year totalled SEK 3,833 thousand (SEK 3,600 k), while bonuses totalled SEK 1,583 thousand (SEK 1,194 k), and other benefits SEK 736 thousand (SEK 153 k). The pension plan conforms to the individual pension plan of 25 per cent of the annual gross salary, excluding bonuses and benefits. Pension provisions during the year totalled SEK 846 thousand (SEK 813 k).

A mutual notice period of six months applies for the CEO. The CEO is entitled to severance pay corresponding to twelve times the value of the fixed monthly salary at the time when notice of termination was given if the notice is given by the company or if the CEO gives notice due to 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. From 1 March 2016, the management group, excluding the CEO, comprised

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five persons (two women and three men). Salaries totalling SEK 7,740 thousand (SEK 9,374 k) have been paid to other senior executives, together with SEK 1,689 thousand (SEK 1,703 k) in performance-related pay, SEK 0 thousand (SEK 853 k) in restructuring costs, and SEK 663 thousand (SEK 304 k) in benefits, comprising a total of SEK 10,092 thousand (SEK 12,234 k) in remuneration paid. Pension provisions have been made in the sum of SEK 1,576 thousand (SEK 1,628 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 and management group, 50 per cent of the performance-related pay is based on financial goals and 50 per cent on company-wide goals. For managers and a number of key individuals, 25 per cent of the performance-related pay is based on financial goals, 25 per cent on company-wide goals and 50 per cent on individual goals.

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 share-related incentive plan currently operated by the company follows. Medivir's share-related incentive plans are reported in accordance with IFRS 2 – Share-based Payment.

The share saving plan, LTI-2013, matured during the financial year. The participants received a matching share for every savings share acquired, and ca. 1.89 performance-based shares of the maximum possible outcome of 3.0 performance-based shares. A total of 80,545 class B shares of the shares bought back by the company from the market in 2015 were allocated to the participants in the plan. The allocation from the share saving plan (LTI-2013) corresponded to approximately 0.30 per cent of the total number of shares and approximately 0.25 per cent of the total number of votes in Medivir. The aggregate cost of LTI-2013, including the cost of social security contributions, has been charged to the profit/loss in the sum of SEK 5.8 million (SEK 5.6 m).

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 shares

All employees participating in LTI-2014 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 shares are based both on the strategic development of Medivir's research and product portfolio 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 shares 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 shares 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 shares to which the participant is entitled under this condition will be allocated. The maximum number of performance-based shares 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 shares will be made. The value of the performance-based shares 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 in respect of the share price 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. On 31 December 2016, the CEO and other senior executives held 2,085 and 0 shares, respectively, under this plan. The maximum total number of class B shares that Medivir may disburse 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 2016 to total a maximum of 38,042 class B shares, corresponding to approximately 0.14 per cent of the total number of shares and approximately 0.12 per cent of the total number of votes in Medivir. The maximum amount by which the share capital can increase is SEK 0.3 million. SEK 4.4 million (SEK 2.9 m) in aggregate 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.

06 Leasing agreements including property rent

	THE GROUP		PARENT COMPANY	
SEK k	**2016**	**2015**	**2016**	**2015**
Costs for the year [1]	30,145	20,587	21,668	13,573
Nominal value of future minimum lease payments for irrevocable leasing agreements including property rent:				
Within one year [2]	14,770	16,618	7,396	8,771
Between one and five years [3]	46,458	46,905	16,963	15,515
Over five years [4]	29,494	39,238	–	–
Total	**90,722**	**102,761**	**24,359**	**24,286**

[1] The 2016 cost includes provision for future rental payments totalling SEK 10,175 thousand by reason of the operational restructuring approved. Other costs refer primarily to the rental of premises by Medivir UK and Medivir AB. Premises rental costs within the Group total SEK 17,654 thousand (SEK 17,998 k), of which Medivir AB's rental costs total SEK 9,177 thousand (SEK 10,984 k), and Medivir UK's total SEK 8,477 thousand (SEK 7,013 k). SEK 8,226 thousand (SEK 9,670 k) of the rental costs for the year are recognised as revenue due to the subletting of the research facilities in Chesterford Park. The net profit/loss for the subletting of SEK –238 thousand (SEK 2,657 k) has been reported under Other revenue in the Income Statement. The lease agreements for Medivir AB expire in 2018, 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 at Chesterford Park has been sublet to AstraZeneca up to and including 2025, with index-linking that corresponds, in every significant respect, to Medivir UK's own index-linking.
[2] Of which SEK 9,005 thousand will be recognised as revenue due to the subletting of the research facilities at Chesterford Park.
[3] Of which SEK 36,019 thousand will be recognised as revenue due to the subletting of the research facilities in Chesterford Park.
[4] Of which SEK 36,019 thousand will be recognised as revenue due to the subletting of the research facilities in Chesterford Park.

07 Profit/loss from participations in Group companies

	THE GROUP		PARENT COMPANY	
SEK k	**2016**	**2015**	**2016**	**2015**
Capital gain on the sale of BioPhausia AB, included in Discontinued operations, Note 26	–	–	304,996	–
Dividend from BioPhausia AB	–	–	370,456	–
Profit/loss from liquidated subsidiary companies	1,429	–	–	–
Impairment losses on shares in the Medivir UK Ltd. subsidiary	–	–	–	–23,457
Total	**1,429**	**–**	**675,452**	**–23,457**

08 Financial risks

The Group is, by virtue of its operations, exposed to 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. In the current capital market, investments of liquid assets shall be made in such a way that the capital invested, first and foremost, is protected, and, if possible, 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, progress and expand its research portfolio, and thereby generate future value through both milestone payments and royalties, Medivir must have a strong capital base.

The consolidated equity totals SEK 1,732 ,912 thousand (SEK 1,450,109 k). The cash and cash equivalent position and short-term investments total SEK 1,698,481 thousand (SEK 1,077,941 k), and the equity/assets ratio is therefore 90.2 per cent (89.7%).

