Medivir

ANNUAL REPORT 2010

Business concept

To develop selective inhibitors that regulate the function of proteases and polymerases in different diseases, and to develop pharmaceuticals based on them against major, widespread diseases.

Goals

To be a profitable, rapidly expanding, mid-sized pharmaceutical company within a few years, where the company's primary know-how and strength lies in the infectious diseases segment.

To develop pharmaceuticals against infectious diseases, and thus contribute to improved quality of life for large patient groups around the world.

Strategy

To monitor and evaluate each project continuously so that shareholders' investments, and the company's resources, are allocated correctly.

To take viable projects as far as possible in the shortest feasible times, through successful collaborations and partnerships.

To protect our unique, leadership position in major,attractive international research segments, including hepatitis C, through continued development.

Dear shareholders

Our Annual Report is one of Medivir's many communication channels and is for readers who want to get a simple overview of the past financial year. The three keywords we launched last year to describe our business still apply. Core, Competence and Cure are strategic guiding principles for our ambition to develop Medivir's projects successfully, and thus create continued shareholder value.

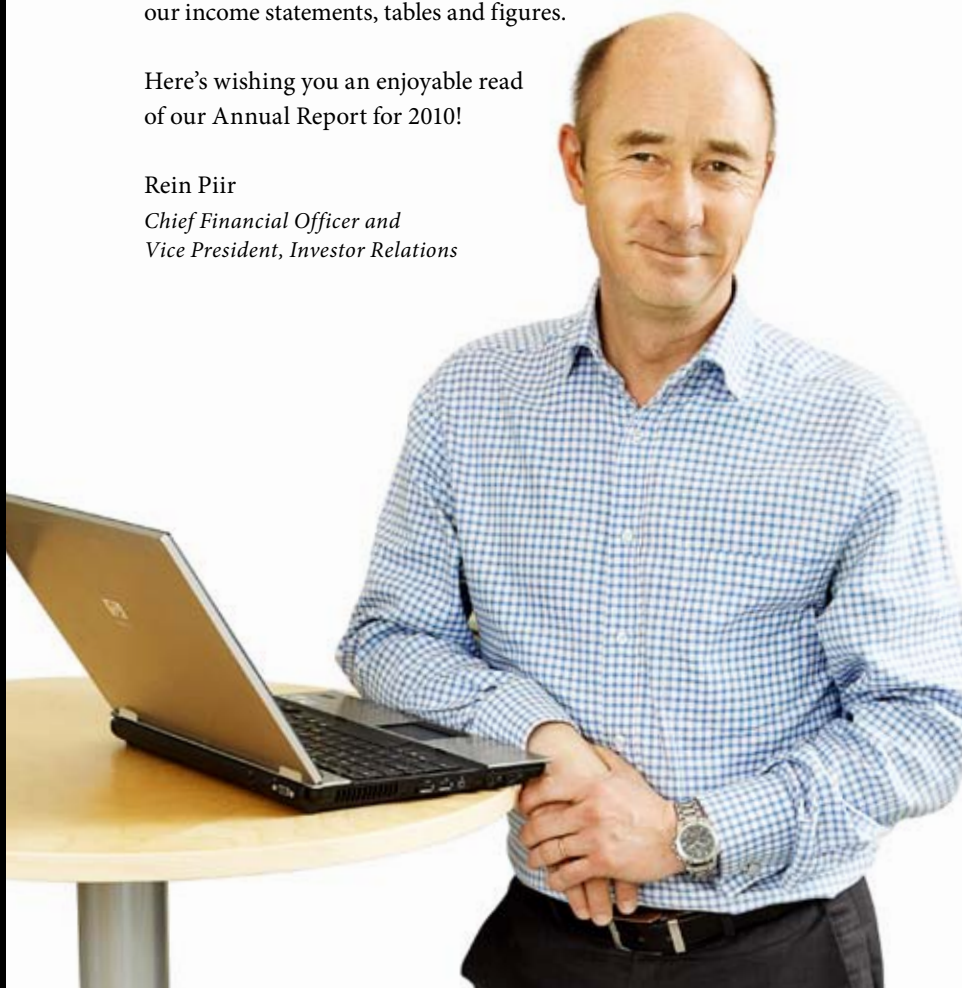
I'm pleased that we now have 6,600 Medivir shareholders, a 26% increase on last year. Over the year, we also took several steps in the process of increasing the number of international shareholders. At year-end, international institutional ownership stood at 27%. We're really pleased and proud of this support, and work on internationalizing our ownership continues.

The first section of this year's Annual Report reviews our ambitions, our business, our know-how and the segments where we have hopes of contributing to new and better therapies.

The section after represents the Report of the Directors, and in the final section, we have our income statements, tables and figures.

Here's wishing you an enjoyable read of our Annual Report for 2010!

Rein Piir
Chief Financial Officer and Vice President, Investor Relations



Core

Research into the enzymes polymerases and proteases, and how we can inhibit their activity in infectious diseases, is the core of our research and pharmaceutical development. More than 75% of our projects are in the infection segment. We have substantial experience of producing experimental drugs against diseases including HIV, herpes and hepatitis. With over 20 years in the sector, we've accumulated internationally competitive R&D operations, whose depth and breadth makes us an attractive collaboration partner for the large pharmaceutical companies.

Competence

We possess in-house competence to take projects from preclinical research to clinical development and market launch. The proof lies in our first self-developed and launched pharmaceutical, Xerclear®/Xerese™. We have the knowledge and abilities to be able to do this again, which makes us fairly unique among companies of our size.

Cure

We are striving towards new,better treatments for serious and hard-to-treat diseases. Thanks to our core competence in polymerases and proteases, we can contribute innovative changes that will enhance the quality of life for very large patient groups.

Medivir in brief

- Medivir was founded in 1988 as a spin-out from AstraZeneca's antiviral research unit. Today's operation focuses on the development of pharmaceuticals against infectious diseases, mainly caused by viruses.
- The company was listed on the stock market in 1996 and is traded on the Nasdaq OMX, on the Stockholm Stock Exchange Mid-cap list. At year-end 2010, the company had a market capitalization of around SEK 4 billion.
- Medivir's first self-developed product, the cold sore pharmaceutical Xerclear®/Xerese™, is in its launch phase with partners GlaxoSmithKline and Meda AB.
- The project portfolio has 10 projects, of which seven are run by partners. Three of these projects are in hepatitis C, and the development of TMC435 has proceeded farthest. This project is now in clinical phase 3 trials.
- Operations are primarily conducted in Stockholm, where 75 of the company's 80 employees are stationed, while others work at the company's UK office.
- Consolidated net sales were SEK 57.3 m in 2010, with a net loss of SEK 134.2 m. At year-end 2010, the company's cash position was SEK 647.3 m.

Our core competence is leading to success

Developing pharmaceuticals is a long and complex process. It takes a high level of expertise, perseverance and financial resources, as well as the ability to tie in good contacts and create successful partnerships.

If we look at the pharmaceutical sector generally, the productivity of large pharmaceutical companies has fallen over the last ten years. This has resulted in a strategic shift, where Big Pharma is increasingly turning to innovative smaller enterprises and academic groups for their development. This provides increasing opportunities for companies like Medivir who have been able to demonstrate their innovative ability over time.

Satisfied partners

Medivir harbours all the disciplines necessary to take a project through all research phases. Simultaneously, we are developing many of our projects in collaboration with skilled partners; partly to make fast and effective progress, and partly so we can commercialize our projects on the global market optimally.

Medivir has a good history of outlicensing projects in early phases to large pharmaceutical companies who then manage their onward development. We have entered partnerships with some ten large pharmaceutical companies through the years, gaining respect for our innovation, quality and competence. We possess good contacts with these companies many of whom continue to develop our innovations. We are looking forward to more collaboration with these companies in the future.

Increased value creation

We will be investing more in our future projects, and further developing them ourselves, primarily within infectious diseases. In this way, we are building more value for our shareholders. Going forward, we will continue to retain the rights to commercialize our own projects on certain markets, while we gradually accumulate our own marketing resources. Our innovation, our people's skills and our ability to secure successful partnership agreements, are important cornerstones as we build towards becoming a profitable mid-sized pharmaceutical company, which is our goal in a few years.

Göran Pettersson
Chairman of the board
March 2011

CEO'S STATEMENT

Progress in hepatitis C – one of the highlights of the year

2010 can be summarized as a highly successful year for Medivir, and I'd like to highlight the following key points especially:

- TMC435 has strengthened our positioning in the infectious diseases research segment, where polymerases and proteases are the drug classes we're focusing on to develop new and innovative products.
- We entered several new partnerships during the year. Collaborating with partners is a means for us to develop and commercialize our products quickly.
- We are respected for our know-how and research quality, and are perceived as one of the leaders in pharmaceutical development against hepatitis C.

Undoubtedly, the most important event of 2010 was the positive data we obtained in the clinical development of our protease inhibitor for treating hepatitis C, TMC435, which is being developed by Tibotec in partnership with ourselves. Interim data from the ongoing clinical phase 2b trials in treatment-naïve and treatment-experienced patients (previous non-responders) was reported in 2010.

According to the study protocol, the phase 2b trial on treatment-naïve patients offered the option to discontinue all treatment if certain criteria were satisfied, for example when there were no detectable virus levels in the bloodstream. Pleasingly, we were able to conclude that as many as 83% of patients could discontinue all therapy after 24 weeks, i.e. halving the total treatment time of 48 weeks that is currently standard.

In the phase 2b trial on treatment-experienced patients, the 24-week interim data showed especially positive effects in this very hard-to-treat patient group

too. It will be possible to present data for lasting antiviral efficacy for both patient groups in 2011.

More positives were that TMC435 is well-tolerated with no more adverse events than current standard of care (SoC). Because patients need only take TMC435 once daily, it will be easier for them to remember to take their medicine, which is important for achieving good treatment results.

Xerclear® – our first pharmaceutical on the market

During 2010, we signed two major partnership agreements to commercialize our self-developed pharmaceutical Xerclear® with Meda AB and GlaxoSmithKline (GSK).

We selected Meda as our sales and marketing partner in the US, Canada and Mexico. Meda's target groups are primary and specialist care physicians on these markets, which gives them a good starting-point to address the market for prescription pharmaceuticals.

In Europe, as in a number of other significant markets where regulatory authorities allow OTC sales of the product, GSK will be our sales and marketing partner. GSK is a leader on the global market for cold sore products through its brand Zovirax.

We also signed a collaboration agreement for marketing in South Korea with Daewoong Pharmaceutical, and in Israel with Luxembourg Pharmaceuticals.

Because Xerclear® is the only cold sore treatment of its type that has been approved to prevent the incidence of cold sores, we are convinced that it has substantial potential.

Recreating a portfolio focus on infectious diseases

In the past year, we developed our portfolio evaluation system further. We review all projects regularly against predefined criteria, analyzing their scientific, business, financial and patient risk qualities. Our aim has been to focus our business on infectious diseases and prioritize the best projects. As a result, we chose to discontinue five of 15 projects during the year.

Eight of our remaining ten projects are antivirals targeting hepatitis B and C, shingles, dengue fever and HIV. Six have been outlicensed to partners, who now bear prime responsibility for their onward development.

Our early-phase research projects are now completely focused on infectious diseases. Going forward, our strategy is to take selected projects into the clinical development phase before entering partnerships. Medivir also intends to retain commercial rights on several geographic markets in future agreements to create greater business opportunities and shareholder value over time.

Financing for success – rights issue and private placement

Our shareholders strongly backed the rights issue we undertook in June. This issue, corresponding to 26% new class B shares, raised SEK 325,1m for the company before issue costs. Some 99.6% of the shares offered were subscribed through subscription rights, which we view as very positive corroboration of our current shareholders' trust in Medivir.

In December, we also undertook a private placement to extend our ownership base outside Sweden and increase liquidity in our shares. Sixty new investors participated in this issue, including several large US pharmaceutical funds. This issue represented approximately 8% new class B shares and raised the company SEK 281,3m before issue costs.

Going into 2011, Medivir has a strong balance sheet, enabling the company to keep developing its project assets more optimally. Medivir can also start its preparations to build its Nordic marketing organization, primarily addressing the future launch of TMC435 in the Nordic region.

The sector honours Medivir – the SwedenBIO Award

Medivir received the SwedenBIO Award in May, recognition of the advances it had made over the preceding 12 months. This is a great honour for everyone who works at Medivir, and we're really proud to receive the Award – not least because it's from a jury consisting of a number of experienced sector experts, and in competition with all the leaders in the biotech and life science sectors.

The year ahead

2011 will be an even more eventful year on the road to establishing Medivir as a profitable pharmaceutical company. Some of the expected highlights we hope will make it another successful year are:

- Meda launching Xerese™ (Xerclear's® product name in the US) in the first quarter of 2011 with GlaxoSmith-Kline scheduled to start its launch during the fourth quarter.
- We are strengthening our Nordic marketing organization ahead of the planned launch of TMC435 in late-2013.
- We will keep developing our strong partnership with Tibotec and other Johnson & Johnson group companies; the partnership agreement with Janssen Pharmaceutica N.V. that we signed in February this year to develop pharmaceuticals against dengue fever, is an example. Meanwhile, we are endeavouring to enter more strategic partnerships with other pharmaceutical companies that want to strengthen their positioning in infectious diseases. We may also consider partnering biotech enterprises with projects in late clinical development phases, as well as product or corporate acquisitions. We have an ambitious agenda to develop Medivir, while simultaneously diversifying risk.
- We will be presenting new, comprehensive data on lasting antiviral efficacy from three clinical phase 2b trials on TMC435. In our hepatitis C portfolio, TMC435 has recently entered global phase 3 trials, which we will be following up over the year, and TMC649128 (HCV-POL) has entered phase 1 trials.
- Clinical phase 1 trials on our Cathepsin K inhibitor against bone disorders are scheduled to start in the second half of the year.
- We will be allocating more resources to the early projects we are conducting in-house, including the hepatitis C program, to enable faster evaluation, and thus expose these projects' value.
- Work on expanding the number of international shareholders is still high on our agenda and we will continue to prioritize this work.

I would like to extend my thanks to our shareholders for their support in 2010. At Medivir, we feel the company is progressing in the right direction. In 2010, we put another successful year behind us, and are focusing on the future. With a strong project portfolio, competent people, solid finances and high-level ambition, we're looking forward to 2011.

Ron Long
Chief Executive Officer
March 2011

Success built on motivation, perseverance and innovation

Medivir won the SwedenBIO Award in 2010 for the successes the company achieved in 2009. This Award is a great honour for us and our work.

Medivir's cold sore project has become a powerful symbol of what its people can achieve. The company conducted all the developmental stages of this pharmaceutical in-house and the result Xerclear® against cold sores will be launched globally during 2011.

These successes gained extra attention during the year, and we received significant recognition of our work when sector organization SwedenBIO named Medivir the winner of its SwedenBIO Award 2010.

The Award was presented with the following citation: "Medivir is has won this Award for all the successes the company achieved in 2009. During the year, management positioned the company to evolve from an R&D enterprise into a pharmaceutical company with proprietary products and its own Nordic sales organization. Its new cold sore compound Xerclear® is the first, and so far only, pharmaceutical able to demonstrate in clinical trials that it can prevent the incidence of cold sores, a condition affecting two million people in Sweden alone. Medivir secured market approval on its two key markets of the US and Europe in 2009, with unique competitive advantages. At the same time, the company has started to build its own sales organization, while also achieving substantial advances in international partnerships with other companies, particularly in the hepatitis C segment. Perseverance, partnership and a global perspective are the core ingredients of Medivir's recipe for success.

This makes Medivir a worthy winner of the SwedenBIO Award 2010."

This Award, presented for the fourth consecutive year, is intended to recognize outstanding companies and leaders in the life sciences industry and create role models of companies that contribute to increasing interest in the sector, and demonstrate examples of "performance and success that is out of the ordinary" in life sciences.

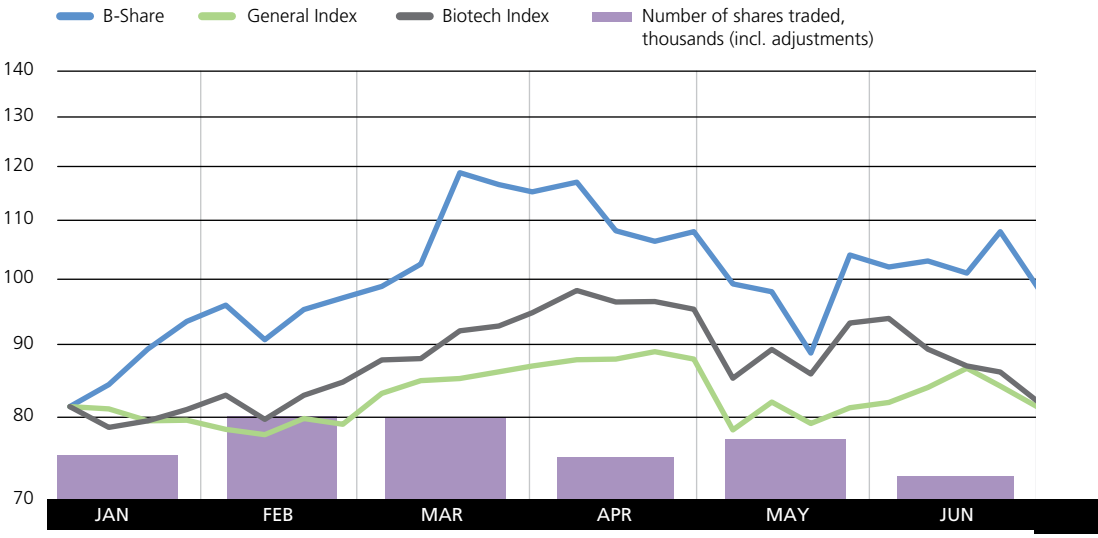
Much of Medivir's success is based on innovation and perseverance. In the coming year, we will invest more in increasing our innovation, to create continuity with new projects for the future.

" The secret of success lies not in doing your own work, but in recognizing the right man to do it."

Andrew Carnegie

Continued positive returns for shareholders

It is exceptionally positive that 2010 was another successful year with very favourable returns for Medivir's shareholders. With an 71% share price gain, we outperformed the index by more than 50%. Our new partnerships and advances in our projects were strong drivers behind the year's share price gain. Clinical phase 2b data clarified the potential of our hepatitis C project, TMC435, which was the single biggest factor.



Q1

15 February Agreement signed with Meda AB to launch and sell Xerese™ (Xerclear®) in the US, Canada and Mexico.

11 March Outlicensing of MIV-210 against hepatitis B to Daewoong Pharmaceutical Co. Ltd. for clinical development.

12 March At an R&D day in Stockholm, Medivir delivers an update on the company's projects and strategic priorities.

29 March Announcement of a rights issue of around SEK 300 m.

Q2

19 April Presentation of new TMC435 data at the European Association for the Study of the Liver (EASL) conference.

27 April Appointment of Håkan Wallin as Vice President of Corporate Development.

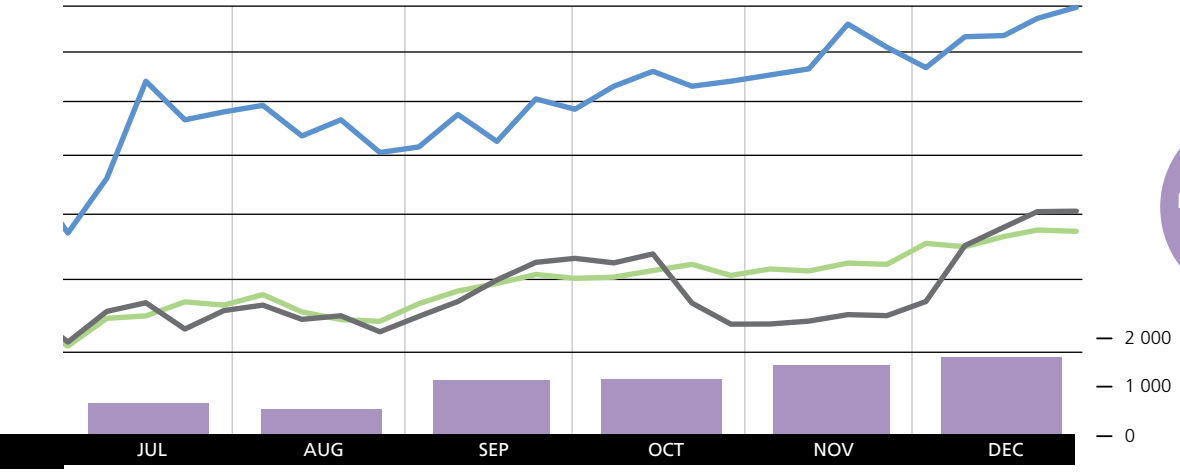
27 April Announcement of the subscription price and relationship for the rights issue.

27 May Medivir declared winner of the SwedenBIO Award 2010.

3 June Rights issue fully subscribed, 99.6% subscribed through preferential rights.

23 June Agreement with GlaxoSmithKline on exclusive rights to market Xerclear® in countries including Europe, Japan and Russia.

After several years of goal-oriented efforts, Medivir has now established a position on the international investment map. Established and recognized US and European pharmaceutical funds participated in the private placement completed in December. We view this as a seal of quality for our business.



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A chart of Medivir's shares for the past five years is on page 33.

Q3

12 July Presentation of phase 2b 24-week interim data on TMC435 on treatment-naïve patients (C205) with chronic hepatitis C.

24 August Daewoong Pharmaceuticals appointed as distribution partner for Xerclear® in South Korea.

9 September Presentation of TMC435 at the National Swedish Hepatitis meeting in Stockholm.

28 September Luxembourg Pharmaceuticals appointed as distributor of Xerclear® in Israel.

1 October Publication of five TMC435 abstracts accepted for presentation at the AASLD conference in Boston, US.

29 October Conference call and breakfast meeting on TMC435 data presented at the AASLD conference.

Q4

1 November Charlotte Edenius appointed as Vice President of Research & Development Projects.

18 November Positive phase 2b 24-week interim data for TMC435 on patients with chronic hepatitis C that did not previously respond to SoC (C206) presented at the company's R&D day in London.

3 December SEK 280m private placement implemented.

17 December Decision to transfer Medivir to Nasdaq OMX Stockholm's Mid-cap list from 3 January 2011.

Analysts Covering Medivir

ABG Sundal Collier
Alexander Lindström and Erik Hultgård

Danske Bank
Mattias Häggblom

D. Carnegie AB
Camilla Oxhamre and Marcus Bellander

Enskilda Securities
Gustaf Vahlne

Redeye
Björn Fahlén and Peter Östling

Nordea Markets
Olle Sjölin

Öhman Fondkommission
Yilmaz Mahshid

Jefferies International Ltd
Peter Welford

Remium
Alexander Weiss

Revealing project values is a step-by-step process

Consistent and systematic management of opportunities and business risks is an important link in the chain of success, and thereby, value creation. Over recent years, Medivir has taken a goal-oriented and strategic approach to create the best possible prospects for bringing projects forward quickly and with balanced risks (more information on portfolio management on page 10).

The value of projects increases progressively. Judgments and value appraisals are often conducted by external commentators as soon as projects come some way into the clinical development phase. The results of clinical trials make it easier to evaluate a project, its commercial potential and risk profile, and thus, the likelihood of being able to reach the market.

Medivir's current and potential shareholders are aware that investing in a research and pharmaceutical company involves high risk. Generally, 90% of all candidate drugs (CD) fall by the wayside during clinical development phases on the route to market registration. This fact demonstrates the complexity and risk levels of pharmaceutical development.

The earlier in development a project lies, the greater the operational risk, because statistically, the probability of reaching the market is low. The operational risk is high while the financial risk is simultaneously limited because the costs of early projects are relatively low. Once a project enters clinical development, costs increase significantly.

When developing pharmaceuticals against infectious diseases caused by viruses, we already have a good indication of forthcoming efficacy data back in preclinical development. This is then verified in early clinical trials, phases 1-2a, were the first safety data also offers guidance on the project's possibility of success.

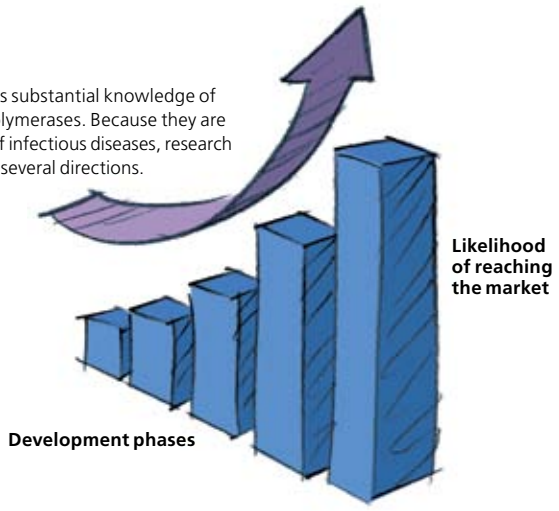
Investors in R&D companies have a lot of company specifics to study. Risk diversification, maturity, therapy areas and the quality of the project portfolio are the most important questions to get answers to before judging a company's value.

Communication and news flow on the progress of projects obviously affects the pricing of a company's shares. Share liquidity is decisive for being able to attract investors and their willingness to invest in the shares. As a company's market capitalization increases, new investor interest groups are created.

Medivir is attracting substantial interest from domestic and international investors, due first and foremost to the company's successes in hepatitis C.

Hepatitis C is a fairly new therapy area where many US pharmaceutical companies are active. The interest and willingness to invest in companies active in this segment has increased markedly since 2007, and the segment is a 'hot' therapy area to be in. There will be a paradigm shift in treating

Medivir possesses substantial knowledge of proteases and polymerases. Because they are involved in a lot of infectious diseases, research can branch off in several directions.



hepatitis C patients over the coming years, when a number of antiviral pharmaceuticals that will be an adjuvant to SoC are launched on the market.

It is equally important for ourselves and external commentators to monitor and compare competing projects. This comparison and analysis is decisive for assessing project values and is a tool for investors to evaluate and price Medivir's share. It also contributes to greater transparency of the company and understanding of the progress of Medivir's previous and forthcoming value growth.

Medivir works continuously to explain how our projects stand up in comparison to competitors. We strive to be clear about what the company is doing to reduce the different risks associated with our business, and to highlight the opportunities our projects have. We do this through channels including regular meetings with current and potential shareholders and by presenting our business at seminars and scientific conventions.

Creating trust among investors and banks requires consistent, impartial and regular contact. The investment process of institutional investors may differ from our Nordic shareholders'. There is an array of large pharmaceutical funds in the US and Europe, including several that specialise in the hepatitis C segment. Many of these funds monitor potential investment targets for extended periods, and conduct detailed project reviews before investing. Their reference framework consists of a raft of alternative investment targets, because the cluster of companies in the US is far greater than in the Nordics. Investments outside domestic markets are often usually made in companies like Medivir, whose projects have advanced up to and into clinical development. The private placement completed in December attracted several of these specialist funds.

In 2011, several projects in Medivir's portfolio will progress towards and into clinical development, which will offer guidance on judging its profile and future potential, thus facilitating external valuations of our projects.

Patent know-how increases our room to act

The patentability of an innovation is one of the fundamentals of pharmaceutical development and is the first link in the chain of value creation. Two people work on patenting issues at Medivir, conferring speed and a high level of in-house know-how to safeguard our projects' development prospects in early innovation work. Patenting work continues throughout project/product life cycles.

All the skills involved in the different stages of pharmaceutical development are brought together in our project groups to evaluate projects optimally: medically, technologically and commercially. The ability to ensure patentability internally provides flexible room to act and facilitates quick decision-making and processes.

At the close of 2010, Medivir had 73 patent families, including those filed by collaboration partners, which may generate royalties in the future for Medivir. A patent family is a collection of national or regional patents and patent applications that cover a single invention or group of related inventions.

On 30 of these, patents have been granted in the US and/or EU. Medivir, including its collaboration partners, had a total of 424 granted patents in force at year-end.

Iain Morrison
Vice President
Legal Affairs

For more detail on Medivir's patents, see the Report of the Directors on page 25.

