



**MEDIVIR, FINANCIAL STATEMENT, 1 January - 31 December 2006**

- Decision to focus research activities to the Huddinge facility
- Decision on SEK 224.5 m rights issue
- Tibotec filed an application to start clinical trials on the hepatitis C project
- Phase III study on Lipsovir® (ME-609) against labial herpes started in July. Just over 50% of patients in the study were treated during the second half-year, according to plan.
- Licensing agreement for MIV-170 signed with Bristol-Myers Squibb with a total contract value of USD 104.5 m plus royalties on future sales revenue
- Licensing agreement signed with Tibotec for HIV protease inhibitor with a total contract value of EUR 64 m plus royalties on future sales revenue
- MIV-210 outlicensed to Tibotec with a total contract value of USD 30 m plus royalties on future sales revenue
- Alovudine and MIV-410 outlicensed with a total contract value of USD 75.25 m plus shares in Presidio Pharmaceuticals and royalties on future sales revenue
- MIV-606 outlicensed with total contract value of USD 24.5 m plus shares in Epiphany Biosciences and royalties on future sales revenue
- Consolidated net sales in the period 1 January - 31 December 2006 totaled SEK 126.0 (102.6) m, with SEK 67.9 (102.6) m relating to continuing operations and SEK 58.1 (0) m representing discontinued operations
- The loss after tax amounted to SEK -195.6 (-104.6) m; earnings per share were SEK -15.16 (-8.10). The profit deterioration is due to costs for the current phase III project on Lipsovir® and non-cash write-downs coincident with the relocation of research operations from the UK to Sweden
- The loss after tax includes restructuring costs of SEK 9.2 m and direct write-downs of intangible and tangible fixed assets of SEK 29.7 m, resulting from the relocation of significant parts of operations from Medivir UK to Medivir AB.

“2006 was a year of delivery, fully consistent with the strategic objectives we set ourselves in December 2005. We have now focused our research on the protease inhibitor segment, and over the past year, succeeded in bringing our first two protease projects to the start of clinical phase I studies. We’ve successfully outlicensed all the projects we decided not to assign internal resources to. We’ve been in licensing agreements on seven drug project since mid-2006—outlicensing activity that is probably unique in northern Europe’s biotechnology sector. We succeeded in starting registration studies on Lipsovir, our most mature project, earlier than planned and have become more financially resilient through our new share issue and cost-cutting by consolidating our research from two units to one,” commented Lars Adlersson, Medivir AB’s CEO.

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## **SIGNIFICANT EVENTS IN THE FOURTH QUARTER 2006**

### **Focusing of research operations to Sweden**

The Board decided to relocate research operations from the company's facility in Essex, UK, to Huddinge, Sweden, thereby achieving an annual net cost saving of approximately SEK 50 m.

### **New share issue**

On 5 December 2006, Medivir AB's (publ) Board decided to propose the implementation of a SEK 224.5 m rights issue at an EGM (Extraordinary General Meeting), to enable a more focused and intensified development of the company's prioritized projects, and to take them further with funding secured. The Board's proposal for a new share issue was approved at the Extraordinary General Meeting on 22 December

### **Tibotec has applied to start phase I studies on an HCV inhibitor**

On assignment from Medivir's and Tibotec's joint project focusing on pharmaceuticals against the hepatitis C virus (HCV), Tibotec Pharmaceuticals Inc. filed an application with a regulatory authority in Europe relating to the start of phase I clinical studies with an HCV NS3/4A protease inhibitor in December. This application triggered a milestone payment of EUR 2.5 m to Medivir.

### **Outlicensing of alovudine (MIV-310) and MIV-410 to Presidio Pharmaceuticals**

In December, Medivir AB and Presidio Pharmaceuticals Inc entered into a licensing agreement relating to alovudine (MIV-310), Medivir's phase II compound with powerful efficacy against multiresistant HIV, and for the pre-clinical compound MIV-410 with a new active mechanism against HIV and also with potent efficacy against the cytomegalovirus (CMV).

According to the agreements, Presidio will assume responsibility for the further development of alovudine and MIV-410. Medivir will receive shares in Presidio, milestone payments of a maximum of USD 75.25 m and royalties on sales. Medivir will retain the marketing rights for the developed products in the UK and the Nordic region, and holds an option for the rights in the rest of the EU.

### **Extended collaboration agreement with Jiangsu Hengrui**

Medivir (Huddinge, Sweden) and one of China's biggest pharmaceuticals companies, Jiangsu Hengrui Medicine Company (Shanghai), initiated a research partnership in December 2003 in order to jointly develop a protease inhibitor against chronic obstructive pulmonary disease (COPD).