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

The Group, 31 Dec. 2016, SEK k	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
Accounts receivable	–	–	12,808	–	–	12,808
Other receivables	–	–	2,144	–	–	2,144
Other short-term investments	1,504,645	–	–	–	–	1,504,645
Cash and bank balances	–	193,836	–	–	–	193,836
Accounts payable	–	–	–	–	56,813	56,813
Total	**1,504,645**	**193,836**	**14,952**	**–**	**56,813**	**1,770,246**

The Group, 31 Dec. 2015, SEK k	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
Accounts receivable	–	–	23,888	–	–	23,888
Other receivables	–	–	5,000	–	–	5,000
Other short-term investments	860,416	–	–	–	–	860,416
Cash and bank balances	–	217,525	–	–	–	217,525
Accounts payable	–	–	–	–	37,053	37,053
Total	**860,416**	**217,525**	**28,888**	**–**	**37,053**	**1,143,882**

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Financial assets and liabilities 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.

	CARRYING AMOUNT	RECOGNITION AT FAIR VALUE AT THE END OF THE PERIOD, BASED ON:		
The Group, 31 Dec. 2016, SEK k		**Level 1**	**Level 2**	**Level 3**
Financial assets recognised at fair value in the Income Statement:				
Short-term investments	1,504,645	1,504,645	–	–
Financial assets held for sale:				
Other receivables	2,144	–	–	2,144
Total assets	**1,506,789**	**1,504,645**	**–**	**2,144**
Borrowing	–	–	–	–
Total liabilities	**–**	**–**	**–**	**–**

	CARRYING AMOUNT	RECOGNITION AT FAIR VALUE AT THE END OF THE PERIOD, BASED ON:		
The Group, 31 Dec. 2015, SEK k		**Level 1**	**Level 2**	**Level 3**
Financial assets recognised at fair value in the Income Statement:				
Short-term investments	860,416	860,416	–	–
Financial assets held for sale:				
Other receivables	5,000	–	–	5,000
Total assets	**865,416**	**860,416**	**–**	**5,000**
Borrowing	–	–	–	–
Total liabilities	**–**	**–**	**–**	**–**

There are no level 3 financial instruments.

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 1,698,481 thousand (SEK 1,077,942 k) on 31 December 2016. SEK 1,504,645 thousand (SEK 860,416 k) of this sum was invested in fixed income funds with discretionary management. An average return on cash and cash equivalents of 1.09 per cent (–0.68%) was achieved in 2016. The return has fluctuated during the year between –0.13 and 0.25 per cent (–0.84 and 0.41%). 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 8,500 thousand on a full-year basis. Falling interest rates result in a reduction in the return on the Group's cash or cash equivalents.

Currency risk
Currency risk is the risk that the fair value or future cash flows associated with financial instruments vary due to changes in foreign exchange rates.
- The profit/loss is affected when costs and revenues in foreign currencies are translated into Swedish kronor (transaction risk).
- The Balance Sheet is affected when assets and liabilities in a foreign currencies are translated into Swedish kronor (translation risk).

In accordance with Medivir's financial policy, the Group has not made use of currency hedging in 2016. 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 2,907 thousand (SEK –1,715 k) in exchange rate profits/losses and the exchange rate items component of net financial items totals SEK –5,031 thousand (SEK –3,798 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 GBP, 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 services and 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.

2016	Net sales	Costs	Operating profit/loss	Change +/– 5
EUR	66,130	–73,571	–7,441	+/– 372
USD	11,088	–55,038	–43,950	+/– 2,198
GBP	8,581	–28,590	–20,009	+/– 1,000
DKK	1,739	–14,698	–12,959	+/– 648
NOK	2,849	–5,857	–3,008	+/– 150
SEK	2,656	–227,669	–225,012	+/– 0
Total	**93,043**	**–405,423**	**–312,380**	**+/– 4,368**

2015	Net sales	Costs	Operating profit/loss	Change +/– 5
EUR	422,629	–103,246	319,383	+/– 15,969
USD	161	–41,233	–41,072	+/– 2,054
GBP	2,259	–40,718	–38,459	+/– 1,923
DKK	6,404	–19,550	–13,146	+/– 657
NOK	38,528	–9,914	28,614	+/– 1,431
SEK	4,293	–204,185	–199,892	+/– 0
Total	**474,274**	**–418,846**	**55,428**	**+/– 12,766**

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 4,368 thousand (SEK 12,766 k). A corresponding weakening of the Swedish krona would have yielded a deterioration in the net profit/loss of SEK 4,368 thousand (SEK 12,766 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, is 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 asset 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. The credit risks in relation to the above investments are deemed to be minor.

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 12,808 thousand (SEK 23,888 k) in outstanding accounts receivable on the reporting date.

	THE GROUP		PARENT COMPANY	
Age analysis, accounts receivable, SEK k	**2016**	**2015**	**2016**	**2015**
Not due	1,793	22,702	1,493	16,533
Due, 1–90 days	11,163	912	11,163	367
91+ days	–148	274	–148	–
Total	**12,808**	**23,888**	**12,508**	**16,900**

Other receivables total SEK 12,245 thousand (SEK 8,661 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.

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 2016 and 2015 have been financed internally by means of an ongoing positive cash flow.

Current liabilities are covered by Medivir's cash position and short-term investments.

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. 2016	**Less than 1 year**	**1–2 years**	**More than 2 years**	**Less than 1 year**	**1–2 years**	**More than 2 years**
Accounts payable	56,813	–	–	56,813	–	–

	THE GROUP			PARENT COMPANY		
31 Dec. 2015	**Less than 1 year**	**1–2 years**	**More than 2 years**	**Less than 1 year**	**1–2 years**	**More than 2 years**
Accounts payable	37,053	–	–	28,883	–	–

The amounts maturing within 12 months are consistent with the reported amounts, because the discount effect is insignificant. Other liabilities total SEK 21,147 thousand (SEK 31,611 k) and mature within 12 months.