More effective portfolio management

A passion for science in combination with a commitment to treat or cure disease has always been an R&D driver at Medivir. Portfolio management is intended to utilize this drive, while simultaneously considering commercial opportunities for the company to build value in its project portfolio.

"Try and fail, but don´t fail to try"

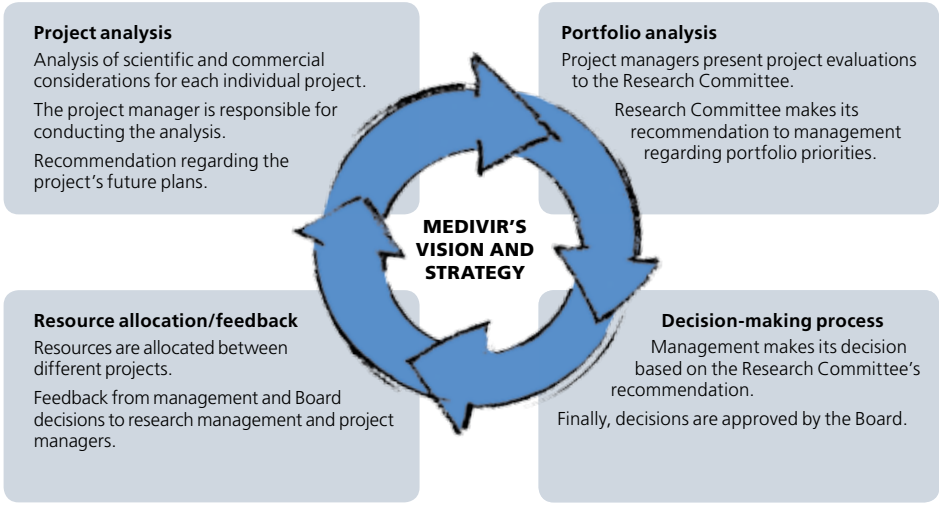
Stephen Kaggwa

During the year, as part of its work on clarifying its focus on infectious diseases, Medivir also continued to develop its project and portfolio control system. This system has been supplemented with analysis tools to enable improved evaluation of the scientific and commercial factors of a project.

Portfolio management has always been an important and central component of the control processes of major and minor research-based pharmaceutical companies. As more stringent standards have been applied to safety and efficacy when preparing new pharmaceuticals, possessing a well-functioning portfolio management system has become more significant. First and foremost, portfolio management is intended to maximize the value of the portfolio, create a good balance between projects in different phases and ensure that projects are conducted in accordance with the company's vision and strategy.

Portfolio management is an important aid for optimizing utilization of the company's resources by allocating them to the projects judged to have the greatest commercial potential. All projects are evaluated consistently, with scientific and commercial parameters both analyzed and points-rated according to well-defined criteria. This evaluation gives an overall picture of the complete project portfolio with its opportunities and risks. In turn, this provides decision-support data for building a well-balanced and valuable project portfolio.

With clearly defined project plans and decision points for short-term and long-term



development strategies, the effective utilization of resources in ongoing project work becomes possible. And over time, better prospects of project success are created, and thereby, greater values in the project portfolio, which eventually contributes to more shareholder value overall.

During the year, Medivir enhanced its portfolio management, partly through a new system of analysis tools, and partly by the Board's Research Committee making recommendations to management and the Board of Directors being supplemented by external competence, with the consistent objective of improving the objectivity of evaluation. Project manager roles were strengthened by them taking responsibility for the fundamental analysis and recommendation of a project's future plans and goals themselves. Medivir has also clarified its commitment in infectious diseases, where the company has a substantial bank of knowledge and has been highly successful historically. Next year, resources will be allocated to further expanding innovation possibilities, taking early ideas that address infectious diseases onto preclinical projects. The improved portfolio management system will contribute to even greater effectiveness of this work, and the primary intention is to extend the early portfolio so a continuous flow of projects can reach clinical development. Another system enhancement that will be prioritized relates to the evaluation of the optimal prospects and timing of research collaborations and outlicensing various projects.

Know-how in-house

The combination of the expert know-how at Medivir, a goal-oriented project portfolio and good monitoring system makes the company very competitive in its segment.

Medivir possesses the necessary know-how to take a pharmaceutical project all the way in-house. The company's competence has contributed to it producing several attractive and promising projects, including some against hepatitis C and labial herpes, where the company has produced its first pharmaceutical itself.

Medivir's know-how is gaining respect worldwide, in segments including hepatitis C research where the company is one of the world leaders. The experience Medivir has accumulated in proteases and polymerases over the years, combined with extensive knowledge of viral diseases, provides a very stable and broad base for onward development.

Focused and highly competitive patent management, which is decisive to allocating resources and running projects successfully, is another success factor.

Through the implementation of its enhanced portfolio management system, Medivir's people have become more involved in processes, and in a concrete way, participate in and evaluate those projects that can create Medivir's future.

"Knowing when you know something and knowing when you don't – that is knowledge."

Konfucius

Collaboration agreements and out-licensing diversify risk and create new business opportunities

Medivir endeavours to achieve a good mix of partnering structures in early research collaborations and on projects later in clinical development. Its goal is to get the most possible opportunities for effective development for the funds invested.

First and foremost, the factor affecting the prospects of various types of collaboration or licensing is the company's competence in the segment where it operates. Quality of project work is a prerequisite for being able to attract partners for collaboration. Finally, this is about managing resources and risk-taking determining which type of collaboration agreement a company can or must enter to bring projects towards their predetermined goals optimally.

Over the years, Medivir has signed collaboration agreements at different points in time. The underlying drivers have been determined by project needs on each occasion.

We've developed Xerclear®/Xerese™ from original idea to registered product

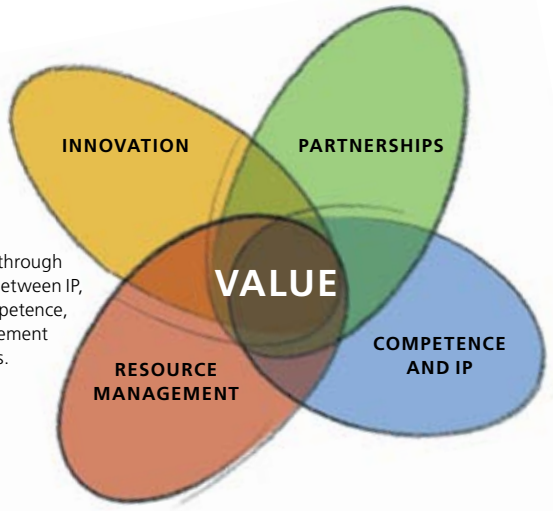
Medivir has developed Xerclear®/Xerese™ from idea to registered pharmaceutical entirely itself. This was possible thanks to possessing in-depth know-how about the herpes virus, which causes cold sores, in-house.

Building on the foundation of this know-how, we've maintained a very clear perception of how clinical trials should be designed. The scope of these clinical trials and the complexity of topical treatment was manageable in terms of scale and resources for Medivir. Work was focused to secure a label clarifying the product's preventative effect, which was successful.

But the final stage of this process, global commercialization, will require one or more partners for sales and marketing. In 2010, we entered four partnerships, while simultaneously launching the product in Sweden and Finland ourselves.

Global launch will start in 2011. In the US, Meda AB will be selling Xerese (Xerclear®) followed by GlaxoSmithKline on key European markets in the latter part of the year.

Revenues from sales will contribute to improved profitability of the company from 2012 onwards.



Value is created through the interaction between IP, innovation, competence, research management and partnerships.

Early partnerships

In recent years, Medivir has consciously entered partnerships and outlicensed projects when they have been in preclinical research. In this way, projects gain the necessary human and financial resources for rapid progress towards clinical development. Simultaneously, Medivir received research support for its employees working on projects, creating financial stability – our collaboration agreements with Tibotec being an example.

Work on maintaining and entering new partnerships builds on broad-based commitment across Medivir, where many of its people are involved.

Speed and competence are the keys to a strong partnership on TMC435

2003 marked a technical breakthrough for the development of new antiviral pharmaceuticals for treating hepatitis C. Now, we are nearing a paradigm shift, offering patients improved therapy options. We entered our first collaboration agreement with Tibotec in 2004 on our hepatitis C compound TMC435, which was then in an advanced research phase, and is now in global phase 3 trials. Integrating the aggregate competence from two organizations and bringing a large company's resources to run the project quickly with the objective of being at the leading edge of a forthcoming paradigm shift were important factors to consider.

Retaining most of the value

Our project successes have given us the opportunity to enter new agreements where we assume greater financial risk but retain more of the commercial value. We are now working on this on a goal-oriented basis, one example being our collaboration agreement with Janssen Pharmaceutica N.V. for developing pharmaceuticals against dengue fever. This agreement is based on ourselves and our partners investing equally in the preclinical phase. Medivir then has the option to choose whether to keep investing in future clinical development. This agreement structure will give us a significantly higher share of future revenues than previous agreements.

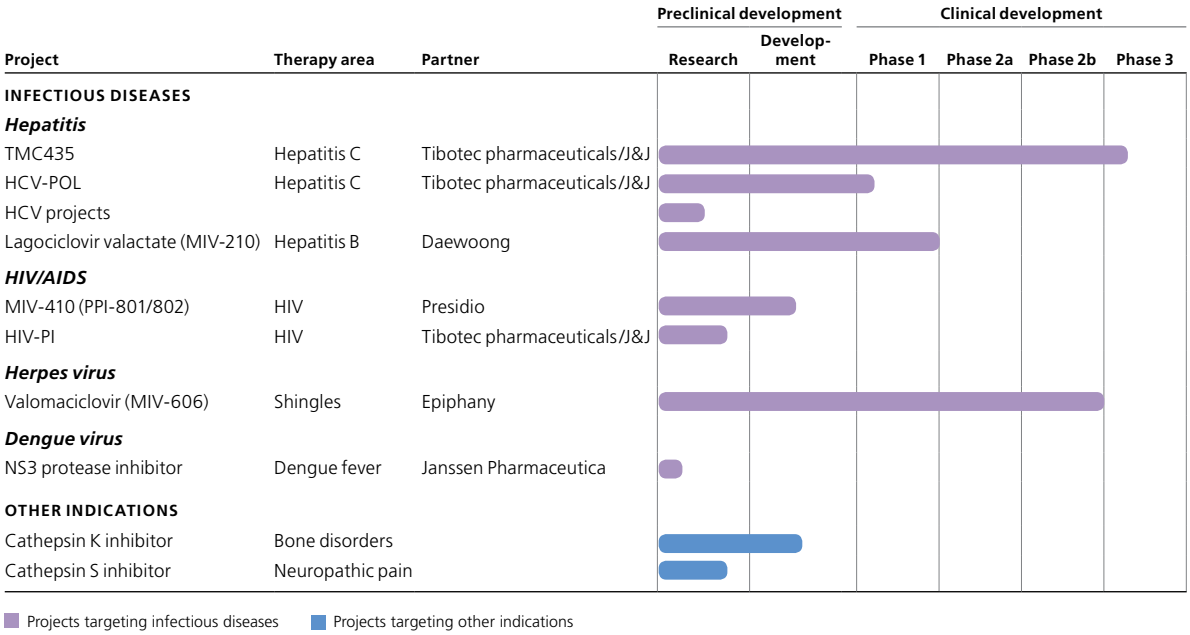
Innovation the controlling factor

Medivir's strength lies in carrying out R&D based on its knowledge of proteases and polymerases. This innovation engine is attractive to many companies and gives them a good opportunity to participate in the development chain, assuming that it suits us strategically and in terms of risk. Combining our skills with a partner that also has clinical and marketing experience brings new possibilities for creating greater project values over time.

Project portfolio

Medivir has a broad portfolio with one product, Xerclear®/Xerese™, in the launch phase and ten projects in different development phases. The majority of projects are in the field of infectious diseases caused by viruses. All projects are based on polymerases and proteases as targets. Seven out of eight infectious disease projects are outlicensed to partners that fund and assume responsibility for development. In the projects managed by Tibotec, there is a joint steering committee with representatives of both companies. The most projects are in hepatitis C, with TMC435 being furthest advanced and global phase 3 trials starting in the first quarter of 2011.

The ambition of future outlicensing is to retain the commercial rights on several geographical markets, but also to enter partnerships with development on terms dictated by a co-development model. In February 2011, Medivir signed a collaboration agreement with Janssen Pharmaceutica N.V. to develop pharmaceuticals against dengue fever, which conforms to the co-development model. The pipeline depicted below is as at 28 February 2011.



Preclinical R&D phases

Explorative phase – identifying active hit compounds.

Lead identification – identifying feasible compounds with drugable potential.

Optimization phase – this stage is focused on producing the optimal compound/compound class possessing pharmaceutical potential. Towards the end of this phase, CDs (candidate drugs) are designated.

Preclinical development phase – the final phase before CDs enter clinical studies. This work is regulated by the authorities and includes extensive safety studies, pharmacokinetics, metabolism studies and is when the first kilogram-scale amounts of the active compound are produced. Applications for regulatory approval for clinical trials are also filed.

Clinical development phases

Phase 1 – trials of the CD on healthy volunteers, usually involving 20 to 50 individuals. Phase 1 is divided into two parts. In phase 1a, a single dose of increasing strength, then repeat doses in phase 1b, are administered on healthy volunteers. Sometimes, parts of these phase 1b studies are conducted on a small group of patients for a short period.

Phase 2 – the first trials on patients suffering from the target disorder. Studies usually enrol 100 to 500 patients, with efficacy and safety evaluated. Phase 2 is also divided into two parts. Phase 2a is intended to demonstrate that the course of the disease can really be affected and phase 2b is intended to study the efficacy of different doses on the disease to find an optimal, safe dose ahead of phase 3.

Phase 3 – comparative trials on a large sample of patients to measure efficacy in relation to other treatments, if any exist, as well as safety. Study is usually formed the foundation of a new drug application.

Hepatitis C research attracting international attention

Medivir's role in the world's hepatitis C research took clearer shape in 2010. Its project TMC435, which has been in clinical phase 3 trials since February 2011, is attracting major interest from international clinics, equity analysts and fund managers.

To date, this project has demonstrated a highly competitive efficacy/safety profile, while also showing potential for being able to shorten treatment times significantly. This has triggered increasing interest in Medivir as a research pharmaceutical company, and increasingly, commentators want to know about other projects the company has in its R&D portfolio.

The commitment and resources Medivir has invested in its hepatitis C projects over the past ten years are starting to give clear results and returns. Knowledge is being gathered from experiences of several partnerships with large pharmaceutical companies over the years and from active research into new projects after new protease inhibitor projects, used for pharmaceutical development against hepatitis C, for example. The first partnership Medivir entered with Tibotec in 2004 in hepatitis C is also the one whose development is most advanced at present. TMC435 has brought Medivir to its position as one of the world leaders in this segment.

Expectations of the next generation of hepatitis C pharmaceutical are very high. These new pharmaceuticals, which initially will be administered as adjuvants to current SoC, must be more effective, i.e. cure more patients than the 40-50% today's SoC achieves. Hopefully, they will not mean additional adverse events, should be convenient, i.e. easily dosed to patients, and if possible, shorten treatment times. The first generation of protease inhibitors, i.e. telaprevir and boceprevir, which are being produced by competing companies, are now heading for the market, and are some two years ahead of TMC435.

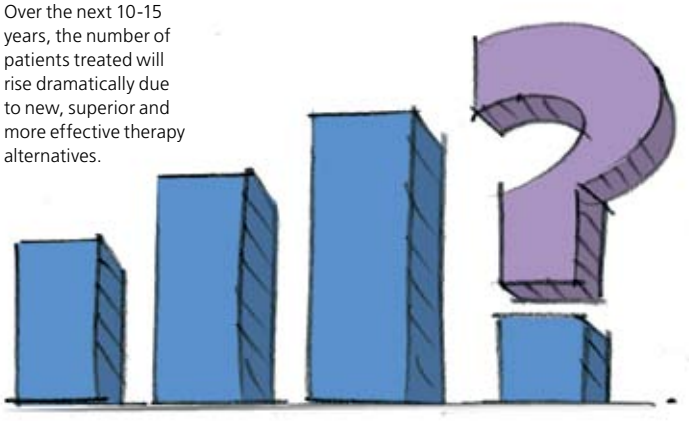
There is always potential for improvement on first-generation pharmaceuticals, in terms of adverse events, dosage or efficacy. TMC435, which is a second-generation pharmaceutical, has great potential to be a best-in-class protease inhibitor against hepatitis C, with markedly shorter treatment times than current SoC, a higher proportion of cured patients and an attractive safety profile.

International attention surrounding Medivir's hepatitis C competence is very substantial. During the year, the company had several opportunities to present TMC435 around the world, and was able to report project data to many interested parties. Medivir and its hepatitis C projects have put a scientific, clinical and commercial flag on the international map.

At the forefront in better treatment of hepatitis C

There is a huge need for new hepatitis C treatments. Current SoC cures some 40-50% of patients. This one-year long course is protracted and associated with many and severe adverse events. The first generation of protease inhibitors will be launched in late-2011 as adjuvants to current SoC. A few years remain before development of the second generation of pharmaceuticals is complete, and Medivir is leading this pack.

The WHO estimates that nearly 180 million people worldwide, or some 3% of the global population, are infected with the hepatitis C virus (HCV). Some 12 million of them live in the US, Europe and Japan. CDC (Centers for Disease Control and Prevention) of the US estimates that nearly 3 million people in the US have a chronic HCV infection.



Over the next 10-15 years, the number of patients treated will rise dramatically due to new, superior and more effective therapy alternatives.

The market value of sales of hepatitis C pharmaceuticals was some USD 3.5 billion in 2010.This figure is expected to rise to some USD 10 billion by 2015 due to new treatments being more costly, but also far more effective. In addition, more patients will be interested in treatment.

SoC has an acute need for improvement

The non-A, non-B hepatitis virus, which had been known since the 1970s, first became known as hepatitis C in the late-1980s. Before this, no one had succeeded in isolating the virus, nor had they been able to initiate research into pharmaceuticals against this disease.

Current treatments involve many adverse events that negatively affect quality of life, and cure less than half (some 40-50%) of the patients that cope with the 48-week course of therapy. This puts big demands on thorough and regular ordination.

Patients that complete therapy, but still carry the virus after treatment, often have just one alternative – to await the development of new and improved pharmaceuticals.

TMC435

Medivir's project TMC435 is one of the second-generation protease-inhibiting pharmaceuticals. The value of Medivir's shares increased over the year, and one of the main reasons was market expectations of TMC435, which is now one of the company's most important projects. TMC435, which is in joint development with Tibotec pharmaceuticals, commenced global phase 3 trials for treating hepatitis C patients in February 2010.

There is a marked difference between TMC435 and the first generation of protease inhibitors, which will reach the market in late 2011. TMC435 requires only a low single daily dose. It does not cause any adverse events in addition to current SoC, and looks like it will achieve a very positive recovery rate. Complete phase 2b data will be available in 2011. Moreover, the total treatment times of therapy where TMC435 is included is now 24 weeks for most patients, which is half the current duration. In clinical data from phase 2b trials, TMC435 also demonstrated efficacy on previous null responders. This is a very substantial and important success,

which offers new hope to these patients. In the coming years, current SoC will change, and one long-term hope is to transform the whole treatment so that current SoC, with its adverse events, can be avoided.

Medivir has a broad-based project portfolio in the HCV segment and its goal is to be able to deliver optimal combination therapy with an even higher recovery rate, few adverse events and applicable to many patient groups in the future.

A selection of data presented in the year shows that TMC435:

- is a potent NS3/4A protease inhibitor administered per orally once daily
- is well tolerated by patients that have undergone treatment
- has potent antiviral efficacy in patients infected with HCV genotype (GT) 1, currently the hardest-to-treat and most common genotype
- also demonstrates therapeutic effect on previous null responders to current SoC.

HCV

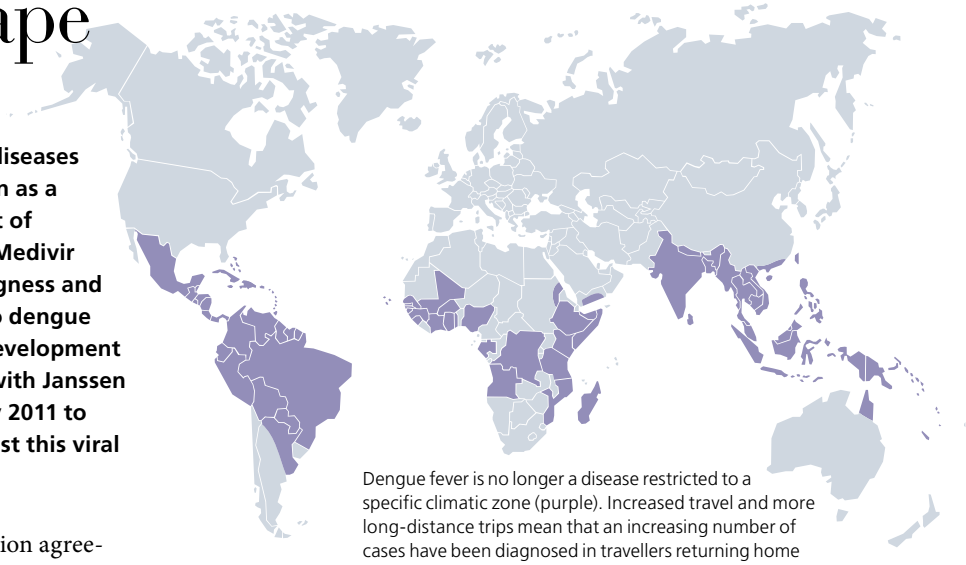
HCV is a virus that expresses in six different genotypes, genotype 1 causing the most chronic hepatitis C infections in the West, representing 72% of all cases.

The disease is usually discovered first when it has already caused substantial liver damage. The virus replicates in liver cells between 10 and 100 times faster than HIV. It mutates quickly, further obstructing the production of effective pharmaceuticals.

HCV is a highly aggressive and infectious virus that infects via the blood, through means including transfusions of blood in foreign hospitals that has not been tested. In Sweden, all donated blood is tested. In Sweden, it is more common for infection to spread between drug abusers sharing hypodermic needles and poorly-cleaned tattooing and body-piercing instruments.

New development projects taking shape

Competence in proteases and their involvement in different diseases put Medivir in a strong position as a collaboration partner for a raft of projects. One segment where Medivir possesses the expertise, willingness and interest is further research into dengue fever (DF), where it signed a development and collaboration agreement with Janssen Pharmaceutica N.V. in February 2011 to develop pharmaceuticals against this viral infection.



Dengue fever is no longer a disease restricted to a specific climatic zone (purple). Increased travel and more long-distance trips mean that an increasing number of cases have been diagnosed in travellers returning home to Europe, in Italy, Sweden and elsewhere.

In strategic terms, the collaboration agreement with Janssen is a new and important step forward for Medivir, whose ambition is to retain a higher share of future revenue streams. The collaboration is being run on a 50:50 basis, meaning that Medivir participates in investing resources at the same level as Janssen. This involves greater financial risk but also significantly higher future royalty revenues compared to a traditional licensing agreement if the project is successful.

Medivir is contributing its unique competence in the development of new protease inhibitors in this R&D collaboration, and is participating actively in developing compounds that can inhibit the NS3 protease that is necessary for the dengue virus. This preclinical project has a very strong platform thanks to Medivir's hepatitis C know-how.

Dengue fever – the disease

Dengue fever is a viral infection propagated by mosquitoes. The symptoms are fever, rash and headache, muscle and joint pain. The eyes become bloodshot, and a rash similar to measles breaks out after a few days of the disease.

When the disease progresses further, bleeding from the hands and armpits can also occur. In most cases, the disease is benign and many patients are only affected by a transient fever.

Can cause death

If an individual who has recovered gets another mosquito bite and is re-infected, the disease can develop into dengue haemorrhagic fever (DHF), a very serious and often fatal condition. In these circumstances, the patient's internal organs and gastrointestinal tract haemorrhage. In such cases, patients can die from haemorrhagic shock.

The viral infection is common in subtropical regions and the number of cases is constantly increasing. DF and DHF is present in over 100 countries. Between 50 and 100 million infections occur each year worldwide, according to the WHO.

To the extent this disease continues to spread, about one-third of the world's population is in the risk zone. About 30,000 people die of complications from the disease each year. Most cases are in Southeast Asia, but in recent years, its spread has also increased in Central and South America. This virus is spreading through tropical climate zones and beyond, tracking greater population mobility and increased travel. Several cases have been diagnosed in Europe, including Sweden, at an accelerating rate in recent years.

An international market launch for Xerclear® in 2011

Medivir launched Xerclear® as a prescription pharmaceutical in Sweden and Finland in 2010. But during the year, work mainly focused on preparations for the product launch on other global markets, which will be conducted via partners.

The international product launch starts in 2011, with Meda AB and the US launch being first up. GlaxoSmithKline, GSK, will be responsible for OTC sales in the rest of the world excluding Canada, South America and China.

Marketing a product successfully in such a niche segment as cold sores, on several markets with differing conditions, takes good collaboration with players that know their local markets well.

Medivir has signed distribution agreements for sales and marketing in Israel and South Korea, to get the best possible impact for its product.

Expectations for 2011 and 2012 are high, because it is a momentous milestone for Medivir to see a self-developed pharmaceutical being launched on major, important markets. The product has a strong competitive edge over existing products, and going forward, Medivir's partners will create the best possible value for the product. The royalty revenues that Medivir will receive are an important stage in the company's development.

"Perseverance is the hard work you do after you get tired of doing the hard work you already did"

Newt Gingrich

Projects heading for clinical phase 1

Bone disorders are one of the research segments outside infectious diseases were Medivir has decided to take current projects to the next value-creating milestone for subsequent outlicensing. We are working on two CDs, MIV-710 and MIV 711. Preparations to take the first of them into clinical phase 1 began in 2010.

Medivir has conducted research designed to develop the treatment of illnesses where there is increased skeletal degeneration, such as osteoporosis, osteoarthritis and bone metastases.

Disease mechanism

Skeletal tissue is constantly built up and broken down in the body. The process of maintaining and rebuilding skeletal tissue is dynamic and controlled by the activity of two cell types: osteoblasts, responsible for incorporating and forming new skeletal tissue and osteoclasts, which are responsible for its degeneration, its resorption. Imbalance in this equilibrium process results in exaggerated skeletal resorption, i.e. the degradation of bone, which can occur in several illnesses such as osteoporosis, osteoarthritis and bone metastases. The degradation of skeletal tissue is mediated by substances including cathepsin K, a cysteinyl protease that is expressed selectively and excreted by osteoclasts. The key role cathepsin K plays in skeletal resorption has been clearly identified and Merck's cathepsin K inhibitor odanacatib is currently in clinical phase 3 trials for treating osteoporosis.

Our commitment

Medivir has a project on this class of proteases, and has been conducting it against different bone disorders since 2003. By developing inhibitors that can block the activity of cathepsin K, increased degeneration of skeletal tissue can be reduced. Two CDs, MIV-710 and MIV-711, have been designated in the auspices of Medivir's cathepsin K program.

2010

Preparations for further progress into clinical development proceeded in 2010. These included starting the development of methods to produce the experimental drug for preclinical safety trials and clinical phase 1 trials.

Evaluation of different disease models continued during the year, with good efficacy demonstrated using molecules and different biological markers for skeletal resorption at a low oral dose administered once daily.

2011

The goal is to commence clinical trials on at least one of the compounds against one or more different diseases during the second half-year 2011.

Documentation requirements are strictly regulated and encompass preclinical trials of safety, pharmacokinetics and metabolism of the experimental drug. After review and approval by the regulators and ethical committee, clinical phase 1 trials can then begin, which usually start with increasing single doses to groups of healthy volunteer men and women. These groups are evaluated in terms of the compound's safety and tolerability before proceeding to the next dose level.

The next trial studies longer-term treatment, up to approximately 2 weeks. In certain cases, it is possible to include a smaller group of patients here in order to gain an indication of the pharmaceutical's efficacy at this early stage. For cathepsin K, this is achieved by monitoring biomarkers of bone turnover.

Medivir presented its cathepsin K project externally on three occasions during the year:

- The 21st International Symposium on Medicinal Chemistry in Brussels, Belgium.
- The 10th International Conference on Cancer-Induced Bone Disease in Sheffield, UK.
- The Annual Meeting of the American Society for Bone and Mineral Research in Toronto, Canada.

Report of the Directors

The Board of Directors and Chief Executive Officer of Medivir AB (publ), corporate identity number 556238-4361, with registered office in Huddinge, Sweden hereby present the Annual Report for the operations of the group and parent company for the financial year 2010. The group comprises parent company Medivir AB (publ) and wholly owned subsidiaries Medivir UK Ltd., Medivir HIV Franchise AB and Medivir Personal AB. Medivir AB has been quoted on Nasdaq OMX Stockholm since 1996. For more information, go to www.medivir.se.

Operations

Research surrounding the enzymes polymerase and protease and how we can inhibit their activity in the course of various diseases constitutes the core of our research and pharmaceutical development. Medivir possesses the competence to take projects from preclinical research to clinical development and market launch in-house. Over the years, Medivir has built an internationally competitive operation that makes Medivir an attractive collaboration partner for large pharmaceutical companies.

Medivir's business goal is to be a leading, profitable pharmaceutical company with its core focus on infectious diseases.

Business focus

Medivir's business focus is in infectious diseases, which is where over 75% of its projects are. It has substantial experience of producing experimental drugs against diseases including HIV, herpes and hepatitis. The project portfolio also has some projects addressing other indications where polymerase and protease play a key role in the course of diseases.

Medivir's self-developed cold sore pharmaceutical Xerclear©/Xerese™ has proceeded furthest in development. Medivir launched this product itself as a prescription pharmaceutical in Sweden and Finland in 2010. The global launch will be conducted through partners in 2011, starting in the US as a prescription pharmaceutical, followed by European markets where the product has been approved for OTC sale.

Medivir is in a range of collaborations in clinical and preclinical phases with established pharmaceutical companies and smaller biotech enterprises. Currently, our biggest focus in infectious diseases is in hepatitis C. These projects address the hepatitis C virus from two different mechanisms; inhibiting the enzymes protease and polymerase. We are currently well-positioned with several projects in the hepatitis C segment.

Significant events in 2010

Medivir launched its cold sore pharmaceutical Xerclear© as a prescription pharmaceutical in Sweden and Finland in March. During the year, Medivir also entered four collaboration agreements for the continued commercialization of this product internationally. One of the most important is for North America, where in February, Medivir entered an agreement with Meda AB. This product will also be launched there as a prescription pharmaceutical, branded Xerese™.

In June, Medivir signed an agreement with GlaxoSmithKline (GSK) to market and sell Xerclear™ for OTC use, which will be under GSK's consumer brands. The markets covered by this agreement are Europe, Russia, Japan, India, Australia and New Zealand.

TMC435 is a protease inhibitor developed to treat hepatitis C virus infections (HCV) jointly with Tibotec, a Johnson & Johnson group company. In 2010, Medivir presented positive interim data from ongoing clinical

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phase 2b trials on TMC435. This applies to trials on treatment-naive and treatment-experienced (null responder) patients.

The trial protocol of the phase 2b trial on treatment-naive patients offered the option of discontinuing all therapy if certain criteria were satisfied, one of them being the no virus being detected in the blood stream. Pleasingly, after only 24 weeks, 83% of patients were able to discontinue all treatment, i.e. a halving of the total treatment time of 48 weeks that is currently standard. In the phase 2b trial on treatment-experienced patients, the 24-week interim data also indicated especially positive efficacy in this very hard-to-treat patient group. The results also showed that TMC435 is well tolerated at the doses studied. The data for SVR (sustained viral response) for both these patient groups will be presented in 2011. Based on this clinical data and previously conducted trials, the global phase 3 program was planned, which then started in the first quarter of 2011.

We enhanced our portfolio evaluation system in the year. During the first quarter, Medivir conducted an extensive portfolio review resulting in fewer projects outside the infectious diseases segment.

In the year, Medivir conducted to new share issues. In June, a rights issue was implemented, which was fully subscribed and raised Medivir SEK 325.1 m before issue costs (SEK 303.2m after issue costs), and increased the number of shares by 5,243,878, corresponding to some 26% new class B shares.

The AGM approved the implementation of a private placement intended to extend Medivir's ownership base outside Sweden and improve share liquidity. A private placement was conducted in December, and the number of class B shares increased by 2,250,000, corresponding to approximately 8% of shares at a price of SEK 125. This raised Medivir SEK 281.3 m before issue costs (SEK 265.0 m after issue costs).

Summary progress on each project:

A summary of the pharmaceutical projects where Medivir has actively conducted operations in the year via partners or in-house follows.

Xerclear®

Indication: Labial herpes (cold sores) caused by the herpes simplex virus. Herpes virus spreads mainly through direct contact during an ongoing cold sore episode. The virus stays dormant in the body and the virus can re-express every year. Colds, stress and sunlight are some of the factors that can trigger a herpes episode.

Compound/pharmaceutical: Xerclear® will be launched globally in 2011. This is a patented combination product consisting of hydrocortisone (anti-inflammatory) and acyclovir (virus inhibitor) in a new patented cream base developed by Medivir.

Progress in the year: Medivir launched Xerclear™ in Sweden and Finland in the year as a prescription pharmaceutical. The main work was focused on entering partnership agreements for a forthcoming global launch. Medivir entered four partnering agreements, the two most important being in North America and Europe, in the year. Meda, our partner, who is launching the product as Xerese™, has scheduled the US launch as a prescription pharmaceutical for the first quarter of 2011.

On those markets where Xerese™ qualifies for OTC sales, GSK will be Medivir's partner. GSK will be selling the product under its proprietary consumer brands in Europe, Russia, Japan, India, Australia and New Zealand. In South Korea, Daewoong Pharmaceuticals is Medivir's distributor, and in Israel, Luxembourg Pharmaceuticals.

Competitors: There are a number of established products in the US and Europe, although their market profiles differ. Europe primarily has OTC pharmaceuticals such as Anti, Vectavir and Zovirax. Famvir and Valtrex are prescription pharmaceuticals in many EU countries such as Sweden and Denmark. In the US, all anti-viral pharmaceuticals against labial herpes require a prescription.

Xerclear™ has a competitive label "Treatment of early signs and symptoms of recurrent -herpes labialis (cold sores) to reduce the progression of cold sore episodes to ulcerative lesions in immunocompetent adults and adolescents (12 years of age and older)", which gives Medivir's product a clear competitive advantage in the US and Europe.

TMC435

Indication: Hepatitis C

Compound/pharmaceutical: Global phase 3 trials initiated in the first quarter of 2011.

TMC435 is a N53/4A protease inhibitor, whose clinical development is being run by Tibotec/Johnson & Johnson in partnership with Medivir and TMC435 underwent clinical phase 2b trials in 2010. The compound is an adjuvant to current standard of care (SoC),

i.e. it is administered with interferon and ribavirin. Current SoC cures less than 50% of patients with HCV genotype 1, the most common genotype in the West and the hardest to cure. By adding a protease inhibitor, Medivir expects the number of cured patients to increase markedly, with treatment times shortened from the current 48 weeks.

Progress in the year: Interim data from phase 2b trials on treatment-naive and treatment-experienced patients was presented in the year. TMC 435 was also presented at several scientific congresses, and attracted major interest from patients, clinicians and investors. The data presented shows that TMC 435 is well tolerated and safe because it does not cause any further adverse events over and above those resulting from SoC. In terms of efficacy, the interim data showed that 83% of treatment-naive patients could discontinue treatment after 24 weeks, when there was no detectable virus. This represents a halving of treatment times on current SoC. The data from treatment-experienced patients also showed a positive safety profile and very promising efficacy data. The SVR data for TMC435, an update 24 weeks after treatment concludes for both patient groups, will offer more data that Medivir will be able to present in 2011.

Competitors: TMC435 is a second-generation protease inhibitor, whose global phase 3 trials have recently commenced. Telaprevir and boceprevir, which are first-generation protease inhibitors, are now in their registration phase, with market launches scheduled for the second half-year 2011.

TMC435 has a competitive profile compared to products now in their launch phase. So far in clinical trials, it has achieved a significantly better safety profile than competing compounds because TMC435 does not cause additional adverse events over and above those resulting from SoC. In combination with TMC 435 being administered in a single daily dose compared to telaprevir and boceprevir, which require several doses each day, this represents a major advantage for the patient.

In terms of efficacy, the interim data presented for TMC435 in 2010 demonstrates that it did is at least, or more, effective than other protease inhibitors like telaprevir and boceprevir.

The two largest pharmaceuticals on the market for treating hepatitis C are Pegasys and Pegintron (Peginterferon, alpha 2). The third product is an immunomodulator, Rebetol (ribavirin).

Valomaciclovir – (MIV-606/EPB-348)

Indication: Shingles and glandular fever.

Compound/pharmaceutical: Valomaciclovir – MIV-606 is a polymerase inhibitor that concluded a clinical phase 2b trial on shingles caused by the varicella zoster virus (VZV). A phase 2a trial against glandular fever caused by the Epstein-Barr virus (EBV) was conducted previously. These trials were run and funded by US pharmaceutical company Epiphany Biosciences.

Progress in the year: in the year, Epiphany sought funding and partnerships on future phase 3 trials against shingles. The next development phase on this project is to meet the regulatory authorities to follow up phase 2 data and present a phase 3 program.

Competitors: this compound enables treatment once a day, compared to the three times daily for the nearest competitor, Valtrex™. This means a dose improvement, and perhaps, also reduced chronic pain, which should imply an important patient benefit.

MIV-210

Indication: Hepatitis B.

Compound/pharmaceutical: MIV-210 is a nucleoside polymerase inhibitor for treating hepatitis B that has been outlicensed to Daewoong Pharmaceuticals in South Korea. Daewoong is responsible for future clinical development.

Progress in the year: safety studies commenced in the year, which will create a base for the project's next development stage, phase 2 trials in 2012.

Competitors: there are currently a number of products on the market against hepatitis B whose efficacy is limited.

TMC649128 (HCV POL)

Indication: Hepatitis C

Compound/pharmaceutical: TMC649128 is a nucleoside polymerase inhibitor whose clinical development is being run by Tibotec/Johnson & Johnson jointly with Medivir. Phase 1 trials commenced in the first quarter of 2011.

Progress in the year: in the year, this project was in preclinical development. Production of the compound and the following extensive safety trials have been implemented to enable clinical trials to commence.

Competitors: there are currently three nucleoside analogues in clinical phase 2 trials and two in clinical phase 1 trials.

HCV projects
Indication: Hepatitis C.
Compound/pharmaceutical: these are being run by Medivir and are based on various mechanisms with unique efficacy and resistance profiles.
Progress in the year: one project is in early preclinical optimization, while the second has progressed further.
Competitors: there are a number of projects in preclinical and clinical development.

HIV-PI
Indication: HIV.
Compound/pharmaceutical: HIV-PI is a protease inhibitor partnership being run in collaboration with Tibotec/Johnson & Johnson, who is responsible for this project's development. The compounds have demonstrated potent anti-viral efficacy against wild-type and multiresistant virus.
Progress in the year: Tibotec as continued to work on this project in late optimization. Compounds produced in this collaboration have an attractive profile, whereby compounds in development are highly potent and active against mutants that are resistant to current pharmaceuticals.
Competitors: there is intense competition in this segment and there are several protease inhibitors against HIV on the market.

MIV-410
Indication: HIV.
Compound/pharmaceutical: MIV-410 is a nucleoside polymerase inhibitor for use against HIV. This project is outlicensed to Presidio Inc.
Progress in the year: the project was in preclinical research in the year.
Competitors: There is intense competition in the HIV segment with several established products on the market.

Cathepsin K inhibitors (MIV-710 and MIV-711)
Indication: Bone disorders
Compound/pharmaceutical: MIV-710 and MIV-711 are being run in-house and phase 1 trials are scheduled to commence in the second half-year 2011.
Progress in the year: several preclinical trials were conducted in the year to map the prospects of MIV-710 and MIV-711 in the courses of different diseases. Work on producing kilogram-scale amounts of the compounds were conducted for the safety trials in preclinical development necessary to be able to commence clinical phase 1 trials in 2011.
Competitors: one compound is in phase 3 trials (odanacatib, Merck).

Cathepsin S
Indication: Neuropathic pain
Compound/pharmaceutical: a protease inhibitor being run in-house. This project is in preclinical optimization. Progress in the year: these compounds should have CNS penetration in order to address this disease. Activity has been demonstrated in preclinical efficacy models for chronic pain. Advances were made in the year to continue optimizing the most promising compound groups.
Competitors: there are a number of products that treat the symptoms but there is no pharmaceutical on the market that addresses the cause of pain.

BACE
Indication: Alzheimer's disease
Compound/pharmaceutical: BACE is a protease inhibitor, which is being run in-house. The project is in preclinical optimization and focuses on inhibiting BACE-1, an enzyme involved in the incidents of plaques in the brain, which are strongly linked to Alzheimer's disease. This research segment is very attractive, but complex, where the majority of the large pharmaceutical companies are active.
Progress in the year: BACE entered pre-clinical optimization in early-2009. The challenge is to develop potent and selective compounds that can readily cross the blood-brain barrier. By achieving CNS efficacy, BACE-1 activity in the brain can be inhibited. In this project, Medivir has identified key chemical starting-points on several occasions and is now conducting a final evaluation of this project's prospects of achieving sufficient penetration into the brain. Based on the outcome of this evaluation a decision will be made during first quarter 2011 to continue or stop the program.
Competitors: many large companies are working in this segment and have projects in research phase, but as yet, none has been able to demonstrate significant efficacy in clinical trials.

Patents and patent filings

Securing patent protection in the early preclinical research phase is the foundation of all new pharmaceutical projects and the company's future commercial prospects. Patent activities are an important and integrated part of work at Medivir during product development, and when the product is on the market. At the close of 2010, Medivir had 73 patent families, including those filed by collaboration partners. A patent family is the collection of national or regional patents and patent applications that cover a single invention or group of related inventions. In 30 of these 73 families, the official examination process has progressed to the point that at least one US or EU patent has been granted. Including these approved US/EU patents, Medivir had 424 granted patents in force at year-end.

Project	Patent No	Normal expiry	AU	BR	CA	CN	EU	IL	IN	KR	JP	MX	MY	RU	TH	TW	US	ZA	Expiry of further patent families
Xerclear®/ Xerese™	WO96/24355	2/2016	●		●	●	19	●	●	●	●		●		○	●	●	●	
	WO00/29027	12/2019	●		●	●	20	●	●	●	○		●		○	●	●	●	
TMC435	WO07/014926	07/2026	●	○	●	○	All	○	○	○	○	○	○	○	○	○	○	○	2028
	WO05/073195	01/2025	○	○	○	○	35	○	○	○	○	●	○	○	○	○	●	●	
HCV POL	WO08/043704	10/2027	○	○	○	○	All	○	○	○	○	○	○	○	○	○	●	●	2029
BACE-1	WO2010/042030	10/2029	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	2031
MIV-710	WO09/000877	06/2028	○	○	○	○	○		○	○	○	○	○	○	○	○	○	○	
MIV-711	WO2010/034790	09/2029	○	○	○	○	○	○	○	○	○	○	○	○	○		○	○	
HIV-PI	Not published	12/2030	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	
Cathepsin S	WO2010/070615	12/2029	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○		2030
Valomaciclovir MIV-606	WO97/30051	02/2017	●	●	●	●	All	●		●	●	●	●	●	○	●	●	●	2028
Lagociclovir valactate MIV-210	WO99/09031	08/2018	●		●	●	25	○	●	●	●	●	●	●	○	●	●	●	
MIV-410 (PPI-801/802)	WO07/006707	07/2026	○	○	○	○	○		○	○	○	○	○	○			○	○	

● Patent granted ○ Patent pending, await examination at the Patent Office

Normal expiry

- Since 1995, almost all countries specify a patent life of 20 years from the international application date.
- Older US patents have a life of 17 years from grant, which could lead to substantially different lives in different countries. An example is MIV-310, where Medivir's US patent claiming the use of alovudine in the treatment of HIV is due to expire in March 2019, almost ten years after the expiry of the remaining patents in this patent family.
- In Europe, it is possible to secure up to five year's extension of pharmaceutical through what are termed "Supplementary Protection Certificate" papers. This supplementary protection is granted if the European marketing authorization was granted more than 5 years after the patent filing date. Of Medivir's projects, such extensions would apply to MIV-606 (2/2022), MIV-210 (8/2023) and TMC 435 (7/2028, assuming launch in 2013), extended expiry stated in brackets. For Xerclear/Xerese, Medivir currently has currently been granted five years supplementary protection certificates in Sweden, Denmark and Portugal. In other countries where both patents and marketing authorizations have already been granted, including Germany and France, the formal application documentation has been filed and applications are under consideration by the patent offices in these countries. Thus the expiry date for patent protection on Xerclear/Xerese, including supplementary protection, is 2/2021.
- Many countries have an additional form of market exclusivity for pharmaceuticals, called "data exclusivity". This prevents generic pharmaceutical applications "ANDA" being approved based on an original product for a defined number of years, namely 10 years in Europe, 2.5 - 5 years in the US and 6 years in China. This exclusivity is independent of patents and as it is based on the launch date, the exclusivity may extend longer than the patent life. For example, in Europe, MIV-310 may secure 10 years' protection from generic pharmaceutical applications notwithstanding that the European patent has expired.

Country codes

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

Additional patent families

- Wherever possible, Medivir ensures that its patent applications include product claims (also known as "composition of matter") and therapeutic method claims. Product claims are preferred in pharmaceutical contexts as they give control over product pricing, notwithstanding that further uses for a product may be discovered in the future.
- Medivir practices patent portfolio management and files subsequent applications for enhancements conducted in-house and CRO developments such as formulations, synthesis methods and synergistic combinations. Although such patent families can seldom totally prevent generic competition after the basic product patent has expired, they do serve a role in ensuring continued royalty income from Medivir's partners even after the introduction of generic competition. This extended royalty period is indicated in this column.

Results of operations and financial position of the group

Turnover

Net sales were SEK 57.3 (25.7) m and primarily consist of remuneration for licensing agreements on Xerclear®/ Xerese™. The first of two one-off payments of SEK 18.0 m (USD 2.5 m) from Meda, which will be launching Xerclear® in North America under the Xerese® brand was received in the first quarter. The second one-off payment of SEK 16.7 m (USD 2.5 m) was received from Meda in the third quarter when the remaining contract terms were satisfied. The first one-off payment of SEK 10.6 m (EUR 1.1 m) of a total of EUR 3 m from GSK for the global launch of Xerclear® for OTC sales through GSK's consumer brands was received in the second quarter. Because the contract terms governing the remaining payments from GSK regarding sales of licensing rights are as yet still unsatisfied, these revenues have not been recognized. Revenues will be recognized when the terms are satisfied and the uncertainty factors eliminated.

Net sales also include a one-off payment of SEK 1.4 m for a licensing agreement on Medivir's polymerase-inhibiting pharmaceutical against the hepatitis B virus (HBV), lagociclovir valactate (MIV-210), and a one-off payment of SEK 0.4 m for distribution agreements for Xerclear® with Daewoong Pharmaceutical Co. Ltd.

Allocation of net sales (SEK 000)	2010	2009
Outlicensing and research agreements		
One-off payments	47,135	15,415
Research collaboratios	0	9,035
Invoiced costs	4,216	0
Pharmaceuticals sales	109	0
Co-promotion services	2,803	1,008
Other	3,025	226
Total net sales	**57,288**	**25,684**

Other income primarily consists of EU subsidies and other research support. In the corresponding period of the previous year, net sales primarily consisted of remuneration for research collaboration on hepatitis C of SEK 9.0 m and an allocated one-off payment of SEK 15.4 m from Tibotec Pharmaceuticals Ltd.

Costs and results of operations

Operating costs were SEK -198.3 (-175.3) m, comprising raw materials and consumables of SEK -0.8 (0.0) m, external costs of SEK -100.0 (-72.3) m, personnel costs of SEK -89.6 (-92.7) m and depreciation and amortization of SEK -7.9 (-10.4) m. Increased external costs are mainly due to higher outlicensing and research costs.

The operating loss was SEK -136.7 (-139.8) m. Operating income increased by SEK 26.0 m, simultaneous with operating costs increasing by SEK 23.0 m. Profit from financial investments was SEK 2.5 (4.4) m. The lower profit from financial investments is mainly due to lower returns on investments in securities, etc. The net loss for the period was SEK -134.2 (-135.4) m.

Results of operations and financial position Medivir AB

Medivir AB (publ), corporate identity no. 556238-4361, is the parent company of the group. The group's operations are mainly conducted in the parent company, and consist of research operations and administrative functions. Parent company net sales for the period were SEK 74.7 (38.4) m. Operating costs were SEK -196.1 (-174.5) m, divided between raw materials and consumables of SEK -0.8 (0.0) m, external costs of SEK -97.8 (-71.4) m, personnel costs of SEK -89.6 (-92.7) m and depreciation and amortization of SEK -7.9 (-10.4) m. The operating loss was SEK -119.2 (-128.3) m. The loss from financial investments was SEK -16.5 (-6.7) m. Profit/loss from financial investments included a cost relating to covering the losses of Medivir (UK) Ltd. of SEK -19.0 (-11.0) m. The net loss for the period was SEK -135.7 (135.0) m.

Sales to Medivir UK Ltd. for research and collaborations were SEK 20.0 (11.5) m. Sales to Medivir HIV Franchise AB were SEK 0.0 (1.3) m. Purchasing from Medivir HIV Franchise AB was SEK 0.0 (1.3) m.

Gross investments in tangible and intangible fixed assets were SEK 5.8 (1.4) m. Cash and cash equivalents including short-term investments with a maximum maturity of three months amounted to SEK 664.6 (140.5) m.

For comments on operations, please refer to the 'Results of operations and financial position group'.

Cash flow and financial position

Medivir has a strong financial position with an equity/assets ratio of 83.7 (75.0) percent. At the beginning of the year, cash and cash equivalents including short-term investments with a maximum maturity of three months

were SEK 143.6 (284.4) m, and SEK 647.2 (143.6) m at the end of the period, a change of SEK 503.9 (-140.8) m.

Cash flow from operating activities for the period was SEK -76.9 (-135.1) m. The change of SEK 58.2 m is mainly due to an advance milestone payment of SEK 51.8 m (EUR 5.0 m) from Medivir's partner, Tibotec.

Cash flow from financing activities was SEK 586.5 (0.0) m. The SEK 325.1 m rights issue the company completed in the second quarter raised SEK 303.2 m after deducting for transaction costs. The private placement of SEK 281.3 m the company implemented in the fourth quarter raised SEK 265.0 m after deducting for transaction costs. Stock option conversions in concluded and ongoing option plans and sale of warrants raised SEK 18.3 (0.0) m in the period.

In accordance with its Finance Policy, Medivir invests its financial assets in low-risk interest-bearing securities.

Investments, depreciation and amortization

Gross investments in tangible fixed assets in the period were SEK 5.5 (1.4) m; gross investments in intangible fixed assets were SEK 0.3 (4.7) m. Investments in tangible fixed assets are mainly for research equipment. Investments in intangible fixed assets are capitalized patent costs for Xerclear®. Depreciation of tangible fixed assets in the period of SEK -7.3 (-10.4) m was charged to profits. Amortization of intangible fixed assets in the period of SEK -0.6 (-0.0) m was charged to profit. Sales of fixed assets were SEK 0.0 (0.3) m.

Financial assets held for sale

The holding of shares in Medivir's license partners Epiphany Biosciences and Presidio Pharmaceuticals Inc. has been classified as a financial asset held for sale. Because none of these shares are quoted, and accordingly not registered on an active marketplace, other data than market quotation is used as the basis for their valuation. Judgments of their value consist of the companies' reported results of operations and financial position, the progress of their project portfolios, share price performance of the Nasdaq Biotech Index, and where applicable, independent third-party valuations. If this valuation results in a change in assessed value, the value changes recognized in the statement of other comprehensive income for the period. Medivir judges that no value change occurred to these shares in the period.

Royalty obligations

A major part of Medivir's research and development projects, such as cathepsin K and lagociclovir (MIV-210), were generated entirely in-house and Medivir is thus entitled to all revenues from such inventions. Medivir has in place an inventor compensation scheme for its employees which is compliant with Swedish and UK legislation, and trade union agreements.

Other research and development projects, such as TMC435, HIV PI, BACE and MIV-410, have their genesis at Swedish universities. According to agreement, Medivir holds the rights to the inventions within these research segments in return for a modest sharing of milestone and royalty payments.

Some of Medivir's projects have previously been licensed to third parties, but have reverted to Medivir, and Medivir has undertaken to pay a royalty to the former licensee. This applies to HCV POL, previously outlicensed to Roche and valomaciclovir (MIV-606) previously licensed to Abbott. Cathepsin S is subject to limited amounts of compensation, payable to Acambis plc (formerly Peptide Therapeutics plc).

Xerclear™ has its origin in a collaboration with AstraZeneca, and if Medivir's revenues from milestone payments and royalties exceed a defined amount, AstraZeneca is entitled to a portion of revenues. No royalties became due for payment in 2010 or 2009.

Transactions with related parties

No transactions occurred between Medivir and related parties that significantly affected the company's financial position and results of operations.

Human resources

Values and corporate culture

Medivir combines advanced research with commercial business results. Its operations set high standards of its people and on an innovative and high-performance corporate culture. Our corporate values such as innovation, commitment, openness, taking responsibility, a focus on results and respect for the individual, are important prerequisites for achieving our goals. These values are expressed in contexts including our leadership and are reflected in our evaluation of our people's efforts, for example. We work according to a specific process of goal-orientation and measurement, where managers and

staff jointly set individual goals for the year based on the overall goals of the company, and evaluate and appraise previous efforts. It is important for commitment that every staff member understands the company's mission and goals, and how their individual performance contributes to them.

Competence development and innovation
Medivir is a knowledge-intensive company. 58% of its employees hold Ph.D.s, of which three are professors. The average work experience in the pharmaceutical sector is some 17 years. Competence development is decisive to developing the project portfolio. Employee competence development is linked to individual goals, which are based on the needs of the business and projects. Many employees participate actively in academic networks to access new research discoveries that make a positive contribution to the business.

Salaries, benefits and labor market regulation
Favorable employment terms are a prerequisite for Medivir being able to hire and retain competent people. Accordingly, Medivir offers competitive salaries and benefits. The company conforms to the principle that salary levels should be set individually and be differentiated, and that salary levels are set based on locally agreed salary criteria. Medivir complies with and respects labor market regulations and the agreements between participants on the labor market. We have constructive collaborations with trade unions and employers' organizations, and these relations are good.

Working climate
A good working climate paves the way for job satisfaction, low sickness absence, good relations and limit staff turnover. In 2010, staff turnover was 2.5%. Employee satisfaction surveys are regularly conducted to ensure a positive working climate. Management and managers put a big emphasis on information from the employee satisfaction survey and work on implementing change reflecting these results. Going forward, we will be developing the information flow from senior management to the organization, and further clarifying the expectations we have of our managers. Medivir endeavors to achieve a working environment that promotes health and well-being, and sickness absence in the company was 2.0 (2.4)% in 2010. Medivir offers its staff keep-fit activities, and pays for regular health check-ups and influenza vaccinations.

Diversity and equal opportunities
The number of permanent employees at the end of the period was 80 (79) with a good balance between men and women. It is self-evident for everyone to be offered the same opportunities and treatment regardless of age, sex, religion, sexual orientation, disability or ethnic origin. People from 14 different countries work for Medivir. Medivir's management has nine members, three of which are women. The Board has five members, one of which is a woman. Medivir should also be a company where a good work-life balance is possible within the auspices of operations.