09 Interest income and similar profit/loss items

	THE GROUP		PARENT COMPANY	
SEK k	**2016**	**2015**	**2016**	**2015**
Interest income, Group companies	–	–	351	318
Interest income, other	24	78	24	22
Dividends from fixed income fund	4	1	4	1
Change in fair value of fixed income fund, unrealised	9,248	–	9,228	–
Total	**9,276**	**79**	**9,607**	**340**

10 Interest expenses and similar profit/loss items

	THE GROUP		PARENT COMPANY	
SEK k	**2016**	**2015**	**2016**	**2015**
Interest expenses, Group companies	–	–	–606	–
Interest expenses, other	–4	–1,452	–2	–1,423
Exchange rate differences	–2,623	–7,505	–5,031	–3,746
Change in fair value of fixed income fund, unrealised	–	–3,933	–	–3,976
Total	**–2,627**	**–12,890**	**–5,639**	**–9,145**

11 Tax

	THE GROUP		PARENT COMPANY	
SEK k	**2016**	**2015**	**2016**	**2015**
Tax on the profit/loss for the year				
Current tax	3,179	–6,269	–133	–9,953
Change in deferred tax	–3,539	–20,595	351	117
Tax on the profit/loss for the year	**–360**	**–26,864**	**218**	**–9,837**
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	283,214	101,954	406,082	13,241
Tax at the applicable rate for the Parent Company	–62,307	–22,430	–89,338	–2,913
Tax effect of non-deductible costs	–288	–2,089	–288	–7,574
Tax effect of non-taxable income	119,724	836	150,204	26
Effect of foreign tax rates	147	–17	–90	–18
Adjustment of tax in respect of previous years	3,269	643	309	643
Tax effect of loss carry-forwards not previously capitalised	–60 904	–3,807	–60,579	–
Reported tax	**–360**	**–26,864**	**218**	**–9,837**

Changes in deferred tax for the period:

The Group	On 31 Dec. 2015	Operation acquired	Operation sold	Recognised in profit/loss	Recognised in equity	On 31 Dec. 2016
Deferred tax receivable						
Capitalised loss carry-forward	28,557	–	–18 703	–8 852	–	1,002
Deferred tax liability						
Temporary differences relating to:						
Intangible assets	–31,607	–	34 987	–3 381	–	–
Untaxed reserves	–27,373	–	19,030	8,343	–	–
Share-related incentive plans	–351	–	–	351	–	–
Net deferred tax liability	**–30,774**	**–**	**35,314**	**–3,539**	**–**	**1,002**

Parent Company	On 31 Dec. 2015	Operation acquired	Operation sold	Recognised in profit/loss	Recognised in equity	On 31 Dec. 2016
Deferred tax liability						
Share-related incentive plans	–351	–	–	351	–	–
Net deferred tax liability	**–351**	**–**	**–**	**351**	**–**	**–**

At the year-end, the total accumulated taxable loss of the Group was SEK 363 million (SEK 581 m), of which SEK 4 million (SEK 130 m) has been capitalised. The remaining loss comprises primarily losses within the Parent Company and the subsidiary company, Medivir UK Ltd. There is no time restriction on the utilisation of capitalised loss carry-forwards.

12 Earnings per share

	THE GROUP	
	2016	**2015**
Continuing operations		
Basic earnings per share, SEK [1]	–10.94	1.09
Diluted earnings per share, SEK [2]	–10.94	1.08
Net profit/loss for the year, SEK k	–294,855	31,708
Discontinued operations		
Basic earnings per share, SEK [1]	21.44	1.49
Diluted earnings per share, SEK [2]	21.39	1.48
Net profit/loss for the year, SEK k	577,709	43,382
Total operations		
Basic earnings per share, SEK [1]	10.50	2.59
Diluted earnings per share, SEK [2]	10.47	2.56
Net profit/loss for the year, SEK k	282,854	75,090
Average number of shares, '000	26,941	29,048

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.

13 Intangible fixed assets

2016, SEK k	THE GROUP Product rights	Goodwill	Capitalised R&D expenditure	Other	PARENT COMPANY Product rights	Capitalised R&D expenditure	Other
Cost at beginning of the year	335,672	150,420	21,372	9,523	3,798	21,372	9,523
Additions	–	–	96,220	–	–	96,220	0
Sales and disposals	–331,874	–150,420	–	–3,808	–	–	–3,808
Accumulated cost at year-end	**3,798**	**–**	**117,592**	**5,715**	**3,798**	**117,592**	**5,715**
Amortisation at beginning of the year	–101,961	–	–2,581	–3,522	–665	–2,581	–3,522
Amortisation for the year	–22,007	–	–445	–764	–380	–445	–764
Sales and disposals	122,923	–	–	3,149	–	–	3,149
Accumulated amortisation at year-end	**–1,045**	**–**	**–3,026**	**–1,137**	**–1,045**	**–3,026**	**–1,137**
Depreciation at beginning of the year	–110	–	–10,045	–748	–	–10,045	–748
Depreciation for the year	–	–	–	748	–	–	748
Sales and disposals	110	–	–	–	–	–	–
Accumulated depreciation at year-end	**–**	**–**	**–10,045**	**–**	**–**	**–10,045**	–
Book value at year-end	**2,754**	**–**	**104,522**	**4,578**	**2,754**	**104,522**	**4,578**

2015, SEK k	THE GROUP Product rights	Goodwill	Capitalised R&D expenditure	Other	PARENT COMPANY Product rights	Capitalised R&D expenditure	Other
Cost at beginning of the year	335,672	150,420	21,372	4,843	3,798	21,372	4,843
Additions	–	–	5,366	4,680	–	5,366	4,680
Sales and disposals	–	–	–5,366	–	–	–5,366	–
Accumulated cost at year-end	**335,672**	**150,420**	**21,372**	**9,523**	**3,798**	**21,372**	**9,523**
Amortisation at beginning of the year	–79,456	–	–2,137	–2,984	–285	–2,137	–2,984
Amortisation for the year	–22,505	–	–445	–538	–380	–445	–538
Sales and disposals	–	–	–	–	–	–	–
Accumulated amortisation at year-end	**–101,961**	**–**	**–2,581**	**–3,522**	**–665**	**–2,581**	**–3,522**
Depreciation at beginning of the year	–	–	–10,045	–	–	–10,045	–
Depreciation for the year	–110	–	–	–748	–	–	–748
Accumulated depreciation at year-end	**–110**	**–**	**–10,045**	**–748**	**–**	**–10,045**	**–748**
Book value at year-end	**233,602**	**150,420**	**8,747**	**5,253**	**3,134**	**8,747**	**5,253**

Product rights
The product rights previously related to the product portfolio of proprietary products acquired as part of the acquisition of BioPhausia AB, which was sold to Karo Pharma on 15 December 2016. All assets divested are reported under "Sales and disposals". Amortisation of the product portfolio is effected linearly over the estimated useful life of 15 years. Remaining product rights are amortised over an estimated useful life of 10 years.