The working environment and environmental work
Medivir endeavors to comply fully with all working environment-related legislation and regulations, and conducts systematic working environment activities in order to continuously improve safety and the working environment. Medivir's Working Environment and Environmental Policies demonstrate the importance of a good working environment and of minimizing its impact on the external environment. Documented safety procedures are in place and Medivir's staff receive ongoing training on safety issues. Formal responsibility for the working environment is delegated down the management line. A working environment team consisting of managers, safety representatives and others work on these matters on an ongoing basis and conduct regular safety inspections.

In 2010, overall working environment and incident reporting routines were updated. Incident reporting is an important tool for improving the working environment and safety, and implies all incidents and accidents being followed up. No accidents in the workplace were reported to the Swedish Work Environment Authority in 2010 or 2009.

The company's research and development work involves controlled use of biological and hazardous material and waste. The greatest health risks arise when handling chemicals. Conducting risk assessments before laboratory experimentation and handling all chemicals correctly minimizes the health risks. Protective equip-

ment and clothing are used. All work with chemicals is conducted in ventilated space. All fume cupboards and clean benches are equipped with alarms and are regularly checked. Medivir has an extensive program for the disposal and destruction of environmentally hazardous waste. Medivir works constantly to reduce its usage of environmentally hazardous substances and is not involved in any environmental disputes.

Medivir has reported its usage of class II biological substances to the Swedish Work Environment Authority inspectorate and holds permits from the Swedish Work Environment Authority to use class III and III* (normally not airborne infection) biological substances (reference AFS 1997:12). Additionally, Medivir has permits from the Municipality of Huddinge to handle inflammable solvents and research animal approval from the Swedish Ministry of Agriculture.

IT security

IT security is a high priority for Medivir because safeguarding the company's information is important. Medivir's IT security policy includes guidelines for its resources, responsibilities, authorization, administration of rights, virus protection, traceability, classifying information, plus operational and communications security.

All data is copied and processed according to well-defined security and back-up routines. External communication is safeguarded with encrypted data traffic. Computers and software are secured by applying local hardware encryption. Medivir also endeavors to continuously reinforce staff security-consciousness when handling hardware and software continually.

Remuneration to senior executives

The Board of Directors proposes that the Annual General Meeting (AGM) 2011 approves the following guidelines for remuneration to senior executives. Essentially, these guidelines are consistent with those principles applied until the present. Senior executives means the CEO and other members of group management. The guidelines will apply to employment contracts entered after the AGM's resolution on guidelines, and for amendments made to existing terms and conditions, after the AGM resolution.

Medivir will offer overall compensation on market levels enabling the hiring and retention of qualified senior executives. Remuneration to senior executives may consist of basic salary, performance-related pay, incentive schemes as approved by the AGM, pension and other benefits. Basic salary should consider the individual's areas of responsibility and experience. Performance-related pay payable in cash may amount to a maximum of 50% of annual basic salary. Performance-related pay should be linked to predetermined and measurable criteria, designed to promote the company's long-term value creation. Where applicable, share and share price-related incentive schemes should be approved by the AGM. Granting should be in accordance with AGM resolutions.

The pension plans of the CEO and other senior executives should conform to the ITP plan (supplementary pensions for salaried employees) offered. In the UK, individual pension plans may be applied, corresponding to legislated charges, and 6% of basic salary including bonus and benefits. The Board is entitled to offer other solutions that are approximately comparable with the above in cost terms without reservation.

A mutual notice period of a maximum of six months should apply to the CEO and other senior executives. In addition to what is stated above, the basic assumption is that severance pay or other similar remuneration should not be payable, but may be agreed in instances of change of control at an amount corresponding to a maximum of 100% of annual basic salary.

Senior executives may receive customary benefits otherwise, such as company cars, corporate healthcare, etc. The Board is entitled to diverge from the above guidelines if the Board considers that there are specific circumstances justifying this in individual cases.

For information on remuneration to senior executives paid in 2010, refer to Note 4 on pages 60-61.

Significant events after the end of the period

- In February, Medivir reported positive 48-week interim data (SVR24) from the PILLAR trial (C205), a phase 2b trial of TMC435 on treatment-naive patients. TMC435 demonstrated potent and consistent antiviral efficacy with SVR24 of up to 84%. According to international classification, these patients are considered cured.

- In February, Medivir reported that global phase 3 trials on TMC435 had commenced. Thus the EUR 5 m milestone payment received in February 2010 will be recognized in the first quarter of 2011.
- In February, Medivir reported that a clinical phase 1a trial on TMC 649128 (HCV POL) had commenced, entitling Medivir to a EUR 7 m milestone payment, whose revenue will be recognized in the first quarter of 2011.
- In February, Medivir started a new collaboration with Janssen Pharmaceutica (Johnson & Johnson) on the co-development of pharmaceuticals that can prevent and treat virus infections in the dengue segment. This collaboration further extends Medivir's operations in infectious diseases and utilizes the company's extensive know-how in the development of new protease-inhibiting pharmaceuticals.
- The BACE project has been discontinued in favor of an increased focus on infectious diseases projects in the development portfolio.
- In March, Medivir reported that Meda had initiated the launch of Xerese™ on the American market. Medivir is now looking forward to forthcoming launches of Xerese™ that Meda will execute in Canada and Mexico, as well as the launch in Europe by our partner GlaxoSmithKline later in the year.

Future progress summary

Medivir is a research-based specialty pharmaceutical company focused on infectious diseases and has the ambition of being a profitable midsized specialty pharmaceutical company in high growth in a few years. Medivir is working on a goal-oriented and strategic footing to create the best possible prospects of running projects quickly and with balanced risks and is positioned uniquely among specialty pharmaceutical companies with a potential blockbuster hepatitis C therapy in late-stage development, a marketed product, Xerclear®/Xerese™, approaching international launch, a broad earlier pipeline and a solid financial position. Medivir will now remain focused on creating further shareholder value and continues to gain momentum in its strategic goal to become a profitable specialty pharmaceutical company. Medivir does not issue any earnings or sales estimates.

Significant risks and uncertainty factors

Pharmaceutical research and development to approved registration and launch is a highly risky and capital-intensive process. Most of Medivir's potential products are in early development phases and require continued research and development and regulatory permits before they can generate revenues. The risk level is high, and there can be no guarantee that Medivir's product development will be successful, that potential products will prove safe and effective, that required permits will be attainable, or that the pharmaceuticals launched on the market will be well received. Medivir's ability to produce new CDs, enter partnerships on its projects and successfully develop its projects to market launch and sale, and to secure funding of its operations, are decisive to its future. In what follows, the risk factors Medivir judges to be of greatest significance to its future earnings performance and financial position are reviewed, in no relative order of significance. Obviously, not all risk factors can be reviewed.

Competition risk

Competition in Medivir's business segment is significant and Medivir's competitors may develop and market pharmaceuticals that are more effective, safer and cheaper than Medivir's. Medivir's competitors include multinational pharmaceutical companies, specialist biotechnology enterprises, and universities and other research institutes. A number of Medivir's largest competitors develop and market pharmaceuticals addressing the same diseases as those Medivir is focusing on. Many competitors have significantly greater financial, technological and human resources than Medivir. Moreover, many competitors have far greater experience in preclinical and clinical trials on CDs on humans and on applying for regulatory permits for pharmaceuticals. Accordingly, competitors may receive regulatory approval for their products faster than Medivir, which would give such competitors an advantage when marketing products with similar potential applications. The group's competitors may also have greater production and distribution capacity, as well as superior sales and marketing prospects than Medivir.

Patent risk, know-how and confidentiality

Medivir's future success will largely depend on its ability to secure protection in the US, EU, Asia and other countries on the intellectual property relating to its products. Its prospects of patenting inventions in the biotech and pharmaceutical sectors are generally hard to assess and involve complex legal and scientific matters. There can be no guarantee that Medivir will secure patents on its products or technologies. Even if patents are issued, they may be infringed, invalidated or circumvented, which will limit Medivir's ability to prevent competitors from marketing similar products and reducing the time for which Medivir can protect its products with patents.

Over and above patented products and technologies, Medivir uses its own technologies, processes and know-how that are not protected by patents. Medivir endeavors to protect such information through means including non-disclosure agreements with employees, consultants and collaboration partners. It is not certain that such agreements can prevent the disclosure of confidential information, the rights of employees, consultants and collaboration partners to intellectual property or that these agreements have sufficient consequences if breached. Moreover, Medivir's commercial secrets may be disclosed or developed independently by competitors in other ways. If Medivir's own internal information and know-how cannot be protected, its operations could be adversely affected to a material extent.

Safety and efficacy criteria relating to product development

Before the launch of any of Medivir's experimental drugs can be initiated, Medivir and/or its collaboration partners must demonstrate that such compounds satisfy the stringent requirements of safety and efficacy that are set by the regulatory authorities in the countries where marketing of the pharmaceutical is planned. Usually, the procedure for securing regulatory permits requires extensive preclinical or clinical trials, is very costly, and takes substantial time. Potential shortcomings or delays in the implementation of preclinical and clinical trials will reduce or delay Medivir's ability to generate revenues from the commercialization of its candidate drugs and may have a significant negative effect on its ability to retain and complement its project portfolio.

The FDA, EMEA and other regulatory authorities may delay, limit or refuse permits for several reasons, including an experimental drug perhaps not being safe or effective. If Medivir is unable to secure permits for its current or future CDs, it will not be possible to market or sell them.

Commercial success and market acceptance of Medivir's products

Even if the potential products in Medivir's project portfolio secure regulatory approval, it cannot be certain that the pharmaceutical will attain market acceptance among physicians, patients, client organizations and the medical community. The level of market acceptance of Medivir's CDs depends on a number of factors including its ability to present acceptable evidence of safety and efficacy, the incidence of and degree of potential adverse events, access to alternative therapies, price and cost-efficiency, and Medivir's development partners' or licensees' sales and marketing strategies.

Collaboration risks

Entering collaboration agreements with pharmaceutical and biotechnology companies to develop and launch the company's potential products is a component of Medivir's strategy. Success in such collaborations will be largely dependent on the work of collaboration partners, because these parties have the possibility of directing the work and resources to be allocated to projects. Conflicts or differences of opinion may arise between Medivir's collaboration partners or counterparties in terms of interpreting clinical data, achieving milestone payments, interpretation of financial remuneration for, or ownership rights to, patents and similar rights developed within the auspices of collaborations. A small number of partnership collaborations currently represent the majority of Medivir's current and potential future revenues and these collaboration partners are often significantly larger than Medivir. Moreover, several collaboration partners have an interest in competing products and there can be no guarantee that they will not have interests that conflict with Medivir's own.

Financial risks

Medivir has reported losses historically and judges that losses will be reported through the coming years. Medivir's ability to produce new CDs cost-effectively that develop into new products during clinical trials will be decisive to its future profit performance and need for capital. It is important to enter partnerships for Medivir's development projects and that clinical development projects result in successful launches and marketing of products. Existing and new partnerships may have a significant impact on Medivir's future revenues and cash position, but it is not possible to schedule revenue flows. There can be no guarantee that in the future, Medivir will be able to post positive profits. Nor can there be any guarantee that Medivir will not need additional capital contributions or that the required capital can be secured at terms acceptable to Medivir. For a detailed review of financial risks such as currency risk, interest risk, credit risk and liquidity risk, please refer to Note 8 on pages 64-66.

Corporate governance

From 1 July 2008, Medivir applies the Swedish Code of Corporate Governance, see Corporate Governance Report on page 38.

AGM 2011

The Annual General Meeting will be held at 3 p.m. on Thursday, 5 May at IVA's konferenscenter, Grev Turegatan 16, Stockholm, Sweden. Shareholders wishing to participate should firstly be included in the share register maintained by Euroclear Sweden AB (formerly VPC) by no later than Friday 29 April and secondly notify the company at the address Medivir AB, Box 1086, 141 22 Huddinge Sweden or by fax to + 46(0)8 546 83195. The company must have received this notification by no later than Friday 29 April. Updated information on the AGM is available at the company's website, www.medivir.se.

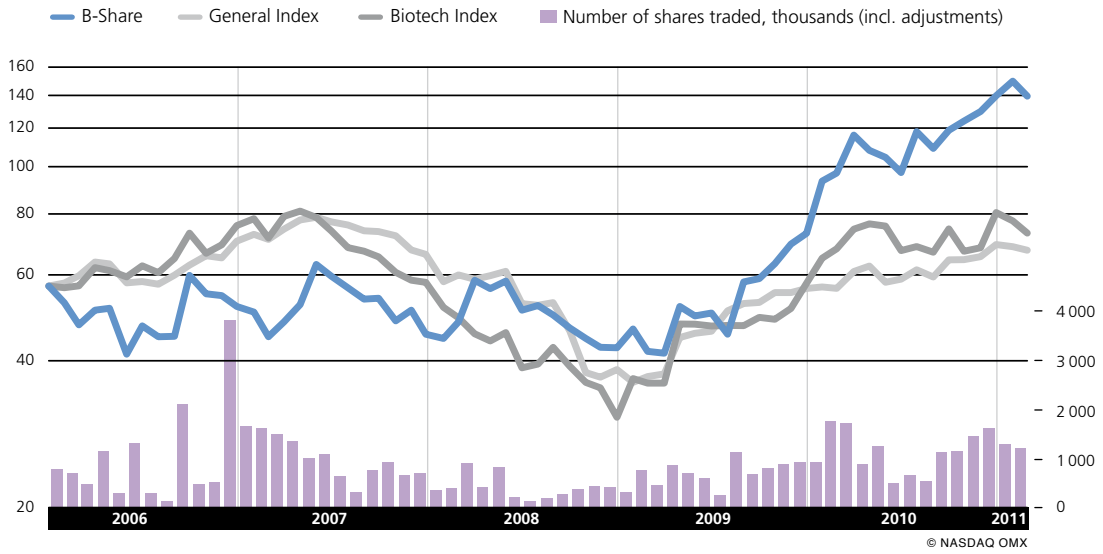
Proposed appropriation of losses

The Board and the Chief Executive Officer propose that the accumulated deficit, SEK -366,289,658 be carried forward.

Dividends

The Board of Directors proposes that no dividends are paid for the financial year 2010.

The Medivir share



The Medivir share

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

Share structure, earnings per share and equity

At the end of the period, Medivir had 28,593,229 (20,843,547) shares divided between 660,000 (660,000) class A and 27,993,229 (20,183,547) class B shares with a quotient value of SEK 5. The average number of shares in the period was 27,718,388. All shares are equally entitled to Medivir's assets and profits. Class A shares have ten votes and class B shares one vote. The share capital at the end of the period was SEK 143.0 (104.2) m, and equity was SEK 607.3 (153.9) m.

Basic and diluted earnings per share, based on a weighted average number of outstanding shares, was SEK -5.43 (-6.49). Equity per share was SEK 21.24 (7.38). The equity ratio was 83.7 (75.0)%.

For a review of Medivir's financial risks and the principles applied for financial risk management, see Note 8 on page 64, "Financial Risks."

Share structure, 31 December 2010

Share class	No. of shares	No. of votes	% av kapital	% of capital	Shares after full exercise of options
A 10 votes	660,000	6,600,000	2.3	19.0	660,000
B 1 vote	27,933,229	27,933,229	97.7	80.9	28,809,204
Total	**28,593,229**	**34,533,229**	**100.0**	**100.0**	**29,469,204**

Share price performance and turnover in 2010

In 2010, Medivir's share price rose by 71% from SEK 82.5 to SEK 140. In the same period, the Nasdaq OMX Stockholm Small Cap index (OMX-SSCPI) rose by 19%, and the Biotech index fell by 1%. At year-end 2010, Medivir's market capitalization was SEK 4,003 m, based on a closing price of SEK 140. In 2010, the turnover of Medivir shares on Nasdaq OMX Stockholm was 15,642,608 equivalent to a turnover rate of 56%, compared to 93% for Nasdaq OMX Stockholm. On 28 February 2011, the share price was SEK 139.5 equivalent to market capitalization of SEK 3,989 m.

Beta value

As of 31 December 2010, Medivir's class B share had a beta value of 1.05. This value is based on historical closing prices on the last trading day of each of the preceding 24 months. The same measure is applied on the Nasdaq OMX Stockholm All-share Index, and provides an indication of the extent to which a share price fluctuates against an index. If a share has the same price variation as the index, its beta value is 1.0; if it has been more volatile, its value is greater than 1.0, and vice versa.

Dividend policy

A proposal on dividends will not be raised until long-term profitability can be expected through new product launches on the market.

Warrants and stock options

The purpose of option plans is to promote the company's long-term interests by motivating and rewarding the company's senior management and other staff. As of the reporting date, Medivir has two outstanding staff stock option programs, see adjacent table.

At the beginning of 2010, there were 760,000 outstanding options. In the period, 140,265 options were converted from the 2005-2010 program and the remaining 139,735 options in this plan were forfeited through the expiry of their term on 31 December 2010. In the period, 70,753 options in the 2007-2012 plan were converted and 263,200 options were granted in the 2010-2013 plan. Stock option conversions in concluded and ongoing option plans and sale of warrants in the period increased share capital by SEK 1.3 m and other paid-in capital by SEK 15.4 m. The number of outstanding options at the end of the period was 803,647, entitling the holders to 875,975 class B shares, and upon full conversion, correspond to some 3.1% of the share capital and some 2.5% of the votes. Upon full conversion, the number of outstanding options could increase equity by SEK 84.2 m, of which share capital would gain SEK 4.4 m, and accordingly, the total number of shares could amount to 29,469,204.

The year's Income Statement includes a provision of some SEK 4.3 (3.6) m for accrued social security costs that would arise on the taxable benefit coincident with exercise of the stock options. For more information on Medivir's stock option programs, see Note 4 on pages 61-63 and the table to the right.

Outstanding option plans, 31 December 2010

Type	Duration	Number	Rights to no. of shares	Exercise price, SEK	Outstanding shares today and at full conv.
Stock opt.	2007-2012	409,247	446,079	61.20	28,593,229
Opt. progr.	2010-2013	394,400	429,896	132.30	29,039,308
Total		**803,647**	**875,975**		**29,469,204**

Shareholder agreement and pre-emption

There is an agreement between holders of class A shares in Medivir, stipulating that the parties will behave in accordance with decisions reached on relevant issues by the parties prior to annual general meetings. If, during their consultative deliberation, the parties are unable to agree on a particular issue, the resulting decision is that opinion represented by the majority of class A share votes represented during the consultation process. Furthermore, the agreement implies that if holders of class A shares wish to transfer their class A shares to another holder of class A shares or a third party, the shares will be converted into class B shares. The same applies if a party acquires class A shares of Medivir in any other way. If a majority of the holders of class A shares so decide, the class A shares will have the facility for transfer to a new owner without reclassification, at which point the new owner will become party to the applicable shareholders' agreement for holders of class A shares. For class A shares, preemptive rights apply pursuant to the Articles of Association.

Medivir's 15 largest shareholders, 31 December 2010*

Descending order of vote	Class A shares	Class B shares	% of votes	% of capital
Staffan Rasjö		3,732,582	10.81	13.05
Bo Öberg		362,475	9.27	2.26
Nils-Gunnar Johansson		137,000	8.62	1.47
Skandia Fonder		1,369,618	3.97	4.79
Länsförsäkringar Fondbolag		1,251,641	3.62	4.38
Tredje AP-fonden		1,102,026	3.19	3.85
Skandia Liv		1,061,930	3.08	3.71
Alecta Pensionsförsäkring		1,000,000	2.90	3.50
Christer Sahlberg	92,000	33,381	2.76	0.44
Handelsbanken		829,104	2.40	2.90
Banque Carnegie Luxembourg SA		785,939	2.28	2.75
Holberg Norden		714,325	2.07	2.50
Unionen		704,200	2.04	2.46
Carlson Fonder		529,134	1.53	1.85
DNB Nor Bank AB		493,029	1.43	1.72
Övriga	0	13,826,845	40.04	48.36
Total	**660,000**	**27,933,229**	**100**	**100**
Total class A and B shares		**28,593,229**		
Total number of votes		**34,533,229**		

* Source: VPC Analys, register of shareholders. The table may include composite from multiple entries in VPC's statistics. These composite entries are intended to indicate an institution or private individual's total holdings in Medivir. Such composite entries are not utilized in other tables relating to the Medivir share.

Share and shareholder structure

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

Shareholder statistics as of 31 December 2010*, by size of holding

Size of holding	No. of shareholders	No. of shares	% of capital	% of votes
101-1,000	3,399	1,331,214	4.6	3.8
1,001-5,000	775	1,659,698	5.8	4.8
5,001-20,000	178	1,794,157	6.3	5.2
20,001-100,000	83	3,863,939	13.5	11.2
100,001-	48	19,842,288	69.4	74.7
Totalt	**6,601**	**28,593,229**	**100.0**	**100.0**

* Source: VPC Analys.

Shareholder categories, 31 December 2010*

	% of votes	% of capital	No. of shareholders
Swedish institutions	33.4	40.4	513
Foreign institutions	22.0	26.4	313
Swedish private individuals	44.4	32.9	5,716
Foreign private individuals	0.2	0.3	59
Total	**100.0**	**100.0**	**6,601**

Management

RON LONG

Born in 1947. B.A. from Reading University.
CEO and President since 2009.
Previous experience includes executive positions in the Wellcome Foundation Ltd., Amersham Plc, Amersham-Pharmacia AB, Kudos Pharmaceuticals and directorships of Biacore AB and Asterand plc.
Medivir shareholding: 22,848 class B.
Option program* 2010-2013: 19,000 warrants, 19,000 stock options.

EVA ARLANDER

Born in 1964. Pharmacist, Ph.D. in Medical Science.
Marketing Director.
Medivir employee since 2004.
Previous positions include Project Manager and Manager of AstraZeneca's clinical research operation.
Medivir shareholding: 0.
Stock options* 2007-2012: 12,000.
Option program* 2010-2013: 9,500 warrants, 9,500 stock options.

CHARLOTTE EDENIUS

Born in 1958. Medical degree and M.D., Karolinska Institute. Vice President of Research & Development Projects. Medivir employee since 2010.
Previous positions include Head of Pre-clinical and Clinical & D at Orexo, Head of Research at Biolipox and various positions in AstraZeneca's clinical R&D.
Medivir shareholding: 500 class B.

CHRISTINA KASSBERG

Born in 1968. B.Sc. (Econ.)
Vice President of Business Control and Administration.
Medivir employee since 2000.
Previously Controller of Medivir AB, Accounting Manager at Skandia Link Multifond and Auditor at Öhrlings PricewaterhouseCoopers.
Medivir shareholding (family): 9,889 class B.
Stock options* 2007-2012: 20,000.
Option program* 2010-2013: 9,500 warrants, 9,500 stock options.

IAIN MORRISON

Born in 1960, LL.B. & B.Sc. (Hons.)
Vice President of Legal Affairs.
Medivir employee since 1993.
Previously attorney and patent attorney at established law firms in Australia and Sweden.
Medivir shareholding: 0.
Stock options* 2007-2012: 6,000.
Option program* 2010-2013: 9,500 warrants, 9,500 stock options.

REIN PIIR

Born in 1958. B.Sc. (Econ.) Chief Financial Officer/ Vice President of Investor Relations.
Medivir employee since 2000.
Previously senior positions include Healthcare & Research at D. Carnegie AB and Research & Strategy at SPP.
Medivir shareholding: 0.
Stock options* 2007-2012: 20,000.
Option program* 2010-2013: 9,500 warrants, 9,500 stock options.

BERTIL SAMUELSSON

Born in 1950. Ph.D., Professor. Vice President of Discovery Research.
Medivir employee since 1999.
Previous positions include Head of Medicinal Chemistry at AstraZeneca, Mölndal, Sweden.
Medivir shareholding (family): 50,575 class B.
Stock options* 2007-2012: 22,000.
Option program* 2010-2013: 9,500 warrants, 9,500 stock options.

PAUL WALLACE

Born in 1962. Ph.D., University of Cambridge.
Vice President of Business Development.
Medivir employee since 2000.
Previously Business Development Manager at Peptide Therapeutics plc and Director of Research at Eclagen, both in the UK.
Medivir shareholding: 0.
Stock options* 2007-2012: 22,000.
Option program* 2010-2013: 9,500 warrants, 9,500 stock options.

HÅKAN WALLIN

Born in 1962. B.Sc. (Econ.) from the University of Stockholm and CEFA from the Stockholm School of Economics. Vice President of Corporate Development.
Medivir employee since 2010.
Previous experience includes senior executive positions at ABG Sundal Collier AB Corporate Finance, Libertas Capital Nordic AB and Ernst & Young Corporate Finance.
Medivir shareholding: 2,600 class B.
Option program* 2010-2013: 9,500 warrants, 9,500 stock options.

* For the terms governing the rights to acquire shares, see 'The Medivir Share' on page 34.

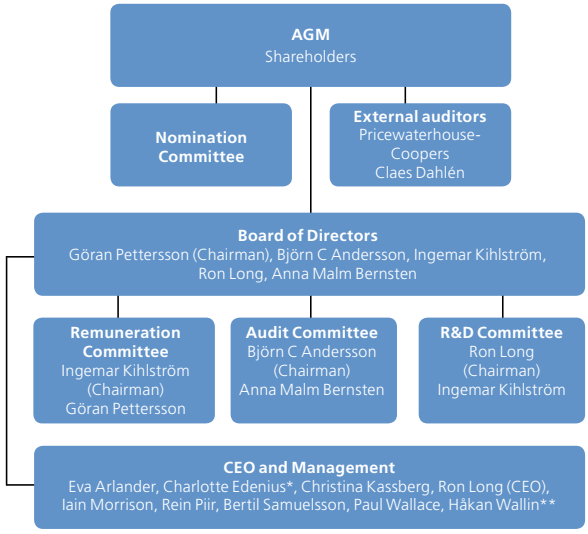
Corporate Governance Report

Good corporate governance is an essential component in the work of creating value for Medivir's shareholders. The objective is to create good prospects for an active and responsible ownership role, a well-balanced division of responsibility between the owners, Board of Directors and management and transparency towards owners, the capital markets, employees and wider society.

The figure to the right illustrates Medivir's corporate governance model and how the central bodies operate.

Medivir applies the Swedish Code of Corporate Governance (the Corporate Governance Code). Medivir has not complied with the Corporate Governance Code in respect of the number of members of the Audit Committee, with more information under 'Audit committee.' Information on the Corporate Governance Code is available at www.bolagsstyrning.se.

Medivir's corporate governance model



* Became a member in November 2010 ** Became a member in May 2010

Internal regulatory structures and policies that affect corporate governance:

- Articles of Association
- Board of Directors' Rules of Procedure and CEO's Instructions
- Remuneration Guidelines for Senior Executives
- Rules of Procedure for Board Committees
- Finance Policy
- IT Policy
- Accounting Handbook
- HR Handbook

External regulatory structures that affect corporate governance

- The Swedish Companies Act
- Accounting standards
- Nasdaq OMX Stockholm's rules for issuers
- The Corporate Governance Code

The shares and shareholders

Medivir's class B shares have been traded on Nasdaq OMX Stockholm's main market since 1996. The class A shares are not quoted. All shares are equally entitled to participation in Medivir's assets and profits. Class A shares have ten votes per share and class B shares have one vote per share. Class A shares are covered by a pre-emption clause in the Articles of Association and a conversion clause, whereby class A shares may be converted to class B shares. At shareholders' meetings, each party entitled to vote may vote for the full number of shares held and represented without limitation.

Medivir's share capital was SEK 143.2 (104.2) m at year-end, divided between 28,593,229 (20,843,547) shares, each with a nominal value of SEK 5. The closing price at year-end was SEK 139.75 (80.50) per share, equating to market capitalization of SEK 3,996 (1,678) m.

At year-end there were 6,601 (5,207) shareholders, of which 5,517 (4,395) had holdings of 1,000 shares or less. Staffan Rasjö was the largest shareholder in terms of voting rights, followed by Bo Öberg and Nils-Gunnar Johansson. 83.5% (84.4) of shareholders held 1,000 shares or less and the ten largest shareholders held 40.35% (54.1) of the total number of shares and 50.62% (60.7) of the total number of votes. The share of foreign shareholders was 26.7% (23.4) of total equity. For more information about ownership structure, see the Medivir shares on page 33.

Annual General Meeting

Shareholders exercise control over the company at the Annual General Meeting (AGM), or where applicable, Extraordinary General Meetings (EGM), which are Medivir's chief decision-making body. The AGM is held within six months of the end of the financial year. The AGM resolves on issues including election of the Board of Directors and Chairman of the Board, appoints Auditors, resolves on the adoption of income statements and balance sheets, resolves on appropriation of the company's profits and discharging the Board members and CEO from liability, resolves on the Nomination Committee and its work, and guidelines for remunerating senior management. Minutes from the company's previous AGMs are available at the company's website. There is also information on shareholders' entitlement to have matters considered at the AGM, and when Medivir should have received shareholders' requests for such matters for consideration.

The AGM 2010 was held on Thursday, 29 April 2010. 38 (41) shareholders attended the meeting, personally or by proxy, representing some 53.8% (53.8) of the votes. Attorney-at-Law Erik Sjöman was elected Chairman of the Meeting. All Board members elected by the Meeting attended. The minutes from the AGM are available from Medivir's website. Matters the Meeting resolved on included:

- Re-election of the Board members Göran Pettersson, Björn C. Andersson, Anna Malm Bernsten, Ingemar Kihlström and Ron Long (CEO).
- Re-election of Chairman of the Board Göran Pettersson.
- That maximum Directors' fees of SEK 2,620,000 would be payable, divided as follows, in the period until the next AGM. Directors' fees of SEK 435,000 would be payable to the Chairman of the Board and SEK 185,000 each to the other members that are not employed by the company. For work on the Audit Committee, fees of SEK 80,000 would be payable to the Committee Chairman and SEK 65,000 each to the Committee's other two members. For work on the Remuneration Committee, SEK 65,000 would be payable to be Committee Chairman and SEK 50,000 each to the Committee's other two members. For work on the R&D Committee (if such a Committee is required) fees of SEK 65,000 would be payable to the Committee Chairman and SEK 50,000 each to the Committee's other two members. As before, Auditors' fees for the period until the next AGM would be payable according to open account.
- Guidelines for remunerating senior executives.
- Procedures for the Nomination Committee's appointment and work.
- Approval of a new issue of class B shares with preferential rights for existing shareholders.
- Authorizing the Board of Directors to decide on the new issue of class B shares at a total not exceeding 10% of the total number of outstanding class B shares of the company after utilizing this authorization on one or more occasions before the next AGM, with or waiving shareholders' preferential rights.*
- The adoption of an option plan 2010/2013 to issue a maximum of 394,400 share warrants, of which 171,500 are staff stock options.

* Approximately 8% of this authorization was utilized for the private placement of December 2010.

Nomination Committee

The Nomination Committee procedure adopted at the AGM 2010, involves the Chairman of the Board contacting the three largest shareholders in terms of the number of votes at the end of the third quarter of the year. These parties are offered the opportunity to each appoint a representative to a Nomination Committee, which should also include the Chairman of the Board. If any of these shareholders declines the entitlement to appoint a representative, this entitlement transfers to that shareholder with the largest shareholdings after these shareholders. The Nomination Committee should appoint a Chairman internally to lead its work.

The Nomination Committee should prepare proposals for electing and remunerating the Board of Directors and Chairman of the Board, and where applicable, Auditors, and methods for appointing a Nomination Committee and its Chairman should be submitted to the AGM for

resolution. Shareholders may submit proposals for the Nomination Committee through means including e-mail to valberedning@medivir.se. The names of shareholders' representatives on the Nomination Committee are published by no later than six months before the AGM.

The Nomination Committee for the AGM 2011 has the following members: Maria Wikström (Chair and representative of Länsförsäkringar Fonder), Frank Larsson (Handelsbanken Kapitalförvaltning), Bo Öberg (representing class A shareholders) and the Chairman of Medivir's Board, Göran Pettersson. The mandate term continues until the composition of the following Nomination Committee has been published. The Nomination Committee for the AGM 2011 met on two occasions when all members attended.

The Nomination Committee's proposals to the AGM 2011, were published in tandem with the invitation to the AGM. The Chairman of the Board is responsible for appraising the work of the Board of Directors including individual members' efforts. This is conducted yearly pursuant to an established process. The appraisal is assisted by an external consultant with some regularity. In 2010, an appraisal was conducted through interviews and discussions between the Nomination Committee and individual Board members, as well as feedback and discussion by the whole Board. The appraisal focuses on matters including access to, and needs for, specific competence and working methods. The appraisal also constitutes supporting data for the Nomination Committee in terms of proposing Board members and remuneration levels.

Nomination committee for the AGM 2011

Name	Representing	Share of votes 30 Sep 10	Share of votes 31 Dec 10*
Maria Wikström	Länsförsäkringar Fonder	10,55	3,62
Frank Larsson	Handelsbanken Kapitalförv.	3,84	2,40
Bo Öberg	Class A shareholders	9,95	9,27
Göran Pettersson	Medivir's Board	0,03	0,02
Totalt			

* Because changes of control qualifying for representation on the Nomination Committee had occurred as of 31 Dec 2010, these shareholders were contacted but declined a place on the Nomination Committee for the AGM 2011.

Board of Directors

The Board of Directors has the overall duty of administering the company's affairs on behalf of the shareholders in the best manner possible. The Board's responsibilities include monitoring the work of the CEO through ongoing business updates in the year, that the organization, management and guidelines for administering the company's affairs are expedient and that satisfactory internal controls

Composition of the Board of Directors, May 2010–April 2011

Name	Appointed	Born	Function	Remuneration Committee	Audit Committee	R&D Committee	Affiliated to management and major shareholders
Björn C Andersson	2008	1946	Member		Chairman		No
Ingemar Kihlström	2008	1952	Member	Chairman		Member	No
Ron Long*	2007	1947	Member			Chairman	Yes
Anna Malm Bernsten	2006	1961	Member		Member		No
Göran Pettersson	2008	1945	Chairman	Member			No

* Ron Long is affiliated to the company due to his employment as Medivir's CEO.

Board members' attendance in 2010**

Name	Function	Board meetings	R&D Committee	Remuneration Committee	Audit Committee
Björn C Andersson	Member	17/17			3/3
Ingemar Kihlström	Member	17/17	3/3	2/2	
Ron Long	Member	16/17	3/3		
Anna Malm Bernsten	Member	15/17			3/3
Göran Pettersson	Chairman	17/17		2/2	

**If a member is unable to attend a Board meeting, he/she was offered the opportunity to submit their views to the Chairman before the meeting.

are in place. The Board's responsibilities also include setting strategies and goals, establishing internal control instruments, and where applicable, deciding on major acquisitions and divestments of operations, deciding on other major investments, issuing financial reports, evaluating executive management and providing succession planning. The Board possesses substantial competence and experience of the pharmaceutical sector, as well as the finance and strategy segments.

Each year, the Board adopts rules of procedure that clarify the Board's responsibilities and formalize the Board's and its Committees' internal division of responsibility including the role of Chairman, decision-making processes within the Board, the Board's meeting schedule, invitations to Board meetings, agendas and minutes. The rules of procedure also formalize how the Board should receive information and documentation as supporting data for its work, to be able to reach well-founded decisions. The Board also adopts written instructions for the Chief Executive Officer each year, which clarify the CEO's responsibility for ongoing administration, reports to the Board and their content, requirements of internal control instruments and other matters that require the Board's decision or notification to the Board.

The Chairman leads the Board's work so that it is conducted in accordance with the Swedish Companies Act, other laws and ordinances, applicable regulations for listed companies including the Corporate Governance Code, Articles of Association and the Board's and its Committees' internal rules of procedure. The Chairman monitors operations in dialogue with the CEO and is responsible for other Board members receiving the information and documentation necessary for high quality of discussion and decisions.

The Chairman is responsible for evaluating the Board's work and the Nomination Committee receiving its judgments. The Chairman also participates in evaluation and appraisal matters regarding senior managers. The Chairman represents the company on ownership issues.

For a presentation of the Board members, see pages 42-43.

The Board of Directors' work in 2010

In 2010, the Board held 17 meetings where minutes were taken. The Secretary of the Board is Medivir's General Counsel but not a Board member. Other Medivir employees reported at Board meetings as required. For each Board meeting, Board members receive a written agenda and complete decision-support documentation. Each scheduled Board meeting includes a review of current business conditions, the Group's results of operations and financial position and prospects for the remainder of the year. Board work in the year was intensive, with more Board meetings than usual, and largely focused on:

- Finance issues and the Group's capital structure
- Strategic focus
- Partnerships and collaborations
- Research and pharmaceutical development
- Major investments and commitments
- Interim reports, financial statements and annual accounts

Board committees

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

Remuneration Committee

The Remuneration Committee is appointed by the Board and should consist of a maximum of four members. In 2010, the Remuneration Committee had the following members: Ingemar Kihlström (Chairman) and Göran Pettersson. The Committee is advisory and is not entitled to take decisions.

The primary duty of the Remuneration Committee is to represent the Board in matters relating to remuneration and employment terms for the CEO and senior managers that report directly to him based on the principles of remuneration and employment terms for the CEO and other senior managers resolved by the AGM. The Committee continuously reports on its work to the Board.

Board of Directors

GÖRAN PETTERSSON

Göran is also a member of Medivir's Remuneration Committee. He was born in 1945 and elected to Medivir's Board in 2008. Göran is a pharmacist and market economist (IHM) and possesses long-term experience of the pharmaceutical industry in Sweden and foreign countries. He has been a self-employed life sciences consultant since 2000, and previously held senior positions with the Astra group, KabiVitrum, Pharmacia/PharmaciaUpJohn and Meda. Göran holds several directorships in other companies and is Chairman of Axelar AB, OxyPharma AB and Vivoxid Oy and a Board member of Diamyd Medical AB, Pfizer Sweden's pension fund and Recipharm AB.
Medivir shareholding including holdings through companies: 8,750 class B.

BJÖRN C ANDERSSON

Born in 1946, has been a Board member since 2008 and is Chairman of Medivir's Audit Committee. He is a Licentiate of Economics and former employee of Handelsbanken, where he was Deputy CEO and Head of Handelsbanken Markets, then Head of Handelsbanken Asset Management. Björn is Chairman of Euroben Life & Pension, Nordben Life, NAXS Nordic Access Buyout Fund AB and a Board member of Bliwa Livförsäkring.
Medivir shareholding: 1,000 class B.

INGEMAR KIHLSTRÖM

Born in 1952. Board member since 2008 and Chairman of Medivir's Remuneration Committee and a member of its R&D Committee. Ingemar is an Associate Professor at the University of Uppsala, and is a self-employed consultant in the life sciences sector. He possesses broad experience of pharmaceuticals and business development, from the pharmaceutical industry and financial sector. Ingemar previously held senior positions with Pharmacia, Aros Securities and ABG Sundal Collier. He has several directorships in Scandinavia, including chairmanships of Artimplant AB, Creative Antibiotics AB, Hammercap AB and RecoPharma AB, and is Deputy Chairman of Diagenic ASA.
Medivir shareholding: 3,850 class B.

RON LONG

Born in 1947, Board member since 2007 and CEO since February 2009. B.A. from Reading University. Chairman of Medivir's R&D Committee. Contributes a broad network across Europe. Chairman of PepTonic Medical AB, Sky Medical Technologies Ltd. and Procognia Israel. Board member of Eurodiagnostica AB. Previous experience of executive positions in the Wellcome Foundation Ltd. Amersham plc, Amersham-Pharmacia AB, Asterand Plc, Kudos Pharmaceuticals Ltd. and Biacore AB. Medivir shareholding: 22,848 class B.

ANNA MALM BERNSTEN

Anna is also a member of Medivir's Audit Committee. She was born in 1961, and has been a member of Medivir's Board since 2006. Anna holds a B.Sc. (Eng.), with broad experience of life sciences. She was previously employed by Medivir, and is a self-employed leadership and business development consultant. Apart from senior executive experience at GE Healthcare Life Sciences, Pharmacia, Assa Abloy, Medivir and Baxter Medical, she was also CEO and President of Carmeda AB. Anna is a Board member of Artimplant AB, Biophausia AB, Birdsteep ASA, Cellavision AB, Fagerhult AB, Matrisen AB and ArtimplantNolato AB.
Medivir shareholding: 3,000 class B

MEDIVIR UK LTD.
Board members:
Bertil Samuelsson and Bo Öberg.

MEDIVIR HIV FRANCHISE AB
Board members:
Rein Piir and Bo Öberg.

MEDIVIR PERSONAL AB
Board members:
Christina Kassberg, Rein Piir and Bo Öberg.

AUDITORS
PricewaterhouseCoopers AB for 2008-2012. The Senior Auditor is Authorized Public Accountant Claes Dahlén.

In 2010, the Remuneration Committee held two meetings where minutes were taken that all members attended. In addition, the Committee held a number of consultations by telephone and email.

Audit Committee

The Audit Committee is appointed by the Board and should consist of a maximum of four members. In 2010, the Audit Committee had the following members: Björn C Andersson (Chairman) and Anna Malm Bernsten. Both members are not affiliated and possess audit competence. The Committee is advisory to the Board and is not entitled to take decisions.

The primary duty of the Audit Committee is to support the board in its work on the company's risk management, governance and internal controls and to quality-assure financial reporting. The Committee considers significant auditing issues that the Group is affected by, meets the company's Auditors on an ongoing basis and appraises the audit process. The Committee also supports the Nomination Committee when preparing proposals for Auditors, their remuneration and approves which supplementary services the company may purchase from its external Auditors. The Chairman of the Audit Committee is responsible for the whole Board being kept continuously informed on the Committee's work, and where necessary, submits matters for decision to the Board.

In 2010, the Audit Committee held three meetings where minutes were taken that all members attended. Largely, the committee focused on:

- Reviewing the company's risk management, governance and internal controls
- Reviewing the company's finance policy
- Significant audit issues
- Reviewing reports from the company's Auditor elected by the AGM including the Auditor's audit plan

Pursuant to the Corporate Governance Code, the Audit Committee should consist of at least three Board members. In 2010, Medivir chose not to comply with this stipulation, because the Board considers that Björn C Andersson and Anna Malm Bernsten have the required competence to perform the Committee's duties, and that accordingly, an additional member would be of no further value.

R&D Committee

The R&D Committee is appointed by the Board and should consist of a maximum of four members. In 2010, the R&D Committee had the following members: Ron Long (Chairman) and Ingemar Kihlström. The Committee is advisory and is not entitled to take decisions, over and above what is stated below.

The R&D Committee's primary duty is to contribute to developing principles for managing, prioritizing and systems for monitoring R&D activities in consultation with Medivir's management. In 2010, the R&D Committee held three meetings where minutes were taken that all members attended.

A review of Medivir's overall research portfolio is conducted semi-annually. The R&D Committee reviews and provides the Board with supporting data for decisions regarding the strategic focus of R&D activities. Ahead of each R&D Committee review, Medivir's project team should update the prepared template for each research project and propose decisions regarding project priorities and allocation of resources in writing. In addition, on demand from management, the R&D Committee should:

- Approve project start-ups at the start of lead optimization
- Take decisions on designating project managers
- Advise management on complex scientific issues

Management

The CEO leads the company's operations accordance with the Swedish Companies Act and other laws and ordinances, applicable rules for listed companies including the Corporate Governance Code, the Articles of Association, and within the framework established by the Board including its instructions to the CEO. In consultation with the Chairman of the Board, the CEO prepares the necessary information and documentation to support the work of the Board and for the Board to be able to reach well-founded decisions, presents matters

and explains proposals for decision, and reports to the Board on the company's progress. The CEO leads management work and takes decisions in consultation with other managers. Medivir's management has nine members including the CEO. Management has a broad composition of individuals with in-depth, thorough experience of the research and development, marketing and sale of pharmaceuticals. Management also possesses the necessary skills in accounting and finance, legal issues and corporate communications. For a presentation of management, see pages 36-37.

Auditing

Auditing firm PricewaterhouseCoopers AB, which has been Medivir's auditor since 1988, was elected at the AGM 2008 for a mandate term of four years. PricewaterhouseCoopers then appointed Authorized Public Accountant Claes Dahlén as Senior Auditor. PricewaterhouseCoopers audits all Group companies.

On assignment from the Board, the Auditor conducts a summary review of all interim financial statements pursuant to the applicable standard for limited reviews (SÖG) 2410 "Limited review of interim financial information conducted by the company's appointed auditor". Other statutory audits of the Annual Accounts, Consolidated Accounts and accounting records and the Board of Directors' and CEO's administration are conducted pursuant to Swedish auditing standards. The Auditor works from an audit plan and reports his observations to the Audit Committee on an ongoing basis through the year, and once a year, to the Board of Directors. The Auditor collates views from the Audit Committee regarding Medivir's risks, which are then given special attention in the audit plan. The Auditor also participates in the AGM to present his Audit Report and review his audit work and observations made.

Apart from auditing, Medivir also consulted PricewaterhouseCoopers on tax issues and a range of audit and finance matters. PricewaterhouseCoopers is accountable for verifying its independence ahead of decisions to also offer independent advisory services to Medivir apart from its auditing assignment.

Remuneration to the Board of Directors and senior executives

Guidelines for remuneration

Guidelines for the remuneration of senior executives of Medivir are determined by the Annual General Meeting (AGM). The Board of Directors' proposed guidelines for remuneration to the AGM 2011 are essentially consistent with those principles applied until the present. For the Board's complete proposals, see page 29. Senior executives means the CEO and other members of group management. The guidelines will apply to employment contracts entered after the AGM's resolution on guidelines, and for amendments made to existing terms and conditions, after the AGM resolution.

Medivir will offer overall compensation on market levels enabling the hiring and retention of qualified senior managers. Remuneration to senior executives may consist of basic salary, performance-related pay, incentive schemes as approved by the AGM, pension and other benefits.

Basic salary should consider the individual's areas of responsibility and experience. Performance-related pay payable in cash may amount to a maximum of 50% of annual basic salary. Performance-related pay should be linked to predetermined and measurable criteria, designed to promote the company's long-term value creation. The pension plans of the CEO and other senior executives should conform to the ITP plan (supplementary pensions for salaried employees) offered. In the UK, individual pension plans may be applied, corresponding to legislated charges, and 6% of basic salary including bonus and benefits. The Board is entitled to offer other solutions that are approximately comparable with the above in cost terms without reservation. In addition to what is stated above, the basic assumption is that severance pay or other similar remuneration should not be payable, but may be agreed in instances of change of control at an amount corresponding to a maximum of 100% of annual basic salary. Senior executives may receive customary benefits otherwise, such as company cars, corporate healthcare, etc. The Board is entitled to diverge from the above guidelines if the Board considers that there are specific circumstances justifying this in individual cases. For more information on remuneration, see Note 4 on pages 60-61.

Remuneration to senior executives (KSEK)

Function	Year	Basic salary	Performance-related pay	Severance pay	Benefits	Total	Pension	Total incl. pension
CEO	**2010**	**3 387**	**–**	**–**	**–**	**3,387**	**–**	**3,387**
	2009	3 546	–	1,133	12	4,691	2	4,693
Other senior executives	**2010***	**7 682**	**1,867**	**–**	**2,053**	**11,602**	**1,713**	**13,315**
	2009**	9 657	–	–	238	9,895	2,076	11,971
Total	**2010**	**11 069**	**1,867**	**–**	**2,053**	**14,989**	**1,713**	**16,702**
Total	2009	13 203	–	1,133	250	14,586	2,078	16,664

* At the beginning of 2010, apart from the CEO, management consisted of six people, and at the end of the year, eight people.
** At the beginning of 2009, apart from the CEO, management consisted of seven people, and at the end of the year, six people. One member of management was employed on a consultancy basis until April 2009 inclusive.

Directors' fees, May 2010-April 2011 (SEK)*

		Directors' fees		Audit Committee		Remuneration Committee		R&D Committee		Total	
Name	**Function**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Björn C Andersson	Member	185 000	185 000	80 000	80 000	–	–	–	–	265 000	265 000
Ingemar Kihlström	Member	185 000	185 000	–	–	65 000	65 000	50 000	25 000	300 000	275 000
Ron Long**	Member	–	–	–	–	–	–	–	–	–	–
Anna Malm Bernsten	Member	185 000	185 000	65 000	65 000	–	–	–	–	250 000	250 000
Göran Pettersson	Chairman	435 000	435 000	–	–	50 000	50 000	–	–	485 000	485 000
Total		**990 000**	**990 000**	**145 000**	**145 000**	**115 000**	**115 000**	**50 000**	**25 000**	**1 300 000**	**1 275 000**

* Remuneration excluding travel expenses. No consulting fees were paid to Board members in 2010/2011. In 2009/2010 consulting fees of SEK 25,000 were paid to Anna Malm Bernsten and SEK 60,000 to Ingemar Kihlström.
** Ron Long became CEO on 1 February 2009, and accordingly, due to his employment by the company, does not draw any special Directors' fees or other remuneration for his work on the R&D Committee.

Long-term incentive schemes

The intention of long-term incentive schemes is to promote the company's long-term interests by motivating and rewarding the company's senior executives and other employees. Each year, the Board takes decisions on proposals to the AGM for potential new long-term incentive schemes and their scope, goals and number of participants. The AGM 2005 resolved on a five-year staff stock option plan of 280,000 options, which expired on 31 December 2010.

The AGM 2007 resolved on a five-year staff stock option plan of 480,000 options. The AGM 2010 resolved on a three-year stock option plan of 394,400 share warrants and staff stock options. After vesting, these options can be exercised to subscribe for class B shares for the payment of an exercise price.

Remuneration to senior executives

Senior executives mean the CEO and other members of management. Medivir collates and evaluates information on market remuneration levels for relevant sectors and markets on a continuous basis. In 2010, remuneration was payable according to the table above.

Remuneration to the Board of Directors

Fees to the Board of Directors of Medivir are approved by the AGM subject to proposal from the Nomination Committee. Remuneration was payable according to the table above in 2010 and 2009.

Auditors' fees

For 2010 and 2009, fees were payable as in the following table. The balance sheet item equity also includes an amount of SEK 1,195,000 for auditing in addition to the audit assignment relating to new share issues in 2010.

Cost for auditing and audit consulting (SEK 000)	2010	2009
Auditing	330	346
Auditing activities over and above audit assignment	284	180
Tax advice	108	69
Other services	898	256
Totalt	**1 620**	**851**

Internal controls

Internal controls regarding financial reporting
The over-arching purpose of internal controls is to obtain reasonable assurance that the company's operational strategies and goals are monitored and that shareholders' investments are protected. Additionally, internal controls should provide reasonable assurance that external financial reporting is reliable and prepared in accordance with generally accepted accounting practice, that applicable laws and ordinances are observed, and that the requirements of listed companies are observed.

The internal control environment at Medivir conforms to the international Internal Control Integrated Framework structure, having the following five main elements: control environment, risk assessment, control activities, information and communication and monitoring.

Control environment
Primarily, the control environment is the culture the Board of Directors and management communicate and operate from. The Board has overall responsibility for internal controls of financial reporting. The Board has adopted written Rules of Procedure that clarify the Board's responsibilities and formalize the internal division of responsibilities of its Committees. Additionally, the Board of Directors has appointed an Audit Committee whose primary duty is to safeguard financial reporting and internal controls, and maintain expedient relations with the company's Auditor. Medivir's internal control activities are intended to ensure that the Group realizes the objectives of financial reporting.

Medivir's financial reporting conforms to applicable laws and ordinances for companies listed on Nasdaq OMX Stockholm's main market. Apart from external laws and ordinances, financial reporting is also subject to fundamental policies and guidelines including a finance policy, certification and authorization instructions as well as purchasing and investment policies.

Financial reports are prepared monthly and quarterly for the Group, parent company, subsidiaries and for functions and projects. Forecasts, extensive analysis and comment, with purposes including quality-assuring financial reporting, are prepared in tandem with reporting. Medivir has prepared an accounting handbook comprising internal instructions and directions. There are also checklists for significant routines and processes. Internal instructions and routines are subject to continuous enhancement.

Risk assessment
Effective risk assessment integrates Medivir's business opportunities and results with the requirements of shareholders and other stakeholders for stable, long-term value growth and control. Research and pharmaceutical development to approved registration is a highly risky and capital-intensive process. The majority of projects that are started never reach market launch. Medivir's ability to produce new CDs, enter partnerships on its projects and successfully develop its projects to market launch and sale, and to secure funding of its operations, are decisive to its future. Medivir is exposed to three main categories of risk:

- Exogenous risks such as competition and patent protection. If competing products with superior efficacy reach the market faster than Medivir's products, the future value of Medivir's products will be less than originally expected;
- Operating risks such as dependency on external parties in partnerships and dependency on regulatory approvals;
- Financial risks such as liquidity, interest, currency and credit risk.

A more detailed description of exposure to risk and how Medivir manages it is provided on pages 31-32.

Control activities
The primary purpose of control activities is to prevent, discover and rectify misstatements in financial reporting. Processes and activities have been structured to manage and address significant risks related to financial reporting.

These activities include analytical updates and comparisons of the progress of profits or items, reconciling accounts and balances, and approval of all business transactions and collaboration agreements, powers of attorney and certification instructions, as well as accounting and valuation policies. Access to ERP systems is limited by authority, responsibility and role.

There is an established controller function that conducts control activities at all levels of the company. This function analyses and monitors budget variances,

prepares forecasts, investigates significant fluctuations over periods and also reports within the company, which minimizes the risk of misstatements in financial reporting.

Information and communication

Medivir has information and communication pathways intended to promote the completeness and accuracy of financial reporting. The Board of Directors approves the Group's annual accounts and financial statement and assigns the CEO to issue quarterly reports pursuant to the Board's Rules of Procedure. All financial reports are published in accordance with applicable regulations. External information is communicated through channels including Medivir's website (www.medivir.se), where quarterly reports, financial statements, annual reports, press releases and news are uploaded in chronological order. Information from press and analysts' conferences is also uploaded to the website.

The Board receives regular financial reports on the Group's financial position and results of operations. Meetings are held within the company at management level, and at the level individual function managers and project managers consider appropriate. The intranet is a prime internal communication channel, where policies, guidelines and information are uploaded and informative meetings for all staff are held on an ongoing basis.

Monitoring

The Board of Directors considers all the Group's quarterly reports, financial statements and annual reports before publication. The Board receives regular financial reports on the Group's financial position and results of operations, and the Group's financial situation is considered at every Board meeting.

The Board's monitoring of internal control of financial reporting is mainly conducted through the Audit Committee. Medivir's Auditors review operations pursuant to the audit plan and monitor parts of internal controls within the auspices of the statutory audit annually. After the audit is completed, observations are reported continuously back to the Audit Committee. The auditors also attend one Board meeting each year, where they report their observations on the audit for the year and operational routines. The practice on this occasion is to reserve time for special discussions where the CEO or other employees are not present.

The company has a simple legal and operational structure and formulated controlling and internal control systems. Against this background, the Board of Directors has chosen not to operate a dedicated internal audit process. The Board and Audit Committee evaluate and monitor the issue of the potential creation of an internal audit function on a continuous basis.