Goodwill
Goodwill relates to the acquisition of BioPhausia AB and was derecognised in conjunction with the sale to Karo Pharma.

Capitalised research and development expenditure
Capitalised expenditure for research and development work relates both to capitalised development expenditure for Xerclear and to the Birinapant and Remetinostat research programmes acquired. The useful life of completed projects is based on the lifetime of the underlying patents and totals 10 years. Amortisation is effected linearly in order to spread the development costs over 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 the patents obtained. Birinapant and Remetinostat are not yet completed and amortisation has not yet begun.

Other
Other intangible assets relates to capitalised development expenditure on ERP systems. The useful life is estimated at 5 years.

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.

Research projects that have been acquired but which are not yet completed for sale are subject to annual impairment testing. The value is also monitored and reviewed if there are indications to suggest that the carrying amount is not recoverable. This might, for example, happen in conjunction with failed research results or in the absence of the resources required to render the asset ready for sale. The recoverable value has been determined, during this year's testing, to correspond to the market value in conjunction with the most recent transaction, which corresponds to the book value.

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

SEK k	2016	2015
Pharmaceuticals	–	150,420

The recoverable value was determined in the 2015 impairment testing by calculating the current value of anticipated future cash flows. The calculation was based both on the budget adopted by the Board of Directors and on current market trends. The goodwill was divested in 2016 and no impairment testing consequently occurred in 2016.

WACC
The discount rate applied in 2015 totalled 10.3 per cent. The discount rate is based on a market assessment of the average market capital cost, taking into account the estimated prevailing risk level. The return on equity requirement is based on assumptions with regard to risk-free interest rate, market risk premiums, and beta value.

14 Tangible fixed assets

SEK k	THE GROUP		PARENT COMPANY	
Buildings and land[1)]	**2016**	**2015**	**2016**	**2015**
Cost at beginning of the year	4,245	4,245	4,245	4,245
Capital expenditure	–	–	–	–
Accumulated cost at year-end	**4,245**	**4,245**	**4,245**	**4,245**
Depreciation at beginning of the year	–3,375	–3,158	–3,375	–3,158
Depreciation for the year	–217	–217	–217	–217
Accumulated depreciation at year-end	**–3,592**	**–3,375**	**–3,592**	**–3,375**
Book value at year-end	**653**	**870**	**653**	**870**

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

	THE GROUP		PARENT COMPANY	
Equipment, tools, fixtures and fittings	**2016**	**2015**	**2016**	**2015**
Cost at beginning of the year	128,692	128,054	127,331	117,291
Capital expenditure	10,102	10,040	10,102	10,040
Sales and disposals	–15,664	–9,402	–14,303	–
Accumulated cost at year-end	**123,130**	**128,692**	**123,130**	**127,331**
Depreciation at beginning of the year	–103,279	–102,256	–102,142	–91,813
Depreciation for the year	–10,710	–10,425	–10,579	–10,329
Sales and disposals for the year	12,162	9,402	10,894	–
Accumulated depreciation at year-end	**–101,827**	**–103,279**	**–101,827**	**–102,142**
Book value at year-end	**21,303**	**25,413**	**21,303**	**25,189**

15 Participations in Group companies

	PARENT COMPANY	
SEK k	**2016**	**2015**
Opening cost	751,355	727,898
Divestments	–604,112	–
Shareholders' contributions made	–	23,457
Closing accumulated cost	**147,243**	**751,355**
Opening depreciation	–147,143	–123,686
Depreciation for the year	–	–23,457
Closing accumulated depreciation	**–147,143**	**–147,143**
Book value at year-end	**100**	**604,212**

Subsidiary company:	**Corporate ID no.**	**Registered office**	**Number of shares**	**Share of capital**	**Book value, 2016**	**Book value, 2015**
Glycovisc BioTech AB	556535-0005	Stockholm	5,000	100%	0	–
Medivir UK Ltd [1)]	3496162	Essex (UK)	2,000,007	100%	–	–
Medivir Personal AB	556598-2823	Huddinge	1,000	100%	100	100
Tetralogic Birinapant UK Ltd [1)]	9497530	Birmingham (UK)	2	100%	–	–
Tetralogic Shape UK Ltd [1)]	9497577	Birmingham (UK)	2	100%	–	–
Total					**100**	**100**

BioPhausia AB was divested in 2016. Tetralogic Birinapant and Tetralogic Shape were acquired without consideration in 2016.

[1)] The company is exempted from statutory audit requirements, pursuant to section 476 of The Companies Act, 2006.

16 Financial assets held for sale

	THE GROUP		PARENT COMPANY	
SEK k	**2016**	**2015**	**2016**	**2015**
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 2016. As of 2014, gross values in respect of the opening book value and accumulated impairment losses are reported as totals per share holding.

17 Inventories

	THE GROUP		PARENT COMPANY	
SEK k	**2016**	**2015**	**2016**	**2015**
Finished goods	432	18,696	432	2,307
Total	**432**	**18,696**	**432**	**2,307**

Impairment of inventories totals SEK 1,364 thousand (SEK 342 k). The impairment has been charged to Cost of goods sold.

18 Prepaid costs and accrued income

	THE GROUP		PARENT COMPANY	
SEK k	**2016**	**2015**	**2016**	**2015**
Prepaid rent	4,274	5,345	2,379	2,451
Licensing fees	3,681	3,272	3,681	3,272
Accrued royalty income	6,520	31,553	6,520	31,553
Repairs and Maintenance	1,130	1,046	1,130	1,046
Trade literature and publications	1,058	2,342	1,058	2,342
Insurance	416	1,139	416	1,137
Research expenses	22,172	–	22,172	–
Other items	1,132	290	1,132	271
Total	**40,383**	**44,985**	**38,488**	**42,072**

19 Other short-term investments and cash equivalents

	THE GROUP		PARENT COMPANY	
SEK k	**2016**	**2015**	**2016**	**2015**
Fixed income and bond funds	1,504,645	860,416	1,504,645	860,416
Cash and bank balances	193,836	217,525	187,883	80,924
Total	**1,698,481**	**1,077,942**	**1,692,528**	**941,340**

The Group's net available cash on the balance sheet date amounted to SEK 1,608,481 thousand and restricted cash amounted to SEK 90 000 thousand, see Note 23.