Income Statement

SEK 000	Note	Medivir group 2010	Medivir group 2009	Medivir AB 2010	Medivir AB 2009
Turnover, etc.					
Net sales	1	57,288	25,684	74,698	38,423
Work performed by the company for its own use and capitalized	13	306	4,077	306	4,077
Other operating income	21	3,947	5,737	1,857	3,716
Total	**2**	**61,542**	**35,498**	**76,861**	**46,216**
Operating costs					
Raw materials and consumables		-770	0	-770	0
Other external costs	2,3,20	-100,007	-72,269	-97,847	-71,412
Personnel costs	4	-89,617	-92,654	-89,617	-92,704
Depreciation and amortization	5	-7,875	-10,390	-7,875	-10,390
Total operating costs	**6**	**-198,268**	**-175,313**	**-196,108**	**-174,506**
Operating profit/loss		**-136,726**	**-139,815**	**-119,247**	**-128,290**
Profit/loss from financial investments					
Profit/loss from participations in group companies	7	–	–	-18,983	-11,040
Interest income and similar profit/loss items	8,9	2,532	4,771	2,532	4,691
Interest costs and similar profit/loss items	8,10	-33	-344	-33	-344
Total profit/loss from financial investments		**2,499**	**4,427**	**-16,484**	**-6,694**
Profit/loss after financial items		**-134,227**	**-135,388**	**-135,731**	**-134,983**
Tax on profit/loss for the year	11	0	13	0	0
Net profit/loss		**-134,227**	**-135,375**	**-135,731**	**-134,983**
Net profit/loss attributable to:					
Equity holders of the parent		**-134,227**	**-135,375**		
Basic and diluted earnings per share	12	-5.43	-6.49		
Average number of shares, 000		24,718	20,844		
Number of shares at year-end, 000		28,593	20,844		
Proposed dividend per share, SEK		0	0		

– = not applicable

Statement of Comprehensive Income

SEK 000	Medivir group 2010	Medivir group 2009	Medivir AB 2010	Medivir AB 2009
Net profit/loss	**-134,227**	**-135,375**	**-135,731**	**-134,983**
Other comprehensive income				
Exchange rate differences	1,034	422	–	–
Other comprehensive income for the period, net after tax	**-133,193**	**-134,952**	**-135,731**	**-134,983**
Total comprehensive income for the period	**-133,193**	**-134,952**	**-135,731**	**-134,983**
Total comprehensive income attributable to:				
Equity holders of the parent	**-133,193**	**-134,952**	**-135,731**	**-134,983**

Balance Sheet

SEK 000	Note	Medivir group 2010 31 dec	Medivir group 2009 31 dec	Medivir AB 2010 31 dec	Medivir AB 2009 31 dec
ASSETS					
Fixed assets					
Intangible fixed assets					
Capitalized expenditure for research and development work	13	3,959	4,077	3,959	4,077
Other intangible assets	13	389	555	389	555
Total intangible fixed assets		**4,348**	**4,632**	**4,348**	**4,632**
Tangible fixed assets					
Buildings and land	14	1,924	2,136	1,924	2,136
Equipment, tools, fixtures and fittings	14	21,661	24,805	21,661	24,805
Construction in progress and advance payments for tangible fixed assets	14	1,227	0	1,227	0
Total tangible fixed assets		**24,811**	**26,941**	**24,811**	**26,941**
Financial fixed assets					
Participations in group companies	15	–	–	200	200
Financial assets held for sale	16	18,793	18,793	18,793	18,793
Total financial fixed assets		**18,793**	**18,793**	**18,993**	**18,993**
Total fixed assets		**47,952**	**50,366**	**48,152**	**50,566**
Current assets					
Inventories, etc.					
Finished goods and goods for resale	17	95	619	95	619
Total inventories, etc.		**95**	**619**	**95**	**619**
Current receivables					
Accounts receivable		2,561	0	627	0
Receivables from group companies		–	–	410	0
Other receivables		4,238	2,245	4,238	2,245
Prepaid costs and accrued income	18	23,405	8,391	22,116	6,998
Total current receivables		**30,204**	**10,635**	**27,392**	**9,243**
Investments in securities, etc.					
Other investments in securities, etc.	19	418,568	130,402	418,568	130,402
Cash and bank balances	19	228,672	13,178	225,986	10,133
Total investments in securities, etc.		**647,240**	**143,580**	**644,554**	**140,535**
Total current assets		**677,539**	**154,834**	**672,040**	**150,397**
TOTAL ASSETS		**725,491**	**205,200**	**720,192**	**200,963**

– = not applicable

SEK 000	Note	Medivir group 2010 31 dec	Medivir group 2009 31 dec	Medivir AB 2010 31 dec	Medivir AB 2009 31 dec
EQUITY AND LIABILITIES					
Equity, Medivir group					
Share capital		142,966	104,218		
Other contributed capital		1,396,074	848,231		
Exchange rate difference		5,792	4,758		
Accumulated deficit		-937,578	-803,351		
Total equity, Medivir group		**607,254**	**153,855**		
Equity, Medivir AB					
Restricted equity					
Share capital				142,966	104,218
Statutory reserve				827,971	827,971
Total restricted equity				**970,938**	**932,189**
Non-restricted equity					
Share premium reserve				738,980	191,138
Accumulated deficit				-969,539	-834,556
Net profit/loss				-135,731	-134,983
Total non-restricted equity				**-366,290**	**-778,401**
Total equity, Medivir AB				**604,648**	**153,788**
Long-term liabilities					
Liabilities to group companies		–	–	0	1,634
Other liabilities		116	191	116	191
Total long-term liabilities		**116**	**191**	**116**	**1,825**
Current liabilities					
Accounts payable		18,000	11,809	18,000	11,809
Liabilities to group companies		–	–	2,561	0
Other liabilities		4,670	2,794	4,395	2,720
Accrued costs and deferred income	20	95,451	36,551	90,472	30,820
Total current liabilities		**118,121**	**51,154**	**115,428**	**45,350**
TOTAL EQUITY AND LIABILITIES		**725,491**	**205,200**	**720,192**	**200,963**
Assets pledged			–	–	

– = not applicable

Changes in equity

Group, SEK 000	Share capital	Other contributed capital	Exchange rate difference	Accumulated deficit	Total equity	Number of shares
Opening balance, 1 January 2009	**104,218**	**847,030**	**4,335**	**-667,976**	**287,606**	**20,843,547[1)]**
Total comprehensive income for the period			422	-135,375	-134,952	
Option plans: value of staff service		1,201			1,201	
Closing balance, 31 December 2009	**104,218**	**848,231**	**4,758**	**-803,351**	**153,855**	**20,843,547[1)]**
Opening balance, 1 January 2010	**104,218**	**848,231**	**4,758**	**-803,351**	**153,855**	**20,843,547[2)]**
Total comprehensive income for the period			1,034	-134,227	-133,193	
New share issue	37,469	530,700			568,169	7,493,878
Conversion of options	1,279	15,440			16,719	255,804
Acquisition of options		1,637			1,637	
Option plans: value of staff service		66			66	
Closing balance, 31 December 2010	**142,966**	**1,396,074**	**5,792**	**-937,578**	**607,254**	**28,593,229[2)]**

[1)] Opening and closing number of shares in 2009: 660,000 class A shares and 20,183,547 class B shares, quotient value: SEK 5.
[2)] Opening number of shares in 2010: 660,000 class A shares and 20,183,547 class B shares, quotient value: SEK 5.
[3)] Closing number of shares in 2010: 660,000 class A shares and 27,933,229 class B shares, quotient value: SEK 5.
Quotient value is calculated as share capital divided by total number of shares.
Proposed dividend for 2010: SEK 0 per share.

Parent company, SEK 000	Share capital	Statutory reserve	Share premium reserve	Accumulated deficit	Net profit/ loss	Total equity	Number of shares
Opening balance, 1 January 2009	**104,218**	**827,971**	**189,938**	**-735,722**	**-98,834**	**287,572**	**20,843,547[2)]**
Appropriation of profits							
Previous year's profit/loss brought forward				-98,834	98,834	0	
Total comprehensive income for the period					-134,983	-134,983	
Option plans: value of staff service, Medivir AB			1,200			1,200	
Closing balance, 31 December 2009	**104,218**	**827,971**	**191,138**	**-834,556**	**-134,983**	**153,788**	**20,843,547[2)]**
Opening balance, 1 January 2010	**104,218**	**827,971**	**191,138**	**-834,556**	**-134,983**	**153,788**	**20,843,547[2)]**
Appropriation of profits							
Previous year's profit/loss brought forward				-134,983	134,983	0	
Total comprehensive income for the period					-135,731	-135,731	
New share issue	37,469		530,700			568,169	7,493,878
Conversion of options	1,279		15,440			16,719	255,804
Acquisition of options			1,637			1,637	
Option plans: value of staff service, Medivir AB			66			66	
Closing balance, 31 December 2010	**142,966**	**827,971**	**738,980**	**-969,539**	**-135,731**	**604,648**	**28,593,229[2)]**

[1)] Opening and closing number of shares in 2009: 660,000 class A shares and 20,183,547 class B shares, quotient value: SEK 5.
[2)] Opening number of shares in 2010: 660,000 class A shares and 20,183,547 class B shares, quotient value: SEK 5.
[3)] Closing number of shares in 2010: 660,000 class A shares and 27,933,229 class B shares, quotient value: SEK 5.
Quotient value is calculated as share capital divided by total number of shares.
Proposed dividend for 2010: SEK 0 per share.

Cash Flow Statement

SEK 000	Note	Medivir group 2010	Medivir group 2009	Medivir AB 2010	Medivir AB 2009
Operating activities					
Operating profit/loss		-136,727	-139,815	-119,247	-128,290
Reversal of non-cash items					
Depreciation and amortization		7,875	10,390	7,875	10,390
Other reversals [1]		-13,484	-434	-14,746	-887
		-142,336	**-129,859**	**-126,118**	**-118,787**
Interest received	9	545	277	544	197
Dividend received	9	297	6,518	297	6,518
Interest paid	10	-33	-17	-19	-17
Tax received/paid	11	0	13	0	0
Cash flow from operating activities before changes in working capital		**-141,527**	**-123,068**	**-125,295**	**-112,089**
Increase(-)/decrease(+) in inventories		524	-619	524	-619
Increase(-)/ decrease(+) in current receivables		-2,850	21,355	-1,430	19,410
Increase(+)/ decrease(-) in current liabilities		66,981	-32,754	67,517	-32,547
Cash flow from operating activities		**-76,871**	**-135,086**	**-58,683**	**-125,845**
Investing activities					
Acquisitions of intangible fixed assets		-306	-4,663	-306	-4,663
Acquisitions of tangible fixed assets		-5,462	-1,417	-5,462	-1,417
Sales of tangible fixed assets		0	290	0	290
Cash flow from investing activities		**-5,768**	**-5,790**	**-5,768**	**-5,790**
Financing activities					
Conversion of options		16,719	0	16,719	0
Subscription for options		1,637	0	1,637	0
New share issue		606,370	0	606,370	0
Issue costs		-38,201	0	-38,201	0
Shareholders' contribution, subsidiaries		–	–	-18,055	-11,102
Cash flow from financing activities		**586,526**	**0**	**568,470**	**-11,102**
Cash flow for the year					
Cash and cash equivalents at beginning of year		143,580	284,486	140,535	283,271
Change in cash and cash equivalents		503,886	-140,876	504,019	-142,736
Exchange rate difference, cash and cash equivalents		-226	-30	0	0
Cash and cash equivalents at end of year	**19**	**647,240**	**143,580**	**644,554**	**140,535**

[1] Reversals 2010 mainly consist of accrued income of SEK -16,719,000 and valutation of financial instruments of SEK 1,643,000.

Accounting principles

Group
Medivir prepares its Consolidated Accounts pursuant to IFRS, International Financial Reporting Standards, as endorsed by the EU. This is the same standards-based regulatory structure as applied to the Annual Report for 2009. In addition to the stated IFRS, the Group also observes RFR's (Rådet för finansiell rapportering, the Swedish Financial Reporting Board) recommendation RFR 1 Supplementary Accounting Rules for Groups) and applicable pronouncements from the Swedish Financial Reporting Board.

The Medivir Group presents its Income Statement by cost class, implying that operating costs are divided between other external costs, personnel costs as well as depreciation, amortization and impairment losses. The Group utilizes cost for balance sheet items unless otherwise stated.

IFRS are in constant development. During the preparation of the Consolidated Accounts as of 31 December 2010, several standards and interpretation statements were published, of which only some have come into effect. An assessment of the impact the introduction of these standards and statements has had, and may have, on Medivir's financial statements follows. Comment is confined to those amendments that have, or could have, a material effect on Medivir's accounting.

New and revised standards the Group has applied from 1 January 2010:
IFRS 3 (Amendment) Business Combinations:
This amendment applies prospectively to business combinations after the date it comes into effect. Application will imply changes to how future business combinations are reported in terms of factors including reporting transaction costs, potential additional purchase prices and business combinations achieved in stages. The amendment will not have any effect on previous business combinations but will affect the reporting of potential future transactions.

IFRS 2 (Amendment) Group Cash-settled and Share-based Payment Transactions
The amendment means that IFRIC 8 ("Scope of IFRS 2" and IFRIC 11 "IFRS 2 – Group and Treasury Share Transactions" are incorporated into the standard. In addition, the previous guidance in IFRIC 11 is supplemented regarding the classification of intra-group transactions, which are not dealt with by the interpretation statement. This new guidance did not have any material effect on the Group's Consolidated Accounts because the interpretation statements IFRIC 8 and 11 have already been incorporated into the Group's accounting principles.

The Group has not applied new and amended standards that have not come into effect and that in advance
IAS 24 (Amendment) Related Party Disclosures
Applies to financial years beginning 1 January 2011. The amendment clarifies the definition of a related party and includes relief of disclosure requirements on companies with significant state ownership. The disclosure requirements on intra-group transactions and the Group's associated companies are extended. The amendment does not imply any change to the Consolidated Accounts, because there are no associated companies within the Group at present.

The IASB's annual improvement project 2010
Several amendments are included in the annual improvement project 2010, of which the following amendments are relevant to the Group.

IFRS 7 Financial Instruments – emphasizes the interaction between quantitative and qualitative disclosures regarding the character and scope of risks stemming from financial instruments. At present, this amendment does not imply any change to disclosures by Medivir. In effect it is from 1 January 2011 and to be applied retroactively. This amendment should only affect classification and disclosure and does not affect the measurement of balance sheet items or results of operations.

IAS 1 Presentation of Financial Statements – clarifies that a company should present a statement of each item in other comprehensive income for each component of equity, either in its statement of changes in equity or in the notes to its annual accounts. The statement is currently presented in the statement of changes in equity and this amendment does not mean any change to the presentation of Medivir's financial statements. In effect from 1 January 2011 and to be applied retroactively. This amendment only affects classification and disclosure and does not affect the measurement of balance sheet items or results.

IFRS 9 is the first standard issued in the large-scale project to replace IAS 39. IFRS 9 retains but simplifies the model of several bases of valuation and establishes two primary measurement categories: amortized cost and fair value. Classification is on the basis of the company's business model and characteristic qualities of the contracted cash flows. The guidance of IAS 39 regarding impairment testing of financial assets and hedge accounting continue to apply. Previous periods do not need to be restated if a company applies the standard for periods that begin prior to 1 January 2012. The standard is not yet endorsed by the EU. The IASB's stated enactment date is from 1 January 2013 onwards.

Apart from the above standards, no comment has been issued on a number of interpretation statements and amendments to standards that have been issued because they are not judged to have any effect on the Group's accounting or presentation of financial statements, and accordingly, are not relevant to the Group.

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

Parent company
Medivir AB continues to apply those accounting principles relevant to legal entities that prepare Consolidated Accounts and are listed on a stock exchange. Medivir AB observes RFR 2 "Accounting for Legal Entities."

Pursuant to RFR 2, the parent company will structure its reports pursuant to all applicable IFRS unless the standards allow an exception from their application. Accordingly the parent company's principles are consistent with the Group's unless otherwise stated below.

Consolidated Accounts
The Consolidated Accounts have been prepared using acquisition accounting, implying that subsidiary equity at the time of acquisition is eliminated. Subsidiaries are all companies where Medivir is entitled to formulate financial and operational strategies in a manner usually following from a shareholding amounting to more than

half of the votes. Subsidiaries are consolidated from the day when the controlling influence is transferred to the Group onwards. They are deconsolidated from the date the controlling influences ceases onwards. Moreover, the preparation of Medivir's Consolidated Accounts conforms to the stipulations of IAS 27 and IFRS 3 such as elimination of intra-group receivables and liabilities as well as intra-group income and costs, implying that the Consolidated Income Statement and Consolidated Balance Sheet are reported without intra-group transactions.

Translation of foreign currency

Functional currency and reporting currency

Medivir has one foreign subsidiary, Medivir UK Ltd. Items stated in the financial statements for this entity within the Group are valued in GBP, as this is the subsidiary's functional currency. Swedish krona, the parent company's functional currency and reporting currency, is utilized in the Consolidated Accounts.

Transactions and balance sheet items

Foreign currency transactions are translated to the functional currency at the rates of exchange ruling on the transaction date. The exchange rate gains and losses arising when paying such transactions, and upon translating foreign currency monetary assets and liabilities at the rate of exchange ruling on the reporting date, are reported in the Income Statement. Profits and losses on trading receivables and liabilities are reported net under other operating income or other operating costs.

Group companies

Profits and the financial position of all Group companies with a functional currency that differs from the reporting currency, are translated to the Group's reporting currency as follows:
(i) assets and liabilities for each balance sheet are translated at the rate of exchange ruling on the reporting date; (ii) income and costs for each of the Income Statements are translated at average rates of exchange. If average rates of exchange are not a reasonable estimate of total exchange rate effects for the year from each transaction date, income and costs are translated instead at the transaction date, and (iii) all exchange rate differences arising are reported as a separate portion of equity.

Financial instruments, reporting, disclosure and classification

For information on financial risks and investments, see Note 8 on page 64, financial risks.

Financial assets reported at fair value in the Income Statement

Medivir's investments in securities, etc. are managed as a Group of financial assets and the profit/loss is evaluated based on fair value, in accordance with the documented risk management and investment strategy. Accordingly, Medivir has chosen to report the changes in fair value of its investments in securities, etc. in the Income Statement.

Financial assets held for sale

Holdings of shares in Medivir's licensing partners Epiphany Biosciences and Presidio Pharmaceuticals Inc. have been classified as financial assets held for sale.

Because none of these shares are listed, and are not registered on a recognized marketplace, other non-observable data is used as the basis for valuation of the shares instead. An estimation of value consists of the companies' reported results of operations and financial position, the progress of the companies' project portfolios, share price performance on the Nasdaq biotech index, and where applicable, independent third-party valuations. If the valuation results in an estimated value change, the value change is reported in the statement of other comprehensive income for the period.

If the value change is judged as significant, or for an extended period, impairment is made in the Income Statement.

Accounts receivable and other receivables

Accounts receivable are non-derivative financial assets, with measured or measurable payments that are not listed on an active marketplace. Their distinguishing feature is that they arise when the Group supplies money, goods or services direct to a customer without any intention to trade in the arising receivable. They are included in current assets, apart from items with maturities more than 12 months from the reporting date, which are classified as fixed assets. Initially, accounts receivable are reported at fair value, and subsequently, at accrued historical cost, by applying the effective interest method, less potential provisioning for impairment. Other receivables, and where applicable interim receivables, are reported according to the same principles.

Provisioning for the impairment of accounts receivable is effected when there is objective evidence that the Group will not be able to receive all amounts due according to the original terms of such receivables. The amount of the provision is the difference between asset carrying amounts 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 manner.

Purchases and sales of financial instruments

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

Accounts payable

Accounts payable are initially reported at fair value, and subsequently at amortized cost, by applying the effective interest method.

Staff stock option plans

As of the reporting date, Medivir has two outstanding staff stock option plans.

Upon conversion/exercise, cash and cash equivalents would increase by the exercise/conversion price and the share capital by a nominal SEK 5 per share, with the remaining deposited amount increasing equity.

For more detail on the various effects of each plan and the number of outstanding stock options, see page 34, 'share warrants and stock options' and also Note 4. on pages 61-63. Medivir reports its stock option plans in accordance with IFRS 2.

Medivir values current plans at the grant date at fair value and then allocates the value over the vesting period as a personnel cost. This remuneration to personnel implies that Medivir issues equity instruments (share warrants that personnel are entitled to in the plans' agreements) and thus, for the cost associated with each period, achieves the corresponding increase in other contributed capital (share premium reserve in the parent company).

Social security costs on stock option plans
For each outstanding plan, Medivir makes provisions for social security costs at each year-end. The provision for social security costs is calculated according to UFR 7 with the application of the same valuation model used when the options were written. The provision is revalued on each reporting date on the basis of a calculation of the charges that may be payable when exercise takes place.

Medivir uses the Black & Scholes model for valuation, which takes into account factors including the share price, remaining time until exercise, volatility and risk-free interest rate, see pages 61-63.

Payments of social security expenses in connection with employees exercising options are offset against the provision made according to the above. The social security cost on the taxable benefit (the difference between the redemption/exercise price and market value of shares) that arises when stock options are exercised can be covered in terms of cash flow in the Group. This is achieved by Medivir exercising a portion of options the Group retains to shares and selling them. However, the personnel cost arising in the Income Statement, which is provisioned on a continuous basis pursuant to UFR 7, will not be offset by a cost reduction (income), but the effect arises in cash flow terms only.

Warrants
Recoverable amount consists of value in use and is measured proceeding from estimated future cash flows on the basis of competitive position and estimated market shares.

Intangible fixed assets
Research and development costs
Research expenditure is expensed on an ongoing basis. Pursuant to IAS 38 Intangible assets, costs for researching and developing pharmaceuticals should be capitalized when the following criteria are satisfied:

- it is technically possible to complete the pharmaceutical,
- management intends to complete the pharmaceutical and the conditions for sale are in place,
- the asset is expected to provide future economic benefits,
- Medivir judges that the resources necessary to complete development of the asset are available,
- expenditure for development can be measured reliably.

Medivir's judgment of this principle for current R&D projects is stated on page 58.

In 2009, Medivir demonstrated that the above criteria were satisfied for Xerclear™, as approval from registration authorities in the US and Europe had been secured. Development costs for the product are reported as intangible fixed assets at historical cost from the registration date onwards. Expenses arising before this time will still be reported as costs.

Historical cost includes direct expenses for completion of the pharmaceutical including patents, costs for registration applications, product testing, including employee benefits.

Amortization is on a straight-line basis to allocate development costs on the basis of estimated useful life. Amortization begins when the pharmaceutical starts generating income. Useful life is based on the underlying patent term and is 10 years.

The amortization term for capitalized development costs for Xerclear® thus exceeds the five years, which according to the Swedish Annual Accounts Act, should be the parent company's amortization term in normal circumstances. The motivation for this longer amortization term is that Xerclear™ is expected to generate revenues throughout its patent term.

Medivir's other costs for research and development are reported as they arise, as are costs for patent and technology rights developed itself and other similar assets. Against the background of the contents of the 'significant estimates and forecasts' section on page 58, other research work performed by Medivir is judged to be associated with such uncertainty that IAS 38's capitalization criteria cannot be considered satisfied, primarily because of difficulties in judging whether it is technically possible to complete the pharmaceutical.

Other intangible fixed assets
Development costs for Medivir's ERP systems that enhance the performance or extend the useful life of software are reported at historical cost. These costs are amortized over estimated useful life. The estimated useful life is five years, whereupon the reported asset will be amortized over this term on a straight-line basis in accordance with this estimate.

Tangible fixed assets
Tangible fixed assets are reported at historical cost less depreciation. Historical cost includes expenditure that can be directly attributed to acquisition of the asset. Pursuant to IAS 16, Property, Plant and Equipment, plan depreciation is estimated on the original historical cost with depreciation rates based on estimates of the assets' economic useful lives. The Group applies the following depreciation terms: buildings 20 years, equipment, tools, fixtures and fittings 5-10 years and IT hardware 3 years.

Impairment
Tangible and intangible fixed assets are subject to impairment testing, and impairment losses are taken at any time internal or external indications of potential impairment arise pursuant to IAS 36.

Intangible assets that are not in use are not amortized, but subject to impairment testing yearly. If the recoverable amount is less than the carrying amount, an impairment loss is taken.

Recoverable amount consists of value in use and is measured proceeding from estimated future cash flows on the basis of competitive position and estimated market shares.

Investments in subsidiaries are subject to impairment tests at each year-end. The subsidiary's equity forms a key criterion for this assessment. Supplementary investments may be conducted through new share issues or shareholders' contributions. An unconditional shareholders' contribution was made to Medivir UK Ltd. in order to strengthen this subsidiary's equity.

Inventories
Inventories are reported at the lower of cost or net realizable value. Cost is determined using the first in, first out (FIFO) method. Cost includes purchasing cost, customs and transportation costs and other direct costs associated with goods purchases. The net realizable value is the expected sales price in operating activities less cost of sales. Risk of obsolescence and established obsolescence are considered in the valuation.

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, other contributed capital.

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

Sales of pharmaceuticals
To recognize revenues from the sale of pharmaceuticals, the following criteria of IAS 18:14 should be satisfied:

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

For Medivir, the applied principle means the revenues from sales of pharmaceuticals are recognized at the time of delivery to the customer through the customer taking over the economic risks and rewards at that time. This assumes that the other above criteria are also judged to be satisfied at that time.

Outlicensing and collaboration agreements
Revenues from agreements made between partners to Medivir on research projects are recognized based on their economic substance. Remuneration in these agreements can be payable in the form of upfront fees on entering agreements, milestone payments, remuneration as full-time equivalents (FTEs) of the number of research positions and/or royalties. In addition, according to agreement, Medivir is entitled to remuneration for costs incurred. The revenue from this remuneration is recognized in the same period as the cost as revenue for invoiced costs.

Revenues are recognized initially on the judgment of whether the agreement with the counterparty affecting Medivir's intangible asset (one or more research projects) means that collaboration should be conducted on a research project with the partner, or whether the license that the partner receives in the agreement means that the intangible asset has been divested from an accounting perspective (i.e. a sold license to dispose over the asset).

This judgment is conducted on the basis of the criteria of IAS 18 for the sale of a good (see above on the sale of pharmaceuticals). If these criteria are satisfied, the judgment is that the economic substance of the agreement means a divestment of the underlying asset. If the criteria are not satisfied, no divestment of the asset has occurred.

Reporting when the economic substance of an agreement is that a sale of a research project has occurred
Upfront fees received on entering a license are recognized as revenues on entering the agreement if there is no restriction in the agreement with the counterparty. In the event of any of the criteria of IAS 18:14 (see above) not being satisfied, revenue recognition is delayed until all criteria are satisfied. Potential additional remuneration in the form of milestone payments is recognized when the criteria of each outlicensing agreement for remuneration to Medivir have been satisfied and verified with the counterparty, because at that time, the additional revenue can be measured reliably. Revenues are considered as remuneration for a sold license that entitle a counterparty to utilize Medivir's intangible asset. Royalties are reported in the period they are accrued according to the agreement.

Reporting when the economic substance of an agreement is that a collaboration should be conducted
In these cases, Medivir has commitments in the agreement, often for future development that should be independent or jointly with the counterparty. Depending on the content of the specific agreement, a reporting method is chosen for when and at what value revenues are recognized. Factors affecting revenue recognition on collaboration agreements include:

- if remuneration is first received when goals are achieved
- if remuneration is payable for work done directly (e.g. for a number of FTEs)
- if remuneration is received in advance or subsequently in relation to the services rendered in the agreement

Remuneration received in the form of upfront fees and that relates to commitments in the agreement that Medivir has not yet rendered is allocated over the term of the agreement when Medivir fulfils its commitments. If remuneration is in the form of research services (e.g. FTEs), revenues are recognized as the work is done. Remuneration received when development goals are achieved (often in the form of milestones) in a collaboration agreement are recognized when it is clear that Medivir should receive remuneration pursuant to the agreement. This is then considered as remuneration for services rendered in the period until this date inclusive.

This revenue recognition model is often termed the milestone method. Namely, the percentage of completion method cannot be applied to research projects that have potential future milestones from a collaboration partner. This is because it is not possible to measure a degree of completion in a sufficiently reliable manner as IAS 18 stipulates as a standard for percentage of completion on a project, nor is it possible to measure which expenditure will be incurred to achieve the corresponding milestone (number of researchers and other direct expenditure may vary over time) accurately enough and there is no remuneration due if the project does not succeed in satisfying the criteria agreed with the collaboration partner.

Co-promotion
Revenue from co-promotion agreements is recognized when the economic outcome of work completed can be reliably measured and the economic benefits flow to the Group.

Central government support (EU and other subsidies)
Central government support is reported pursuant to IAS 20 under other income. Support received is recognized 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 deferred income with revenue recognized as the terms for securing the funds are satisfied. Medivir receives central government support mainly in the form of research subsidies from the EU. An insignificant portion of Medivir's projects are financed with central government support.

Operating segments
IFRS 8 requires segment information to be presented from management's perspective, which means it is presented in the way used in internal reporting. The basis for identifying reportable segments is internal reporting such as that reported and monitored by the chief operating decision maker.

In this context, the Group has identified the Group President as the chief operating decision maker. The adoption of IFRS 8 has not meant the Group identifying new operating segments compared to previously. Because Medivir's business activities consist of one integrated operation, the President monitors operations at an aggregate level. Accordingly, operations are reported as one segment.

Leases
Medivir's lease arrangements are classified as either operating or finance leases.

Lease arrangements of fixed assets were the Group essentially has the economic risks and rewards associated with ownership are classified as finance leases. The leased item is reported as a fixed asset in the Balance Sheet, and the obligation to pay the leasing charges is reported as a liability. At the beginning of the lease term, finance leasing is reported in the Balance Sheet at the lower of the leased item's fair value and the present value of minimum lease payments. Lease payments made are reported allocated between amortization and interest. The leased fixed asset is depreciated over the asset's useful life.

Lease arrangements where Medivir does not have any significant risk or benefits from an item are reported as operating leases. Payments made over the lease term are expensed in the Income Statement on a straight-line basis over the lease term, see Note 21, on page 71.

Pension liability and pension cost
Medivir AB's ITP (supplementary pensions for salaried employees) scheme is insured with Alecta and should be considered as a defined-benefit pension scheme pursuant to statement UFR 3 from RFR.

Pursuant to UFR 3, the company should account its proportional share of defined-benefit commitments, plan assets and costs associated with the scheme. Because Alecta is unable to provide sufficient information, for the present, this scheme is reported as defined contribution.

Alecta's surplus can be distributed to policyholders and/or beneficiaries. At year-end 2010, Alecta's surplus in the form of its collective consolidation ratio was 146% (141), according to Alecta's computations. The Group judges that current premiums should cover the current commitments. The Group's other pension schemes are defined contribution. The charges are reported as personnel costs when they become due for payment.

Remuneration on dismissal
Remuneration on dismissal is expensed when the obligation to pay remuneration arises.

Income tax
Pursuant to IAS 12, deferred tax assets should only be reported to the extent that it is likely that deductions will be utilized. Note 11, page 67 states items including the estimated deductible deficits accumulated in the Group, and the explanation for no income taxes recoverable being reported for the Group. The taxable deficits of Medivir AB and Medivir UK Ltd. have no expiry.

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

The positive tax amount relates to the tax credit for Medivir UK Ltd., as a result of UK legislated research support. The UK tax authority, HM Revenue & Customs, pays claims after a customary review. This amount is reported as revenue since HM Revenue & Customs' decision to waive the taxation is definitive. Loss carryforwards in Medivir UK Ltd. are reduced because of the tax credit. More information is in Note 11, Tax on profit for the year.

Cash Flow Statement
The Cash Flow Statement has been reported by applying the indirect method.

Reported cash flow only includes those transactions involving payments made or received.

Cash and bank balances, plus investments in securities, etc. such as commercial paper, fixed-income and bond funds with maximum maturities of three months are reported as cash and cash equivalents in the Cash Flow Statement.

Significant estimates and forecasts
The reporting of income and research & development costs are two important parts of Medivir's accounting.

Medivir does not utilize the percentage of completion method for forthcoming potential milestone payments, because there is constant uncertainty regarding how far the project has progressed, and the likelihood of it achieving the next goal/milestone. Thus, the income side only states determined and non-repayable income that can be considered to have accrued.

Allocation to periods could demonstrate how Medivir progressively receives income from the counterparty's utilization of intellectual property. But if the percentage of completion method was applied, there would be a risk of income being reported as uncertain in terms of whether Medivir would ever receive any payment. In such circumstances, an announcement from a counterparty that a project was being discontinued, for example, would imply that Medivir had reported inaccurate profits/losses.

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

Development costs should be capitalized when projects are likely to succeed. Each research project is unique and must be judged individually on its own conditions. The earliest assessed timing for capitalization is after phase 3 trials have been conducted, but even after the completion of phase 3 trials, the majority of uncertainty factors could remain so that the criteria for capitalization cannot be considered satisfied. In such cases, capitalization does not occur before the pharmaceutical is approved by the relevant regulatory authority.

Given premature capitalization, there is a risk that a project would fail and that the costs offset could not be justified, but would have to be expensed directly. In turn, this would imply that previous and current year profits/losses would be misleading because of an overly optimistic assessment of the likelihood of success.

Notes

– = not applicable

Note 1 Division of net sales (SEK 000)

	Group		Parent company	
	2010	2009	2010	2009
Outlicensing and research agreements				
One-off payments	47,135	15,415	47,135	15,415
Research collaborations	0	9,035	19 956	21 774
Invoiced costs	4,216	0	4,216	0
Pharmaceuticals sales	109	0	109	0
Co-promotion services	2,803	1,008		
Other services	3,025	226	478	226
Total	**57,288**	**25,684**	**74,698**	**38,423**

The company has its registered office in Sweden. Income from customers in Sweden amounts to 43,000 (1,234) and total income from external customers in other countries is 14,288 (24,450). Income of 37,078 (24,450) is from a single external partner. This income is sourced from licensing income for Medivir's product Xerese™ for the US market.

Note 2 Intra-group transactions (SEK 000)

Parent company

Purchases from Medivir UK Ltd. amounted to 0 (0). Sales to Medivir UK Ltd. amounted to 19,956 (11,478). Purchases from Medivir HIV Franchise AB amounted to 0 (1,265). Sales to Medivir HIV Franchise AB amounted to 0 (1,261).

Note 3 Costs for auditing and audit consulting (SEK 000) [1]

	Group		Parent company	
	2010	2009	2010	2009
Auditing	330	346	241	310
Auditing activities over and above audit assignment	284	180	284	180
Tax advice	108	69	25	0
Other services	898	256	897	256
Total	**1,620**	**851**	**1,448**	**746**

[1] The group's audit firm is PricewaterhouseCoopers.
The balance sheet item equity also includes an amount of SEK 1,195 for auditing activities over and above audit assignment relating to new share issues in 2010.
Auditing means fees for the statutory audit, i.e. the work necessary to present an audit report and audit advisory services provided relating to the audit assignment.

Note 4 Average number of employees, salaries, other benefits and social security costs

	Group		Parent company	
Average number of employees	**2010**	**2009**	**2010**	**2009**
Women	38	46	38	46
Men	39	47	39	47
Total	**78**	**93**	**78**	**93**

Total sickness absence by group, 2010 (2009)

Parent company	**Women**	**Men**	**Age < 29**	**Age 30-49**	**Age >50**	**Total**
Total sickness absence, %	1.9 (3.9)	2.1 (1.1)	7.21 (2.7)	1.31 (2.7)	2.25 (1.7)	**2.0 (2.4)**
%, of which > 60 days	0 (0)	29.7 (23.6)	0 (0)	0 (44.0)	35.62 (6.6)	**16.25 (34.0)**

	Group		Parent company	
Salaries, benefits, social security costs and pension costs, sek 000	**2010**	**2009**	**2010**	**2009**
Salaries and benefits				
Ron Long (CEO from 1 February 2009 onwards)	3,387	3,337	3,387	3,337
Lars Adlersson (CEO until 31 January 2009 inclusive)	0	1,354	0	1,354
Anders Vedin (Chairman) [1]	0	178	0	178
Lars -Göran Andrén (Board member) [1]	0	83	0	83
Anna Malm Bernsten (Board member)	250	250	250	250
Magnus Falk (Board member) [1]	0	88	0	88
Donna Jason (Board member) [1]	0	100	0	100
Ron Long (Board member)	0	4	0	4
Björn C Andersson (Board member)	265	260	265	260
Ingemar Kihlström (Board member)	275	262	275	262
Göran Pettersson (Chairman)	485	402	485	402
Total, Board of Directors and Chief Executive Officer	**4,662**	**6,319**	**4,662**	**6,319**
Other senior managers	11,602	9,895	11,602	9,895
Other employees	47,499	44,810	47,499	44,810
Total	**63,763**	**61,023**	**63763**	**61,023**
Statutory and contracted social security costs	**22,947**	**21,833**	**22,947**	**21,833**
Pension costs				
of which for the CEO of the group 0 (2) and parent company 0 (2).	8,123	8,043	8,123	8,043
Total salaries, benefits, social security costs and pension costs	**94,833**	**90,900**	**94,833**	**90,900**

[1] Resigned 23 April 2009

Remuneration in the financial year

Board of Directors

In the financial year, 1,275 (1,628) of fees were paid to the Board of Directors of Medivir, of which 485 (402) to the Chairman of the Board. Board members were also reimbursed for travelling expenses to Board meetings, etc. In 2010, consulting fees of 60 were paid to Ingemar Kihlström. In 2009, 25 of consulting fees were paid to Anna Malm Bernsten. There is no pension scheme for the Board of Directors.

Remuneration guidelines for senior executives

The AGM 2010 resolved that the company would offer total compensation on market terms that would enable the hiring and retention of skilled senior executives. Remuneration to senior executives will consist of basic salary, potential performance-related pay, options pursuant to stock option plans resolved by the AGM, pensions and other benefits. Performance-related pay – which at present, and where applicable, is payable as a discretionary individual bonus – will be a maximum of 50% of basic salary.

In addition to the above regarding severance pay or similar remuneration not being payable, though this may be contracted in instances of change of control – at an amount corresponding to a maximum of 100% of annual basic salaries. senior executives may receive customary benefits otherwise, such as company cars, healthcare, etc. The Board of Directors is entitled to diverge from the above guidelines if the Board judges that there are special circumstances in individual cases justifying this. Mutual notice periods of six months applied to senior executives.

Pensions
There is currently no pension scheme for the CEO. The pension schemes for other senior executives in Sweden conform to the ITP (supplementary pensions for salaried employees) scheme. In the UK, individual pension plans are applied corresponding to legislated fees, as well as 6% of basic salary excluding bonus and benefits.

Chief Executive Officer
The CEO's remuneration consists of a basic salary that is subject to annual review by the Board of Directors. Salary of 3,387 (3,337), performance-related pay of 0 (0), long-term benefits of 0 (0) and option benefits of SEK 0 (0) were paid to Ron Long. Mr. Long became CEO on 1 February 2009, and accordingly, in his capacity as an employee of the company, does not draw any special directors' fees or other remuneration for his work on the R & D Committee.

Other senior executives
Other senior executives means the eight people apart from the CEO that make up management. Management consists of three women and five men. Salary of 7,682 (9,657), performance-related pay of 1,867 (0) long-term benefits of 0 (0) and option benefits of 2,053 (238), total remuneration of 11,602 (9,895) was paid to other senior executives. Pension provisions of 1,713 (2,076) were paid to other senior executives.

Closely related parties
Among other senior executives there are agreements with Medivir, as well as agreements between companies owned by senior executives and Medivir, which confer rights to royalties on products Medivir may develop based on patented inventions that Medivir has acquired from these senior executives before and during their time as researchers with Medivir. No such benefits became due in 2010 and 2009.

Warrants and staff stock option plans
The purpose of option plans is to promote the company's long-term interests by motivating and rewarding the company's senior management and other staff. A review of share-based payment in the company follows.

As of the reporting date 2009, Medivir had two outstanding option plans, the option plan 2005-2010 and the option plan 2007-2012. The AGM 2010 approved a new option plan 2010-2013 including warrants and staff stock options. At the end of the year, the options in the option plan 2005-2010 were forfeited, and on the reporting date 2010, the option plan 2007-2012 and the option plan 2010-2013 remain.

Valuation model for options
Medivir has selected Black & Scholes as its option valuation model. In its choice of model, the company considered the same factors as knowledgeable and interested parties that are mutually independent would consider.

The key factors in the underlying model were as follows:
- Exercise price
- Life-time of the options
- Current price of underlying shares
- Expected volatility of the shares
- Expected dividends and
- Risk-free interest over the life-time of the options

Expected volatility is a measure of the extent of price fluctuations during a period.

Medivir has considered the following factors when estimating expected volatility:
- Implicit volatility for other corporate instruments that are subject to trading, and that involve terms of an option nature.
- Historical volatility of the share price, and because the company was floated on the stock market recently, the historical share price performance of comparable companies. The historical period was as long as the options' life-times.
- The long-term average level of volatility.

Valuation parameters as of the grant date were as follows:

	Grant date by plan			
	2010-2013		2007-2012	2005-2010
Valuation parameters	Warrant	Staff stock option	Staff stock option	Staff stock option
Share price, SEK	114.93	104.06	57.95	59.00
Exercise price, SEK	144	144	66.64	87.00
Volatility, %	31	31	27	30
Expected dividend	None	None	None	None
Risk-free interest, %	1.5	1.5	4.1	2.5
Fair value per option, SEK	12.00	12.44	14.40	11.60

Costs of stock option plans
Medivir reports its staff stock option plans in accordance with IFRS 2. Medivir measures the relevant plans at the grant date at fair value, then allocating their value over the vesting period as a personnel cost. Staff stock options are expensed over three years and a proportionally higher portion of this cost is reported in the first year. SEK 0.1 (1.2) m was reported in net profit/loss as a personnel cost for the staff stock options.

Upon the potential exercise of staff stock options, a taxable benefit arises between the conversion price and the market value of the shares, on which social security costs are payable. To cover potential future social security costs, the group disposes over a number of options for subscribing for shares of Medivir AB (known as a hedge).

Hedge options are used to subscribe for shares that are sold on the market to generate cash flow into the group to cover payments of social security costs. However, the personnel cost for the social security costs that arise in the Consolidated Income Statement is not matched by a cost reduction, but rather, the effect arises in cash flow terms only. This is because proceeds from the sale of shares, from a group perspective, are treated as an issue of equity. The market value of the options is calculated quarterly according to UFR 7 each quarter, and is used to determine the provision for social security costs.

The warrants issued within the auspices of the option plan 2010-2013 do not create any personnel costs pursuant to IFR S2 or any provisioning for social security costs because these options are acquired on market terms.

The premium for the warrants is reported to the share premium reserve in equity SEK 4.3 (3.6) m has been provisioned in net profit/loss for accrued social security costs that would arise on the taxable benefit upon exercising staff stock options.

Cash settlement

According to an addendum to the terms and conditions for the option plans 2005-2010 and 2007-2012, in certain circumstances, Medivir should be able to offer cash settlement to those option holders that so wish. In cash settlement, the option holder does not need to deposit the exercise price of the option and not receive any share, but instead receives a cash sum. Cash settlement can be implemented if it is possible to borrow the relevant number of shares via the equity repo market temporarily, and then sell them. The option holder receives the difference between the proceeds from the sale of shares, after deducting commission and a predetermined exercise price in the relevant option plan. The purpose of cash settlement is to facilitate the conversion of options.

Option plan 2005-2010

The AGM 2005 resolved to adopt a staff stock option plan consisting of 280,000 staff stock options and an equal number of underlying warrants. A total of 183,600 staff stock options were granted to staff, with the remaining options being held by Medivir Personal AB to cover social security costs. Subscription for class B shares was permitted in the period 1 July 2005 - 31 December 2010. The subsidiary Medivir Personal AB disposes over these warrants to satisfy the commitments ensuing from the staff stock options issued within the auspices of the staff stock option plan 2007-2012. Each staff stock option can be exercised to acquire one share of Medivir AB through the agency of the subsidiary against payment of an exercise price corresponding to at least 130% of the closing price of Medivir's class B share as quoted on Nasdaq OMX Stockholm's Small-cap List at the grant date (albeit subject to a minimum of SEK 87.00) for each share.

The staff stock options have been granted to employees of the Medivir group free of charge.

For the option plan 2005-2010, there is entitlement to acquire new shares at one-third of the total number of granted staff stock options from the date falling two years after granting onwards, and a further one-third at each of the two subsequent anniversaries. All this assumes that at each stated date, the holder remains an employee of the company and has not been dismissed or given notice of termination from their employment with the company.

Options	2010	2009
Outstanding as of 1 January	280,000	280,000
Granted	–	–
Exercised	-140,265	–
Forfeited	-139,735	
Outstanding as of 31 December	0	280,000
Exercisable as of 31 December	0	280,000

The theoretical market value calculated according to the Black & Scholes model was SEK 11.60 per option as of the grant date, and as of the reporting date of 30 September 2010, market value was SEK 55.83. After the rights issues of 2010 and 2007, the conversion terms of the program were re-stated, and entitled conversion to 1.27 shares per option, with the exercise price being restated as SEK 63.00. In 2010, the weighted average exercise price was SEK 65.83 and the weighted average share price as of the exercise date was SEK 111.

Option plan 2007-2012

The AGM 2007 resolved to adopt a staff stock option plan consisting of 480,000 staff stock options and an equal number of underlying warrants. A total of 360,000 staff stock options were granted to staff, with the remaining options being held by Medivir Personal AB to cover social security costs. Subscription for class B shares is permitted in the period 18 June 2007 - 30 April 2012. The subsidiary Medivir Personal AB disposes over these warrants to satisfy the commitments ensuing from the staff stock options issued within the auspices of the staff stock option plan 2007-2012. Each staff stock option can be exercised to acquire one share of Medivir AB through the agency of the subsidiary against payment of an exercise price corresponding to at least 115% of the closing price for Medivir's class B share as quoted on Nasdaq OMX Stockholm's Small-cap List at the grant date (albeit subject to a minimum of SEK 66.64) for each share.

The staff stock options have been granted to employees of the Medivir group free of charge.

For the option plan 2007-2012, there is entitlement to acquire new shares at 30% of the total number of granted staff stock options from the date falling one year after granting onwards, a further 30% at the second anniversary and 40% at the third anniversary. All this assumes that at each stated date, the holder remains an employee of the company and has not been dismissed or given notice of termination from their employment with the company.

Options	2010	2009
Outstanding as of 1 January	480,000	480,000
Granted	–	–
Exercised	-70,753	–
Outstanding as of 31 December	409,247	480,000
Exercisable as of 31 December	409,247	288,000

The theoretical market value calculated according to the Black & Scholes model was SEK 14.40 per option as of the grant date, and as of the reporting date of 31 December 2010, market value was SEK 79.07. After the rights issue of 2010, the conversion terms of the program were re-stated, and entitled conversion to 1.09 shares per option, with the exercise price being restated as SEK 61.20. In 2010, the weighted average exercise price was SEK 64.40 and the weighted average share price as of the exercise date was SEK 107.

Option plan 2010-2013

The AGM 2010 approved a staff stock option plan consisting of 394,400 options, of which some 343,000 were available for granting to employees of the group and the remaining 51,400 were retained to cover expenditure for social security costs. The plan means that all employees are offered the opportunity to acquire 171,500 warrants on market terms. For each warrant an employee acquires, they also receive a staff stock option free of charge. The term of this plan is 30 April 2010 to 31 May 2013, and after vesting, each option shall be exercisable to subscribe for class B shares against the payment of an exercise price.

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

For the option plan 2010-13, there is entitlement to acquire new shares at 100% of the total number of purchased warrants, and staff stock options granted consequently, from the second anniversary of granting onward. Entitlement to exercise the staff stock options is conditional on the holder remaining an employee of the company at the time that and not having been dismissed or given notice of termination from their employment with the company.

Options	2010	2009
Outstanding as of 1 January	–	–
Granted	263,200	–
Exercised	–	–
Outstanding as of 31 December	263,200	–
Exercisable as of 31 December	0	–

The theoretical market value calculated according to the Black & Scholes model was SEK 12.00 per staff stock option and SEK 12.44 per warrant as of the grant date. As of the reporting date of 31 December 2010, market value was SEK 29.39. After the rights issue of 2010, the conversion terms of the program were re-stated, and entitle conversion to 1.09 shares per option, and the exercise price has been restated to SEK 132.30.

Note 5 Depreciation and amortization (SEK 000)

	Group		Parent company	
	2010	2009	2010	2009
Amortization of intangible fixed assets	554	513	554	513
Depreciation of tangible fixed assets	7,321	9,877	7,321	9,877
Total	**7,875**	**10,390**	**7,875**	**10,390**

Note 6 Research costs (SEK m)

The cost of research work including plan amortization but less administrative costs for the group, was approximately SEK -149.5 (123.5) m. Research costs in the parent company amounted to approximately SEK -149.5 (123.3) m.

Note 7 Profit/loss from participations in group companies (SEK 000)

	Group		Parent company	
	2010	2009	2010	2009
Impairment losses on shares in subsidiary Medivir UK Ltd. (see also note 15, Participations in group companies)	–	–	-18,983	-11,040
Total	_	_	**-18,983**	**-11,040**

Note 8 Financial risks

The main financial risks that arise as a consequence of managing financial instruments consist of market risk (interest risk, currency risk and share price risk) credit risk, liquidity and cash flow risk. The financial risks are managed pursuant to a policy adopted by the Board. This policy means that investments of cash and cash equivalents will be conducted in such a manner that the invested assets generate secure and stable returns. The objective is to achieve the best possible return for the lowest possible risk level. Underlying instruments should have low risk, and the aim when investing cash and cash equivalents will be to diversify risk. The company will invest its cash and cash equivalents with recognized bodies, such as major banks.

The link between IAS 39 categories and Medivir's balance sheet items in the Balance Sheet:

Group, 31 Dec 2010 (SEK 000)	Financial assets recognized at fair value in the Income Statement	Cash and cash equivalents	Accounts receivable	Borrowings and accounts payable	Financial assets held for sale	Total
Financial assets held for sale					18,793	**18,793**
Accounts receivable			2,561			**2,561**
Accrued income and deferred costs			16,719			**16,719**
Other investments in securities, etc.	418,568					**418,568**
Cash and bank balances		228,672				**228,672**
Accounts payable				18,000		**18,000**
Finance lease liabilities				191		**191**
Total	**418,568**	**228,672**	**19,280**	**18,191**	**18,793**	**703,503**

Group, 31 Dec 2010 (SEK 000)	Financial assets recognized at fair value in the Income Statement	Cash and cash equivalents	Accounts receivable	Borrowings and accounts payable	Financial assets held for sale	Total
Financial assets held for sale					18,793	**18,793**
Accounts receivable			0			**0**
Accrued income and deferred costs			0			**0**
Other investments in securities, etc.	130,402					**130,402**
Cash and bank balances		13,178				**13,178**
Accounts payable				11,809		**11,809**
Finance lease liabilities				266		**266**
Total	**130,402**	**13,178**	**0**	**12,075**	**18,793**	**174,447**

Financial assets recognized at fair value

		Measurement at fair value at the end of the period based on:		
Group 31-dec 2010 (SEK 000)	**Carrying amount**	**Tier 1**	**Tier 2**	**Tier 3**
Financial assets recognized at fair value in the Income Statement:				
Other investments in securities, etc.	418,568	418,568	–	–
Financial assets held for sale:	18,793	–	–	18,793
Total	**437,360**	**418,568**	–	**18,793**

Financial assets recognized at fair value

Group 31-dec 2009 (SEK 000)	Carrying amount	Measurement at fair value at the end of the period based on: Tier 1	Tier 3	Tier 3
Financial assets recognized at fair value in the Income Statement:				
Other investments in securities, etc.	130,402	130,402	–	–
Financial assets held for sale:	18,793	–	–	18,793
Total	**149,195**	**130,402**	–	**18,793**

No purchases, sales, gains or losses of financial assets reported at fair value based on tier 3 occurred in 2010 or 2009.

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. Medivir's investment policy implies that the company invests its cash and cash equivalents in instruments such as bank and corporate commercial paper, fixed-income and bond funds, fixed bank investments and special deposits. Thus changes in market rates of interest affect Medivir's profit/loss through reduced or increased returns on financial assets.

As of 31 December 2010, the group's cash and cash equivalents including investments in securities, etc. with maximum maturities of three months were 647,240 (143,580). 418,568 (130,402) of this total was invested in fixed-income funds with discretionary management. In 2010, Medivir received an average yield on cash and cash equivalents of 0.9%. Yields in the year varied between 0 and 2%. Based on an average of existing investments in securities, etc. in the year, and if yields had been 1 percentage point higher or lower, this would have had an annualized positive or negative profit impact of some 3,200. Falling interest rates in 2011 would result in reduced yields on the group's cash and cash equivalents. If yields fall to 0% in 2011, this would exert a profit/loss effect of SEK -2,489 m given unchanged holdings of cash and cash equivalents. At year-end 2010, the company had no interest-bearing liabilities, and accordingly, no other interest risks apply.

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. Profit 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 foreign currencies are translated into Swedish kronor (translation risk).

Pursuant to Medivir's Finance Policy, the group did not use currency hedging in 2010. This means that income and costs have been affected by foreign currency fluctuations. The company's operating profit had a -670 (-356) net effect in exchange rate gains/losses in the financial year, with the exchange rate gains/losses in net financial position amounting to 40 (-327).

Sterling fluctuated between SEK 10.3 and SEK 11.9 in the year, with an average exchange rate of SEK 11.1 for the year. In the year, the dollar exchange rate fluctuated between SEK 6.5 and SEK 8.1, with an average exchange rate of SEK 7.2. The Danish krone fluctuated in the year between SEK 120.3 and SEK 138.0, with an average exchange rate of 128.1. In the same period, the euro exchange rate fluctuated between SEK 9.0 and SEK 10.3 with an average exchange rate of SEK 9.5. All trading in foreign currency was conducted at the best rate of exchange attainable at the point of exchange. Many of Medivir's contracts involve payments in EUR and USD, implying that accounts payable and accounts receivable have currency exposure.

Currency-exposed operating income and operating costs as a net amount by currency in SEK 000.

	Group			Parent company		
2010	**Income**	**Costs**	**Net**	**Income**	**Costs**	**Net**
EUR	10,611	-13,779	-3,168	10,611	-13,779	-3,168
GBP	45	-5,517	-5,472	45	-5,517	-5,472
USD	43,307	-22,024	21,283	43,307	-22,024	21,283
DKK	0	-11,965	-11,965	0	-11,965	-11,965
Total	**53,963**	**-53,285**	**678**	**53,963**	**-53,285**	**678**

	Group			Parent company		
2009	**Income**	**Costs**	**Net**	**Income**	**Costs**	**Net**
EUR	3,706	-12,973	-9,267	3,706	-12,973	-9,267
GBP	0	-5,663	-5,663	0	-5,663	-5,663
USD	0	-19,383	-19,383	0	-19,383	-19,383
Total	**3,706**	**-38,019**	**-34,313**	**3,706**	**-38,019**	**-34,313**

A sensitivity analysis demonstrates that a 5% appreciation of the Swedish krona against the above currencies' annual average exchange rates would have meant a profit improvement of 779 (1,723) for the group and parent company. The corresponding depreciation of the Swedish krona would have reduced profits by -799 (-1,723).

Share price risk of unlisted shares
In 2007, Medivir received shares from a new issue conducted by Epiphany Biosciences, Medivir's licensing partner on the shingles project MIV-606 (EPB-348) and shares from a new issue conducted by Presidio Pharmaceuticals Inc., Medivir's licensing partner on the compound MIV-410 (PTI-801). The total value of the shares amounted to 18,793 (18,793). No net gains or net losses arose as a result of these investments in 2010. Medivir classifies the shares as financial assets held for sale pursuant to IAS 39, and the shares are reported in the Balance Sheet under the "financial fixed assets" item.

Because none of these shares are listed, and are not registered on a recognized marketplace, other data than market quotation is used as the basis for valuation of the shares instead. An estimation of value consists of the companies' reported results of operations and financial position, the progress of the companies' project portfolios, share price performance on the Nasdaq biotech index, and where applicable, independent third-party valuations. If the valuation results in an estimated value change, the value change is reported in the statement of other comprehensive income for the period. Medivir does not have any investments in listed shares, hence there is no share price risk.

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

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

Medivir may also be exposed to credit risk in accounts receivable. As of the reporting date, Medivir has 2,561 (0) of outstanding accounts receivable and accrued income of 16,719 on Meda AB for license income. Historically, Medivir has never needed to impair accounts receivable. Medivir has several partnerships with established pharmaceutical companies and smaller biotechnology enterprises, which diversify risks.