20 Untaxed reserves

	THE GROUP		PARENT COMPANY	
SEK k	**2016**	**2015**	**2016**	**2015**
Allocation to tax allocation reserve, 2016	–	–	–	15,710
Excess depreciation	–	–	–	22,210
Total	**–**	**–**	**–**	**37,921**

21 Provisions

	THE GROUP		PARENT COMPANY	
SEK k	**2016**	**2015**	**2016**	**2015**
Restructuring costs, personnel	30,349	–	30,349	–
Total	**30,349**	**–**	**30,349**	**–**

Restructuring provision for premises etc. is included in accrued expenses with SEK 11,857 thousand (8,843 k).

22 Accrued costs and deferred income

	THE GROUP		PARENT COMPANY	
SEK k	**2016**	**2015**	**2016**	**2015**
Accrued personnel costs	27,397	30,800	27,161	30,610
Accrued research costs	18,519	4,807	18,519	4,127
Deferred royalty payments	14,842	6,932	14,842	6,932
Deferred rental income	4,032	2,446	–	–
Restructuring costs	204	8,843	204	8,843
Accrued property costs	11,937	905	11,937	905
Other items	3,350	11,977	3,060	10,894
Total	**80,282**	**66,709**	**75,722**	**62,311**

23 Pledged assets

	THE GROUP		PARENT COMPANY	
SEK k	**2016**	**2015**	**2016**	**2015**
Floating charges	–	54,250	–	–
Bank balances (Escrow)	90,000	–	90,000	–
Total	**90,000**	**54,250**	**90,000**	**–**

Bank balances refers to that element of the consideration in conjunction with the sale of BioPhausia AB that constitutes security for the vendor's guarantees in accordance with the transfer agreement.

24 Undertakings and contingent liabilities

	THE GROUP		PARENT COMPANY	
SEK k	**2016**	**2015**	**2016**	**2015**
Contractual guarantees as per transfer agreement	180,000	–	180,000	–
Parent Company guarantees for subsidiary companies	–	–	5,000	5,000
Total	**180,000**	**–**	**185,000**	**5,000**

Contractual guarantees for the sale of the subsidiary BioPhausia AB represents the vendor's total guarantees in accordance with the transfer agreement.

24 cont.

Research and development undertakings linked to milestones
Medivir has several ongoing research and development partnerships, including in-licensed projects or similar kinds of arrangement, with a variety of parties. These partnerships may oblige Medivir to make payments in conjunction with the achievement of research, launch or net sales targets. The company is, however, generally entitled to terminate such partnership agreements without incurring any costs thereby. Medivir does not classify research and development milestones as intangible assets until a payment obligation of this kind arises, which is generally when the company reaches pre-determined points in the development cycle. The table below shows Medivir's contingent liabilities in the form of potential development and net sales payments that Medivir may be obliged to make during the course of these partnerships.

SEK k	Total	Within 12 months	12–24 months	25–48 months	48 months +
Future contingent liabilities linked to the development cycle	865,926	107,310	–	–	758,616
Future contingent liabilities linked to net sales targets	1,059,960	–	–	–	1,059,960
Total	**1,925,886**	**107,310**	**–**	**–**	**1,818,576**

The table includes all potential payments for milestones achieved during ongoing research and development agreements. Net sales-related milestone payments refer to the maximum possible disbursement based on specified net sales levels when a product has reached the market in accordance with the agreements entered into. The amounts do, however, exclude variable payments based on sales volumes (known as royalty payments), which are carried as expenses in conjunction with the recognition of the sale. The table also excludes those payments booked as assets in the Balance Sheet on 31 December 2016.

The future contingent liabilities reported represent contractual payments and are not discounted or risk adjusted. As stated in the company's risk factors on pages 38–39, pharmaceutical development is a complicated and risky process that can fail at any stage of the development process due to a wide variety of factors (such as failure to obtain regulatory approval, unfavourable data from ongoing trials, adverse events, or other safety aspects). The date of any disbursement depends on the company's undertakings with regard to the achievement of relevant milestones.

25 Cash flow analysis, supplementary disclosures

	THE GROUP		PARENT COMPANY	
SEK k	**2016**	**2015**	**2016**	**2015**
Interest paid and dividends received				
Dividends received	4	76	4	319
Interest payments received	12	1	24	1
Interest payments made	–2	–1,450	–608	–1,403
Adjustments for non-cash items, etc.				
Amortisation and depreciation of assets	33,460	40,234	11,756	18,013
Unrealised exchange rate differences	–347	1,204	–	–
Capital gain/loss on sale/ disposal of fixed assets	2,893	–	2,893	–
Capital gain/loss on the sale of operations/subsidiaries	–534,781	–	–304,996	–
Change in restructuring provisions	33,567	–6,095	33,567	–6,095
Share savings plan: value of employees' service	1,240	2,925	1,240	2,925
Other	–	–	–	314
Total	**–463,968**	**38,268**	**–255 540**	**15,157**

	THE GROUP		PARENT COMPANY	
SEK k	**2016**	**2015**	**2016**	**2015**
Divestment of subsidiaries and other commercial units				
Assets and liabilities divested:				
Product rights	208,876	–	–	–
Goodwill	150,420	–	–	–
Tangible fixed assets	153	–	–	–
Financial assets	–	–	604,112	–
Inventories	24,302	–	–	–
Operating receivables	31,811	–	–	–
Liquid assets	764	–	–	–
Total assets	**416,327**	**–**	**604,112**	**–**
Deferred tax	34,987	–	–	–
Operating liabilities	7,013	–	–	–
Total liabilities and provisions	**42,000**	**–**	**–**	**–**
Consideration received	909,108	–	909,108	–
Less: liquid assets in the divested unit	–764	–	–	–
Effect on liquid assets	**908,344**	**–**	**909,108**	**–**

26 Divested operations

On 1 November 2016, Medivir announced the sale of its Nordic Brands operations through its subsidiary company, BioPhausia AB. The transaction of 1 December yielded a capital gain of SEK 534.8 million. The capital gain also included transaction costs totalling SEK 19.9 million. Payment for the shares totalled SEK 928.2 million, of which SEK 926.2 million was paid in cash. SEK 90.0 million of the amount paid was deposited in an Escrow account with Swedbank. The liquid assets in BioPhausia AB amounted to SEK 0.8 million and the total cash flow from the sale of BioPhausia totalled SEK 908.3 million. The 2016 divestment has been recognised separately in the Income Statement as a discontinued operation, in accordance with IFRS 5. A discontinued operation is recognised separately from continuing operations in the Income Statement with retroactive effect for previous periods. Nordic Brands is recognised as a discontinued operation below. On 31 December 2016, the outstanding receivable from the purchaser, Karo Pharma AB, was SEK 2.0 million.

	THE GROUP	
Discontinued operation's share of the profit/loss and cash flow, SEK k	**2016**	**2015**
Profit/loss for the period for the discontinued operation, Nordic Brands		
Operating income	184,912	183,616
Operating expenses	–132,868	–124,243
Operating profit/loss	**52,044**	**59,373**
Capital gain/loss from divested operations	534,781	–
Financial items	3,114	–3,622
Profit/loss before tax	**589,939**	**55,751**
Tax	–12,230	–12,369
Profit/loss after tax	**577,709**	**43,382**
Cash flow attributable to divested operations		
Cash flow from the continuing operations	64,888	81,577
Cash flow from the investment activities	908,344	–
Cash flow from the financing activities	–	–
Cash flow for the period	**973,232**	**81,577**

Assets and liabilities in the discontinued operations are shown in Note 25.

27 Events after the end of the reporting period

Phase IIa trial of MIV-711 for the treatment of knee osteoarthritis continues
Medivir announced, after the independent Data Monitoring Committee linked to the ongoing, randomised, double-blind phase IIa study, MIV-711-201, held its fourth and final planned meeting, that this successful fourth review of safety data means that the MIV-711 trial can continue without any modifications.

Voluntary redemption programme resolution
The Extraordinary General Meeting of Medivir Aktiebolag (publ.) held on 2 February 2017 resolved, in accordance with the Board of Director's proposal, in favour of a voluntary redemption programme entailing a reduction in the share capital for repayment to shareholders, and a bonus issue without issuance of new shares. The redemption programme will be effected by redemption of a maximum of 6,738,655 shares, comprising 151,589 class A shares and 6,587,066 class B shares.

Upon completion of the application period, a total of 6,647,060 shares had been registered for redemption, 131,589 of which were class A shares and 6,515,471 of which were class B shares, corresponding to an acceptance level of 98.6 per cent. In total, cash proceeds of approximately SEK 857.5 million will be distributed to the shareholders, corresponding to SEK 129 per redeemed share, to be disbursed around 24 March 2017. Following completion of the redemption programme, the total number of outstanding shares in Medivir will be 20,318,977, whereof 474,769 are class A shares and 19,844,208 class B shares, and the total number of votes will amount to 24,591,898.

Christine Lind new CEO of Medivir
Christine Lind has been appointed as the new CEO of Medivir AB. She succeeds Niklas Prager, a Board Member who accepted the role of CEO in 2014 as the company faced a vital major corporate reorganisation. Christine Lind will take up her new position on 1 April 2017, until which time she will continue in her existing role as EVP -Strategic Business Development.

Nomination Committee proposes a new Board of Directors ahead of 2017 AGM
The Nomination Committee has agreed, ahead of the upcoming 2017 AGM, to propose that a new Board of Directors be appointed by means of the re-election of the existing Board Members, Anders Ekblom, Anders R Hallberg, Helena Levander and Anna Malm Bernsten, and the new election of two Members, Bengt Julander and Bengt Westermark. The Nomination Committee proposes the re-election of Anna Malm Bernsten as the Chairman of the Board.
Thomas Axelsson and Johan Harmenberg have declined re-election.

28 Proposed treatment of unappropriated earnings

The Board of Directors proposes that the unappropriated earnings available for disposition be carried forward.

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.

Stockholm, 23 March 2017

Thomas Axelsson
Member of the Board

Anders Ekblom
Member of the Board

Anders R Hallberg
Member of the Board

Johan Harmenberg
Member of the Board

Helena Levander
Member of the Board

Stina Lundgren
Member of the Board ,
Employee Representative

Anna Malm Bernsten
Chairman of the Board

Niklas Prager
President & CEO

Our Audit Report was submitted on 31 March 2017
Öhrlings PricewaterhouseCoopers AB

Tobias Stråhle
Authorised Public Accountant

Auditor's report

To the general meeting of the shareholders of Medivir AB (publ), corporate identity number 556238-4361

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of Medivir AB (publ) for the year 2016 except for the Corporate governance statement on pages 43–55. The annual accounts and consolidated accounts of the company are included on pages 35–84 in this document.

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 parent company as of 31 December 2016 and its financial performance and cash flow 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 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. Our opinions do not cover the Corporate governance statement on pages 43–55. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

Our audit approach

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the group operates.

The processes that the company uses to ensure financial reporting and transaction flow is limited in scope, and are supervised by a small group of people within the company.

Against this background, we have mainly gathered audit evidence through tests of details in the accounts and the company's financial controls. The tests carried out by random sampling, where we control the transactions in the accounts and financial statements to the underlying documentation.

Our audit of the consolidated financial statements have included the essential units, which consists of Medivir AB and BioPhausia AB. Other subsidiaries included in the consolidated financial statements, is in our opinion an insignificant part of the Group.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Key audit matters

Key audit matters of the audit are those matters that, in our professional judgment, were of most significance in our audit of the annual accounts and consolidated accounts of the current period. These matters were addressed in the context of our audit of, and in forming our opinion thereon, the annual accounts and consolidated accounts as a whole, but we do not provide a separate opinion on these matters.