Age analysis of accounts receivable (SEK 000)	Group		Parent company	
	2010	2009	2010	2009
Not due	2,561	0	627	0
Total	**2,561**	**0**	**627**	**0**

Other receivables amount to 4,238 (2,245) of which 0 (0) was due on the reporting date.

The group's cash and cash equivalents are invested in liquid assets with low credit risk such as certificates of deposit, fixed income and bond funds subject to low risk levels (P-1, Moody's) through discretionary management. No credit risks are considered to apply to the above investments.

Liquidity and cash flow risk
Liquidity risk is the risk of future difficulties for Medivir to fulfill its 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.

Maturity analysis, accounts payable (SEK 000)	Group		Parent company	
	2010	2009	2010	2009
Amounts becoming due within 1 year	18,000	11,809	18,000	11,809
Amounts becoming due after more than one year	0	0	0	0
Total	**18,000**	**11,809**	**18,000**	**11,809**

Other liabilities amount to 4,487 (2,794) and become due for payment within 12 months.

The amounts due for payment within 12 months are consistent with book values, because the discounting effect is insignificant. Current liabilities are covered by Medivir's cash position and investments in securities, etc. on the reporting date, and accordingly, there is no liquidity risk for financial liabilities. Liquidity risk is managed by Medivir investing cash and cash equivalents in fixed-income funds with low risk and a liquid market. Medivir's management and Board of Directors maintain continuous access to information regarding the company's equity and cash and cash equivalents. Liquidity and cash flow forecasts are prepared on an ongoing basis based on expected cash flow, to monitor liquidity capacity.

Capital
Consolidated equity is 607,254 (153,855) and is the company's secure base for financing operating activities. A detailed specification of shareholders' equity is on page 52. The cash position and investments in securities, etc. amounts to 647,240 (143,580).

Medivir's business goal is in a few years be a profitable midsized specialty pharmaceutical company in high growth. Medivir is working on a goal-oriented and strategic footing to create the best possible prospects of running projects quickly and with balanced risks and is positioned uniquely among specialty pharmaceutical companies with a potential blockbuster hepatitis C therapy in late-stage development, a marketed product, Xerclear®/Xerese™, approaching international launch, a broad earlier pipeline and a solid financial position.

Pharmaceutical research and development to approved registration and launch is a highly risky and capital-intensive process. Most of Medivir's potential products are in early development phases and require continued research and development and regulatory permits before they can generate revenues. The risk level is high, and there can be no guarantee that Medivir's product development will be successful, that potential products will prove safe and effective, that required permits will be attainable, or that the pharmaceuticals launched on the market will be well received. Medivir's ability to produce new CDs, enter partnerships on its projects and successfully develop its projects to market launch and sale, and to secure funding of its operations, are decisive to its future.

While Medivir does not have a long-term independent earnings ability with sustainable profitability, the company will maintain a low debt gearing and a high equity ratio. No proposals regarding dividends to shareholders will be considered until long-term profitability is achieved. No dividends will be considered during the coming years.

Note 9 Interest income and similar profit/loss items (SEK 000)[1]

	Group		Parent company	
	2010	2009	2010	2009
Interest income, bank	529	196	529	191
Interest income on current receivables	0	75	0	0
Interest income from fixed-income investments	14	6	14	6
Dividends from fixed-income fund	297	6,518	297	6,518
Fair value change on fixed-income fund, unrealized	1,647	-2,024	1,647	-2,024
Other financial income	43	0	43	0
Total	**2,532**	**4,771**	**2,532**	**4,691**

[1] Other interest income and similar profit/loss items are an effect of investments in securities, etc., recognized at fair value in the Income Statement and cash and bank balances.

Note 10 Interest costs and similar profit/loss items (SEK 000)

	Group		Parent company	
	2010	2009	2010	2009
Interest costs	-19	-17	-19	-17
Exchange rate difference, inter-company transactions	0	-205	0	-205
Exchange rate difference, other	0	-122	0	-122
Other financial costs	-14	0	-14	0
Total	**-33**	**-344**	**-33**	**-344**

Note 11 Tax on profit/loss for the year (SEK 000)

	Group		Parent company	
	2010	2009	2010	2009
Tax credit [1]	0	13	0	0
Tax on profit/loss for the year, according to Income Statement	**0**	**13**	**0**	**0**
Applicable tax rates				
Sweden	26.3%	26.3%	26.3%	26.3%
UK	28%	28%	–	–
Difference between consolidated tax cost reported in the Income Statement and tax cost based on applicable tax rate				
Profit/loss before tax	-134,227	-135,388	-135,731	-134,983
Tax at applicable tax rates	35,302	35,607	35,697	35,501
Tax effect of non-deductible impairment losses	0	0	-4,992	-2,904
Tax effects of other non-deductible items	-301	-1,343	-301	-1,343
Tax effect of non-taxable income	670	–	–	–
Effect of foreign tax rates	340	423	–	–
Tax credit received, Medivir UK relating to previous year's deficit	0	13	–	–
Tax effect of deficits for which income taxes recoverable are not considered	-36,010	-34,700	-30,403	-31,254
Tax on profit/loss for the year	0	13	0	0

The group has estimated accumulated deductible deficits amounting to some 1,027 until 2010 inclusive. No related income tax receivables are reported because it is not considered likely that the group will account taxable income exceeding costs within the foreseeable future. The deductible deficits of Medivir AB and Medivir UK Ltd. have no expiry. There are deductible costs of SEK 10,047,000 reported directly against equity, these deductible costs did not cause any reporting of deferred tax as a consequence of them not satisfying the capitalization criteria of IAS 12. There are no other temporary differences in the group or parent company.

Note 12 Earnings per share

	Group	
	2010	**2009**
Basic and diluted earnings per share, SEK [1]	-5,43	-6,49
Net profit/loss	-134,227	-135,375
Average number of shares, 000	24,718	20,844

The calculation of earnings per share is based on net profit/loss divided by the average number of shares for the year.

[1] Pursuant to IAS 33, potential ordinary shares do not cause any dilution effect if their conversion to ordinary shares results in increased earnings per share. This would be the case upon the conversion of Medivir's outstanding options.

Note 13 Intangible fixed assets (SEK 000)

	Group		Parent company	
Capitalized expenditure for research and development work [1]	**2010**	**2009**	**2010**	**2009**
Opening acquisition cost	4,077	0	4,077	0
Capitalization	306	4,077	306	4,077
Closing accumulated acquisition cost	4,383	4,077	4,383	4,077
Opening amortization	–	–	–	–
Amortization for the year	-424	–	-424	–
Closing accumulated amortization	-424	–	-424	–
Book value at year-end	**3,959**	**4,077**	**3,959**	**4,077**

[1)] Capitalized development expenditure for Xerclear. Useful life is based on the underlying patent life-time and is 10 years. Amortization is on a straight-line basis to allocate development costs on the basis of estimated useful life.

	Group		Parent company	
Other intangible assets[1]	**2010**	**2009**	**2010**	**2009**
Opening acquisition cost	2,856	2,270	2,856	2,270
Capitalization	0	586	0	586
Reversal of capitalized costs	-114		-114	
Closing accumulated acquisition cost	2,742	2,856	2,742	2,856
Opening amortization	-2,300	-1,788	-2,300	-1,788
Reversed amortization of capitalized costs	78	0	78	0
Amortization for the year	-130	-513	-130	-513
Closing accumulated amortization	-2,353	-2,300	-2,353	-2,300
Book value at year-end	**389**	**555**	**389**	**555**

[1] Other intangible assets are capitalized development expenditure for ERP systems. The useful life is estimated at 5 years, whereby the reported asset is amortized in accordance with this estimate.

Note 14 Fixed assets (SEK 000)

	Group		Parent company	
Buildings and land [1]	**2010**	**2009**	**2010**	**2009**
Opening acquisition cost	17,719	17,719	4,232	4,232
Closing accumulated acquisition cost	17,719	17,719	4,232	4,232
Opening depreciation	-15,583	-15,370	-2,096	-1,883
Depreciation for the year	-212	-213	-212	-213
Closing accumulated depreciation	-15,795	-15,583	-2,308	-2,096
Book value at year-end	**1,924**	**2,136**	**1,924**	**2,136**

[1] The value of buildings in the group corresponds to incurred cost of improvement in rental properties.

	Group		Parent company	
Equipment, tools, fixtures and fittings	**2010**	**2009**	**2010**	**2009**
Opening acquisition cost	130,925	137,011	116,206	122,291
Purchases	4,235	1,417	4,235	1,417
Sales and disposals	-1,850	-7,502	-1,850	-7,502
Closing accumulated acquisition cost	133,310	130,925	118,591	116,206
Opening depreciation	-106,121	-103,596	-91,401	-88,876
Depreciation for the year	-7,109	-9,665	-7,109	-9,665
Sales and disposals for the year	1,580	7,140	1,580	7,140
Closing accumulated depreciation	-111,649	-106,121	-96,930	-91,401
Book value at year-end	**21,661**	**24,805**	**21,661**	**24,805**

	Group		Parent company	
Construction in progress and advance payments for tangible fixed assets	**2010**	**2009**	**2010**	**2009**
Opening acquisition cost	0	0	0	0
Purchases	1,227	0	1,227	0
Book value at year-end	**1,227**	**0**	**1,227**	**0**

Finance leases

Tangible fixed assets include leased items that are held through finance leases as follows:

	Group		Parent company	
Equipment, tools fixtures and fittings	**2010**	**2009**	**2010**	**2009**
Acquisition cost	262	266	262	266
Accumulated depreciation	-57	-4	-57	-4
Book value at year-end	**205**	**262**	**205**	**262**
Future minimum lease payments have the following due dates:				
Within one year	75	–	75	–
Between one and five years	116	–	116	–
	191		**191**	

Depreciation of 53 (0) was charged to profit/loss.

Note 15 Participations in group companies (SEK 000)

	Group		Parent company	
	2010	2009	2010	2009
Subsidiary:				
Medivir UK Ltd,				
Company no. :3496162 , reg. office: Essex, UK				
2,000,007 shares with a nominal value of £1, participating interest 100%	–	–	0	0
Shareholders' contribution paid to subsidiary	–	–	18,983	11,040
Impairment loss on participations in subsidiary	–	–	-18,983	-11,040
2,000,007 shares with a nominal value of £1, participating interest 100%				
Subsidiary:				
Medivir Personal AB				
Corp. ID no.: 556598-2823, reg. office: Huddinge, Sweden				
1,000 shares with a nominal value of SEK 100, participating interest 100%	–	–	100	100
Subsidiary:				
Medivir HIV Franchise AB				
Corp. ID no.: 556690-7118 , reg. office: Huddinge, Sweden				
1,000 shares with a nominal value of SEK 100, participating interest 100%	–	–	100	100
Total			**200**	**200**

Note 16 Financial assets held for sale (SEK 000)

	Group		Parent company	
	2010	2009	2010	2009
Epiphany Biosciences	14,165	14,165	14,165	14,165
Presidio Pharmaceuticals Inc.	4,628	4,628	4,628	4,628
Total	**18,793**	**18,793**	**18,793**	**18,793**

Note 17 Inventories, etc. (SEK 000)

	Group		Parent company	
	2010	2009	2010	2009
Finished goods and goods for resale [1]	95	619	95	619
Total	**95**	**619**	**95**	**619**

[1] Purchases in the year were 246 inventories were impaired by 739 in the year.
This cost is included in the cost of Raw materials and consumables.

Note 18 Prepaid costs and accrued income (SEK 000)

	Group		Parent company	
	2010	2009	2010	2009
Pre-paid rent	2,210	2,334	931	941
Licensing fees	1,043	1,179	1,043	1,179
Accrued milestone payment	16,719	0	16,719	0
Servicing agreements	1,137	1,838	1,137	1,838
Connecting to external databases	1,507	1,359	1,507	1,359
Other items	789	1,681	779	1,681
Total	**23,405**	**8,391**	**22,116**	**6,998**

Note 19 Other investments in securities, etc. and cash and bank balances (SEK 000)

	Group		Parent company	
	2010	2009	2010	2009
Fixed-income and bond funds [1]	418,568	130,402	418,568	130,402
Cash and bank balances	228,672	13,178	225,986	10,133
Total	**647,240**	**143,580**	**644,554**	**140,535**

[1] Book value is equal to market value.

Note 20 Accrued costs and deferred income (SEK 000)

	Group		Parent company	
	2010	2009	2010	2009
Accrued holiday pay	10,756	10,925	10,756	10,925
Accrued performance-related pay and severance pay	5,000	3,997	5,000	3,997
Accrued research costs	2,179	1,371	2,179	1,371
Accrued rent	3,243	3,783	0	0
Accrued social security costs on staff stock options	7,926	3,637	7,926	3,637
Accrued salaries	913	3,737	913	3,737
Deferred income	53,600	2,928	52,000	1,136
Other items	11,834	6,174	11,698	6,018
Total	**95,451**	**36,551**	**90,472**	**30,820**

Note 21 Operating lease arrangements incl. property rent (SEK 000)

	Group		Parent company	
	2010	2009	2010	2009
Costs for the year [1]	10,095	10,522	4,833	4,899
The nominal value of future minimum lease payments on irrevocable leasing contracts including property rents				
Within one year [2]	9,570	9,214	4,581	3,798
Between one and five years [3]	27,151	33,786	7,817	12,122
Total	**36,721**	**43,000**	**12,398**	**15,920**

[1] Primarily, costs comprise rents on property in Medivir UK and Medivir AB. The total rental cost for the group amounts to 10,095 (9,523), of which rental costs in Medivir AB are 3,903 (3,899) and rental costs in Medivir UK Ltd. are 5,263 (5,624). Of rental costs for the year, 7,160 (7,645) has been recognized due to subletting of the research facility at Chesterford Park. Net profit from subletting of 1,897 (1,962) is reported under other income in the Income Statement. Medivir AB's rental contracts expire between 2011 and 2013, Medivir UK's rental contract at Chesterford Park expires in 2025. Medivir UK is subject to indexation every fifth year. The research facility at Chesterford Park has been sublet until 2015 inclusive. The contract may be extended subsequently, and as a result, no provisioning for the period beyond 2015 has been conducted, because the judgment is that these costs will also be covered by rental income for the remaining term.

[2] Of which 6,788 will be recognized as revenue due to subletting of the research facility at Chesterford Park.

[3] Of which 27,151 will be recognized as revenue due to subletting of the research facility at Chesterford Park.

Note 22 Subsequent events

In February, Medivir reported positive 48-week interim data (SVR24) from the PILLAR trial (C205), a phase 2b trial of TMC435 on treatment-naive patients. TMC435 demonstrated potent and consistent anti-viral efficacy with SVR24 of up to 84%. According to international classification, these patients are considered cured.

In February, Medivir reported that global phase 3 trials on TMC435 had commenced. Thus the EUR 5 m milestone payment received in February 2010 will be recognized in the first quarter of 2011.

In February, Medivir reported that a clinical phase 1a trial on TMC 649128 (HCV POL) had commenced, entitling Medivir to a EUR 7 m milestone payment, whose revenue will be recognized in the first quarter of 2011.

In February, Medivir started a new collaboration with Janssen Pharmaceutica (Johnson & Johnson) on the co-development of pharmaceuticals that can prevent and treat virus infections in the dengue segment. This collaboration further extends Medivir's operations in infectious diseases and utilizes the company's extensive know-how in the development of new protease-inhibiting pharmaceuticals.

The BACE project has been discontinued in favor of an increased focus on infectious diseases projects in the development portfolio.

In March, Medivir reported that Meda had initiated the launch of Xerese™ on the American market. Medivir is now looking forward to forthcoming launches of Xerese™ that Meda will execute in Canada and Mexico, as well as the launch in Europe by our partner GlaxoSmithKline later in the year.

Certification

The Board of Directors and Chief Executive Officer hereby certify that the Consolidated Accounts have been prepared pursuant to IFRS (International Financial Reporting Standards) as endorsed by the EU and give a true and fair view of the group's financial position and results of operations. The Annual Accounts have been prepared pursuant to generally accepted accounting principles and give a true and fair view of the parent company's financial position and results of operations. The Report of the Directors of the group and parent company provides a true and fair overview of the development of the group's and parent company's operations, financial position and results of operations, and describes the significant risks and uncertainty factors facing the parent company and group companies

Stockholm, 25 March 2011

Björn C. Andersson
Board member

Anna Malm Bernsten
Board member

Ingemar Kihlström
Board member

Ron Long
Board member/CEO

Göran Pettersson
Chairman

The Report of the Auditors was presented on 30 March 2011
PricewaterhouseCoopers AB

Claes Dahlén
Authorized Public Accountant

Audit Report

To the annual meeting of the shareholders of Medivir AB
Corporate identity number 556238-4361

We have audited the annual accounts, the consolidated accounts, except the corporate governance statement on pages 38-48, the accounting records and the administration of the board of directors and the managing director of Medivir AB for the year 2010. The annual accounts and the consolidated accounts of the company are included in the printed version of this document on pages 21-72. The board of directors and the managing director are responsible for these accounts and the administration of the company as well as for the application of the Annual Accounts Act when preparing the annual accounts and the application of international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act when preparing the consolidated accounts. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company of any board member or the managing director. We also examined whether any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts have been prepared in accordance with the Annual Accounts Act and give a true and fair view of the company's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The consolidated accounts have been prepared in accordance with international financial reporting standards IFRSs as adopted by the EU and the Annual Accounts Act and give a true and fair view of the group's financial position and results of operations. Our opinions do not cover the corporate governance statement on pages 38-48. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the annual meeting of shareholders that the income statement and balance sheet of the parent company and the group be adopted, that the profit of the parent company be dealt with in accordance with the proposal in the statutory administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Auditor´s report on the Corporate Governance Statement
It is the board of directors and the managing director who is responsible for the corporate governance statement on pages 38-48 and that it has been prepared in accordance with the Annual Accounts Act.

As a basis for our opinion that the corporate governance statement has been prepared and is consistent with the other parts of the annual accounts and the consolidated accounts, we have read the corporate governance statement and assessed its statutory content based on our knowledge of the company.

A corporate governance statement has been prepared and its statutory content is consistent with the other parts of the annual accounts and the consolidated accounts.

Stockholm, 30 March 2011
PricewaterhouseCoopers AB

Claes Dahlén
Authorized Public Accountant

Six-year summary

Medivir group, SEK 000	2010	2009	2008	2007	2006	2005
INCOME STATEMENT						
Net sales [1]	57,288	25,684	97,175	249,623	126,048	102,646
Work performed by the company for its own use and capitalized	306	4,077	0	0	0	0
Other operating income	3,947	5,737	4,800	3,840	3,287	2,211
Operating costs	-198,268	-175,313	-215,708	-290,783	-330,931	-220,996
Operating profit/loss	-136,726	-139,815	-113,733	-37,320	-201,596	-116,139
Profit/loss from financial investments	2,499	4,427	13,711	8,489	1,140	8,335
Profit/loss after financial items	-134,227	-135,388	-100,023	-28,832	-200,455	-107,805
Full tax	0	13	820	-487	4,876	3,229
Profit/loss after full tax	-134,227	-135,375	-99,203	-29,318	-195,580	-104,576

	31 Dec. '10	31 Dec. '09	31 Dec. '08	31 Dec. '07	31 Dec. '06	31 Dec. '05
BALANCE SHEET						
Intangible fixed assets	4,348	4,632	482	936	1,390	9,052
Tangible fixed assets	24,811	26,941	35,764	35,878	33,361	81,708
Financial fixed assets	18,793,	18,793	18,793	18,793	0	47
Inventories and current receivables	30,299	11,254	31,990	73,928	56,942	63,304
Cash and cash equivalents and investments in securities, etc. [2]	647,240	143,580	284,486	329,330	195,066	301,875
Equity	607,254	153,855	287,606	383,979	186,306	377,964
Deferred tax liability/provisions	0	0	0	0	0	2,039
Long-term interest-bearing liabilities	116	191	0	0	0	11,194
Current liabilities	118,121	51,154	83,908	74,887	100,452	66,827
Total assets	725,491	205,200	371,515	458,866	286,758	455,985
Capital employed	607,254	153,855	287,606	383,979	193,181	398,325

[1] Net sales in 2007 mainly comprised three milestone payments totaling SEK 182.3 m for HCV protease inhibitors from Tibotec Pharmaceuticals Ltd.
[2] The increase in cash and cash equivalents in 2010 and 2007 is due to factors including new share issues conducted in the second and fourth quarters of 2010 and the first quarter of 2007 by Medivir AB.

Key figures

Medivir group	2010	2009	2008	2007	2006	2005
Operating margin, %	-238,7	-544,4	-117,0	-15,0	-159,9	-113,1
Profit margin, %	234,3	-527,1	-102,9	-11,6	-159,0	-105,0
Debt gearing, multiple	0.0	0.1	0.0	0.0	0.04	0.05
Return on:						
equity, %	-35.3	-61.3	-29.5	-10.3	-69.3	-24.5
capital employed, %	-35.2	-61.2	-29.6	-9.9	-66.6	-23.7
total capital, %	-28.8	-46.8	-23.9	-7.6	-52.8	-21.0
Equity ratio, %	83.7	75.0	77.4	83.7	65.0	82.9
Average number of shares, 000	24,718	20,844	20,844	16,873	12,903	12,903
Number of shares at year-end, 000	28,593	20,844	20,844	20,844	12,903	12,903
Basic and diluted earnings per share, SEK [2]	-5.43	-6.49	-4.76	-1.74	-15.16	-8.10
Equity per share before and after dilution, SEK [2]	21.24	7.38	13.80	18.42	14.44	29.29
Net worth per share before and after dilution, SEK [2]	21.24	7.38	13.80	18.42	14.44	29.29
Cash flow per share after investments, SEK	-3.34	-6.76	-2.14	-4.91	-7.39	-2.17
Cash flow per share after financing activities, SEK	20.39	-6.76	-2.14	7.95	-8.28	-10.75
Dividend per share, SEK	0	0	0	0	0	0
Number of outstanding warrants	803,647	760,000	970,000	970,000	676,995	886,995

[1] Pursuant to IAS 35, potential ordinary shares do not give rise to any dilution effects when their conversion to ordinary shares implies an improvement to earnings per share, as would be the case coincident with the conversion of Medivir´s outstanding options.

Definitions

Average number of shares
The unweighted average number of shares during the year.

Capital employed
Total assets less non interest-bearing liabilities including deferred tax liabilities.

Cash flow per share
Cash flow divided by the average number of shares.

Debt gearing
Interest-bearing liabilities divided by shareholders' equity.

Earnings per share
Profit after financial items less full tax divided by the average number of shares.

Equity ratio
Shareholders' equity in relation to total assets.

Full tax
Tax on profit after financial items and deferred tax on change in untaxed reserves.

Net worth per share
Equity plus hidden assets in listed equities divided by number of shares at the end of the period.

Operating margin
Operating profit as a percentage of net sales.

Profit margin
Profit after financial items as a percentage of net sales.

Return on equity
Profit after financial items less full tax as a percentage of average shareholders' equity.

Return on capital employed
Profit after financial items plus financial costs as a percentage of average capital employed.

Return on total capital
Profit /loss after financial items plus financial costs as a percentage of average total assets.

Shareholders' equity per share
Shareholders' equity divided by the number of shares at the end of the period.

Shareholders´ equity
The total of non-restricted and restricted equity at the end of the year. Average equity is calculated as the total of opening and closing balances of equity divided by two.

Glossary

Alzheimer's disease
A form of dementia named after the German neuropathologist and psychiatrist Alois Alzheimer.

Antiviral
Inhibition of virus growth.

CD (candidate drug)
Compound designated to proceed into clinical studies. Medivir uses the same criteria as the big pharmaceutical companies.

Clinical studies
Studies of experimental drug on humans.

CNS
The central nervous system.

Dengue fever
Dengue fever is similar to influenza and caused by a virus (the dengue virus), which is spread by mosquitoes.

Enzyme
A protein molecule, typically a very large one, that catalyses chemical reactions in living cells. These reactions occur rapidly and with great precision without the enzyme itself being consumed. Polymerases and proteases are enzymes.

Genotype
An individual's precise genetic characteristics (genome), usually in the form of DNA. Genotype 1a is the most common in North America, and 1b in Europe.

Haemorrhagic dengue fever
Serious complication of dengue fever, involving symptoms including haemorrhaging of the internal organs.

Hepatitis B
Jaundice caused by human Hepatitis B virus (HBV).

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

HIV (Human immunodeficiency virus)
Causes deficiencies in the immune system and gives rise to AIDS.

IAS (International Accounting Standards)
See 'IFRS'.

IFRS (International Financial Reporting Standards)
New accounting rules adopted by the EU. Intended to facilitate comparisons between Annual Reports in different European countries. Listed companies must comply with IFRS since 1 January 2005.

Interferon
Human protein with antiviral effect.

Labial herpes/cold sores
Caused by herpes simplex virus type 1 (HSV-1) and transmitted via saliva/oral contact. There are two types of herpes simplex virus, type 1 and 2 (HSV-2). HSV-2 is normally sexually transmitted, but it can also cause labial herpes. The infection becomes latent and the virus can be reactivated.

Milestone payments
Payments upon attaining contracted achievements.

Mononucleosis
A human disease caused by Epstein-Barr virus, from the family of herpes virus. The disease is transmitted via saliva, sexually and via blood transfusions.

Neuropathic pain
Nerve pain arising as a direct consequence of lesions or disease that affects the somatosensory system. There is a distinction between peripheral and central pain.

Nucleoside analogue
A structural modification of the nucleosides used as building blocks for genes.

Option
Right to buy shares at some time in the future.

Osteoarthritis
Chronic degenerative arthritic disease.

Osteoporosis
Brittle bones.

Pharmacokinetics
The study of a drug's metabolism in the human body (absorption, distribution, conversion and secretion).

Polymerase
A type of enzyme that replicates genes, for example, of a virus.

Preclinical research
Research into a pharmaceutical compound prior to studies on humans (clinical studies).

Pre-emption
If a holder of class A shares wishes to sell these shares, they must be offered to other holders of class A shares first.

Protease
An enzyme able to break proteins down into smaller units.

Resistance
Reduced efficacy of a compound that normally suppresses a virus or other microorganism.

Ribavirin
A nucleoside analogue which inhibits virus replication through cellular interaction.

Royalty
Payment, often calculated as a percentage of product (drug) sales.

Share issue
Provision of new shares to raise capital.

Shingles
Painful disease with vesicles on the skin caused by a herpes virus, the varicella- zoster virus (VZV). This virus remains latent within the body after chickenpox infection, and may re-activate many years later, causing shingles.

SVR
Sustained virological response.

VZV (Varicella-zoster virus)
A herpes virus that causes chickenpox, usually in children, and which remainsin ganglia throughout life. It may re-activate later and if so, give rise to shingles.

Forthcoming financial information

- The Three-month Interim Report will be published on 5 May 2011.
- The Six-month Interim Report will be published on 8 July 2011.
- The Nine-month Interim Report will be published on 24 oktober 2011.

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

Medivir sends its reports to all shareholders, except those who declined all information when registering their VP accounts.

For more information on Medivir, please contact Rein Piir, CFO and VP, Investor Relations.

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Annual General Meeting

Medivir's AGM will be held at IVA's Conference Center, grev Turegatan 16, Stockholm, Sweden on Thursday 5 May 2011 at 3 p.m.

Shareholders intending to participate in the Annual General Meeting should

- firstly, be recorded in the shareholders' register maintained by Euroclear Sweden AB by no later than 29 April 2011 and
- secondly, notify the company of their name, address and telephone number by mail to Medivir AB, Box 1086, SE-141 22 Huddinge, Sweden or by telephone: +46 (0)8 546 83100 or fax: +46 (0)8 546 83195 or e-mail: enter@medivir.se by no later than 29 April 2011.

PLEASE NOTE

Important notice for nominee-registered shareholders
For entitlement to participate in the Annual General Meeting, shareholders with nominee-registered holdings should temporarily re-register their shares in their own name with Euroclear Sweden AB. Shareholders desiring such re-registration must inform their nominee thereof in good time before 29 April 2011.

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