Key audit matter	*How our audit addressed the Key audit matter*
Discontinued operations In December 2016 sold the company BioPhausia AB. Under IFRS, a consolidated report a discontinued operation constitutes a significant part of the overall business of the Company as discontinued operations. Income statement, cash flows and balance sheet should then be established so that the divested portion shall be recognized separate from the remaining part of the business. The presentation is complicated and contains an even extensive disclosure requirements. It also requires a measure of assessment to ensure that the results and cash flows are presented correctly in the financial statements. The Company has determined that the standard is applicable to the transaction. In the income statement (page 56), cash flow (page 61) and in Note 25 and 26 on (page 82 and 83) the company reports its financial effects of the discontinued operations.	In our audit, we have taken part of the underlying agreement, and information from the company's management to understand, evaluate and assess the company's conclusions apply the standard. We took samples of individual items and the control calculated the results that the company reported under "discontinued operations" in the income statement and the information it provided in Note 25 and 26. We also derived the information against the information we have obtained from the Company's accounting and reporting systems. Our audit has not resulted in some adjustments and we did not report any significant findings to the Audit Committee.
Investments in research projects In December 2016, Medivir acquired research Remetinostat and Birinapant. The acquisition was made partly as an asset deal and partly through acquisitions of companies. To ensure that the accounting for the acquisition is done properly, the company needs to assess whether the case of an acquisition of a separate business or individual assets. As shown in the Directors' Report, Note 13 on pages 78–79 and accounting principles for business combinations the company has decided that the acquisition should be accounted for as a single asset. In connection with the acquisition, the company will also assess the cost to be reported. Another important issue is to assess how commitments to the future payment of additional consideration that is paid at the particular research goals achieved will be handled in the report. The Company has determined that such future benefits should not be included in the original cost, but instead recognized as part of contingent liabilities (Note 24) in the Group and parent company financial statements.	In our audit, we have the task to evaluate and review the company's application of accounting principles. An important question then is to understand the economic substance of the transaction assess the company's conclusion that account for the transaction as the acquisition individual assets. We have tested the company's conclusion by taking part of the company's estimates, sales contracts and correspondence between buyers and sellers. We have also reviewed and evaluated the company's estimated cost for the individual assets. We have derived the estimated cost of the underlying contracts, invoices and payments. We have also assessed the information management provided in the Annual Report in Note 13 and 27. Our audit has not resulted in some adjustments and we did not report any significant findings to the Audit Committee.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1–34 and 89–93. The Board of Directors and the Managing Director are responsible for this other information.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they 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.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

The Audit Committee shall, without prejudice to the Board of Director's responsibilities and tasks in general, among other things oversee the company's financial reporting process.

Auditor's responsibility

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor´s report.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of Medivir AB (publ) for the year 2016 and the proposed appropriations of the company's profit or loss.

We recommend to the general 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.

Basis for Opinions

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements.

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

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. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organisation and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organisation is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfil the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

Auditor's responsibility

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsnämnden's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor´s report.

The auditor's examination of the corporate governance statement

The Board of Directors is responsible for that the corporate governance statement on pages 43–55 has been prepared in accordance with the Annual Accounts Act.

Our examination of the corporate governance statement is conducted in accordance with FAR's auditing standard RevU 16 The auditor's examination of the corporate governance statement. This means that our examination of the corporate governance statement 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. We believe that the examination has provided us with sufficient basis for our opinions.

A corporate governance statement has been prepared. Disclosures in accordance with chapter 6 section 6 the second paragraph points 2–6 of the Annual Accounts Act and chapter 7 section 31 the second paragraph the same law are consistent with the other parts of the annual accounts and consolidated accounts and are in accordance with the Annual Accounts Act.

Täby, 31 March 2017

Öhrlings PricewaterhouseCoopers AB

Tobias Stråhle
Authorized Public Accountant

Key ratios

The Group, continuing operations[2)]	2016	2015	2014	2013	2012	2011
EBITDA, SEK k	–278,919	95,662	1,221,925	76,389	–165,254	134,151
EBIT, SEK k	–312,380	55,428	1,188,731	25,164	–201,331	112,051
Operating margin, %	–335.7	11.7	67.3	5.6	–118.0	21.9
Profit margin, %	–329.7	9.7	67.5	6.2	–123.5	21.9
Debt/equity ratio, multiple	0.0	0.0	0.0	0.0	0.1	0.2
Return on:						
shareholders' equity, %	–18.5	1.8	84.1	3.2	–21.4	13.8
capital employed, %	–19.3	2.7	80.6	3.3	–17.6	14.0
total capital, %	–17.3	2.5	75.2	3.3	–16.6	12.3
Equity/assets ratio, %	90.2	89.7	90.8	85.7	81.3	80.7
Average number of shares, '000	26,941	29,048	31,260	31,260	31,257	29,924
Number of shares at year-end, '000	26,966	26,966	31,260	31,260	31,260	31,254
Earnings per share, SEK						
Basic earnings per share, continuing operations	–10.94	1.09	36.24	0.51	–7.49	3.75
Diluted earnings per share, continuing operations	–10.94	1.08	35.90	0.51	–7.49	3.84
Basic earnings per share, discontinued operations	21.44	1.49	–	–1.19	–	–
Diluted earnings per share, discontinued operations	21.39	1.48	–	–1.19	–	–
Basic earnings per share, all operations	10.50	2.59	36.24	–0.68	–7.49	3.75
Diluted earnings per share, all operations	10.47	2.56	35.90	–0.68	–7.49	3.84
Equity per share, before and after dilution, SEK[1)]	64.38	54.04	63.42	27.27	27.99	35.05
Net worth per share, before and after dilution, SEK[1)]	64.38	54.04	63.42	27.27	27.99	35.05
Cash flow per share from operating activities, SEK	–6.68	11.95	32.45	1.38	–4.47	1.91
Cash flow per share after investments, SEK	23.05	11.44	31.88	4.93	–4.69	–4.26
Cash flow per share after financing activities, SEK	23.03	–10.99	31.88	3.37	–7.66	–3.71
Dividend per share, SEK	0	0	0	0	0	0
Number of outstanding share warrants	62,842	238,254	294,486	249,110	394,400	712,507
Capital employed	1,733,922	1,450,109	2,032,778	955,470	963,537	1,095,576
Research and development costs/operating expenses, %	78.8	73.1	60.8	65.7	65.4	53.2

[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 a conversion of the outstanding share warrants in Medivir.

[2)] No recalculation has occurred for 2014 and previous years with regard to the discontinued operations in 2016.

Six-year summary

The Group, continuing operations, SEK k	2016	2015	2014	2013	2012	2011
Income Statements[1)]						
Net sales	93,043	474,274	1,766,989	446,146	170,647	512,626
Cost of goods sold	–15,949	–38,268	–174,018	–71,771	–61,315	–70,636
Selling expenses	–13,011	–48,249	–103,578	–70,486	–47,727	–84,749
Administrative expenses	–70,658	–57,287	–62,518	–51,867	–59,690	–38,105
Research and development costs	–307,090	–278,375	–245,754	–229,430	–203,352	–184,064
Other operating income	4,477	5,051	15,223	6,347	4,607	14,658
Other operating expenses	–3,192	–1,718	–7,612	–3,775	–4,501	–34,791
Operating profit/loss	–312,380	55,428	1,188,731	25,164	–201,331	114,938
Net financial items	5,655	–9,225	3,970	2,470	–9,441	25
Profit/loss after financial items	–306,725	46,203	1,192,701	27,633	–210,772	114,963
Tax	11,870	–14,495	–59,966	–11,619	–23,325	4,910
Profit/loss after tax	–294,855	31,708	1,132,735	16,014	–234,098	119,873

	31 Dec 2016	31 Dec 2015	31 Dec 2014	31 Dec 2013	31 Dec 2012	31 Dec 2011
Balance Sheets						
Intangible fixed assets	111,854	398,022	417,577	432,080	514,389	528,994
Tangible fixed assets	21,956	26,283	26,875	27,958	36,070	35,621
Financial fixed assets	–	–	2,500	10,001	–	9,659
Deferred tax receivables	1,002	–	–	43,187	49,238	78,385
Inventories and current receivables	88,209	114,008	341,317	80,025	179,771	167,833
Cash and cash equivalents	1,698,481	1,077,942	1,395,621	402,220	296,727	536,279
Equity	1,732,912	1,450,109	1,982,604	852,587	874,880	1,095,576
Deferred tax liability/provisions	–	351	468	–	–	–
Long-term interest-bearing liabilities	–	–	–	40,000	40,000	70,041
Long-term non-interest-bearing liabilities	–	–	–	–	448	610
Current liabilities	188,591	165,795	201,286	102,883	160,867	190,545
Balance Sheet total	1,921,503	1,616,255	2,183,891	995,470	1,076,195	1,356,772

[1)] No recalculation has occurred for 2014 and previous years with regard to the discontinued operations in 2016.

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 aver-age 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 share-holders' 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 carry- forwards.

Glossary

Acetylation
Chemical process whereby an acetyl group is introduced into an organic chemical compound.

Antiviral
Effective against viruses.

Autoimmune disease
A condition that arises when the body's immune system attacks the body's own tissues.

Biomarker
A biological or chemical marker which, when its presence can be demonstrated or exceeds a given measurement value, constitutes an indicator of a particular biological condition, e.g. that a pharmaceutical substance may have an effect on a disease.

Candidate drug (CD)
Substance selected for further development to clinical trials.

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.

Collagen
Fibre protein, a collective name for the most common fibrous component of all tissue outside the actual cell. Collagen makes up almost 30% of the body's total protein.

Deubiquitinases (DUBs)
A large group of proteases (enzymes) that cleave ubiquitin from for example proteins. Ubiquitin is a protein with 76 amino acids whose primary purpose is to "mark" other intracellular proteins targeted for degradation.

Enzyme
A protein molecule that catalyses the rate of chemical reactions in cells without the actual enzyme being consumed. Polymerases and proteases are examples of enzymes.

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.

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

Histone deacetylases (HDACs)
A class of enzymes that remove acetyl groups from the side-chains of amino acids in histones.

Histones
A group of proteins which, together with DNA, form nucleoproteins that make up the body's chromosomes.

Ligand
The often smaller molecules with a specificity for a receptor and which transmit some form of signal inside a cell by binding to this receptor.

Metastasis (secondary growth)
A tumour that has spread to organs other than the one in which the primary growth or tumour is located.

Monoclonal
Something is said to be monoclonal when it relates to a group of genetically identical cells.

Nucleoside analogue
Chemical variants of the nucleosides that build up genetic material.

Nucleotide
A nucleoside with one or more phosphate groups.

Orphan drug
A pharmaceutical agent for the treatment of extremely rare diseases.

Peptide mimetics
Compounds that are designed to mimic the 3D-structure of a natural peptide or protein.

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

Polymerase
A type of enzyme that copies the genetic material (genes) in, for example, a virus.

Protease
An enzyme that can cleave proteins into smaller units.

Refractory tumour
A tumour that does not respond to treatment.

Replication
The process that duplicates the DNA molecule during cell division so that a copy of the molecule ends up in every daughter cell. Propagation, e.g. with regard to viruses which develop the ability, inside their host cell, to enter a replication phase (propagation phase).

Skin lesions
Medical term for an injury or morbid change in the skin tissue in the form of growths or spots, for example, that look different from the surrounding skin.

Systemic toxicity
A toxic effect that spreads throughout an entire organ system, usually throughout the body, in contrast to a more local effect, e.g. on an individual organ.

Financial glossary

IAS (International Accounting Standards)
See IFRS.

IFRS (International Financial Reporting Standards)
New accounting rules adopted by the EU. The rules are designed to facilitate comparability between annual accounts in Europe. Listed companies have been obliged, since 1 January 2005, to comply with these rules.

Milestone payments
Payments as contractual goals are achieved.

Option
Right to buy shares in the future.

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.

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.

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

Volatility
Variability.

Shareholder information

Financial calendar, 2017

- Q1 Interim Report January–March, publishing date 28 April.
- Q2 Interim Report January–June, publishing date 25 July.
- Q3 Interim Report January–September, publishing date 26 October.

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

Medivir's printed reports are distributed to those shareholders who request them.

For additional information on Medivir, please contact Ola Burmark, CFO.
Tel: +46 (0)8 5468 31 00
ola.burmark@medivir.com

2017 Annual General Meeting

The Annual General Meeting will be held at
the IVA conference facility at Grev Turegatan 16, Stockholm, Sweden at 14.00 (CET) on Wednesday, 3 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 26 April 2017,
- notify the company of their intention to attend, stating their name, address and telephone number, either by letters in the post to:
  Medivir AB, PO BOX 1086,
  SE-141 22 Huddinge, Sweden
  or by telephone: +46 (0)8 5468 31 00
  or by email: enter@medivir.se
  no later than 26 April 2017.

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 26 April 2017.

For full details of the 2017 Annual General Meeting, please see the convening notice on the website, www.medivir.com.

MEDIVIR

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