Preclinical studies in specific test models have shown very promising efficacy data based on biomarkers. Accordingly, in November Medivir and Hengrui chose to extend their research collaboration for the development of pharmaceuticals against COPD until 18 June 2007 inclusive. The next milestone in the project will be to designate one or more candidate drugs (CD).

## **FORTHCOMING FINANCIAL INFORMATION**

The Three-month Interim Report will be published on 24 April 2007, as well as the AGM will be held

The Six-month Interim Report will be published on 9 July 2007.

The Nine-month Interim Report will be published on 24 October 2007

**Medivir's financial reports are available on its Website, [www.medivir.se](http://www.medivir.se) from these dates under the 'Investor/Media' heading**

## **SIGNIFICANT EVENTS AFTER THE END OF THE ACCOUNTING PERIOD**

### **Tibotec start phase one clinical trials on HCV protease inhibitor**

In early February, Medivir reported that on assignment from Medivir's and Tibotec's joint project, Tibotec had started a phase I clinical study on a potent and selective HCV NS3/4A protease inhibitor to treat chronic hepatitis C viral infection. This phase Ia clinical study is being conducted to document safety, tolerability and pharmacokinetics in healthy volunteers. The study will take place in Europe.

The start of this clinical study triggered a further milestone payment of EUR 2.5 m to Medivir.

### **SEK 224.5 m rights issue fully subscribed**

Medivir has completed a new issue with preferential rights for the company's share holders. The new share issue was completed on 2 February 2007 and attracted significant interest and was fully subscribed, including subscription that has occurred without utilizing subscription rights. In the new issue, 99.3 per cent of the shares were subscribed using preferential rights, meaning that allocation to investors subscribing for shares without preferential rights was very limited.

The new share issue increases the number of shares by 7,741,566 class B shares. The number of shares will consequently amount to 660,000 class A shares and 19,984,177 class B shares after the new share issue. The new shares are expected to be traded on the *Nordiska listan* on the Stockholm Stock Exchange from 28 February 2007 onwards.

The new share issue raises approximately SEK 224.5 m before issue costs for the company. Carnegie Investment Bank is Medivir's corporate advisor for the new share issue.

### **Medivir started studies on Lipsovir® against cold sores in children and patients with reduced immune response**

Medivir's pivotal registration study (phase III) in North America with Lipsovir® against cold sores (labial herpes) in adults is progressing well with 60% of patients treated by mid-January. In order to be able to market Lipsovir® to children and immune-defective patients, Medivir initiated two smaller-scale phase III studies in January, one in Sweden/Russia on children in the 12-17 age group and one in Russia/Ukraine on patients with reduced immune response.

The primary purpose of these studies is to demonstrate that Lipsovir® is a safe treatment against cold sores for these patient categories. The design of these studies has been discussed with the Food & Drug Administration (FDA).

Medivir expects the results from the pivotal phase III study in North America to be ready for evaluation in the autumn. The two smaller studies are expected to be ready for evaluation by the end of 2007 at the latest. A registration application will then be filed in early 2008 and market approval is expected towards the end of 2008, as previously announced.

### **Medivir applied to start clinical studies on MIV-701**

In January, Medivir filed an application with a regulatory body in Europe requesting to begin clinical trials (phase I) on MIV-701, a Cathepsin K inhibitor. These studies are expected to begin in the first quarter 2007.

Increased Cathepsin K activity is considered to cause diseases such as osteoporosis, osteoarthritis, rheumatoid arthritis, Paget's disease of bone and some metastasing skeletal tumors. Selective inhibition of Cathepsin K may come to represent a new treatment principle for these diseases.

### **MIV-160 outlicensed to Guangdong Lantai Viewland Pharmaceutical Co. Ltd.**

The last of Medivir's polymerase inhibitors, MIV-160, was outlicensed to Guangdong Lantai Viewland Pharmaceutical in February 2007. The agreement provides that Guangdong Lantai Viewland Pharmaceutical, at Medivir's request shall make a payment to Medivir in the form of

shares in this company. Additionally, Guangdong Lantai Viewland Pharmaceutical will pay royalties on sales of oral and topical use of MIV-160. Guangdong Lantai Viewland Pharmaceutical will be responsible for the development of MIV-160 and its commercialization in China (including Hong Kong, Taiwan and Macau). Medivir is retaining the rights to MIV-160 in other countries.

### Focusing research operations on Sweden complete

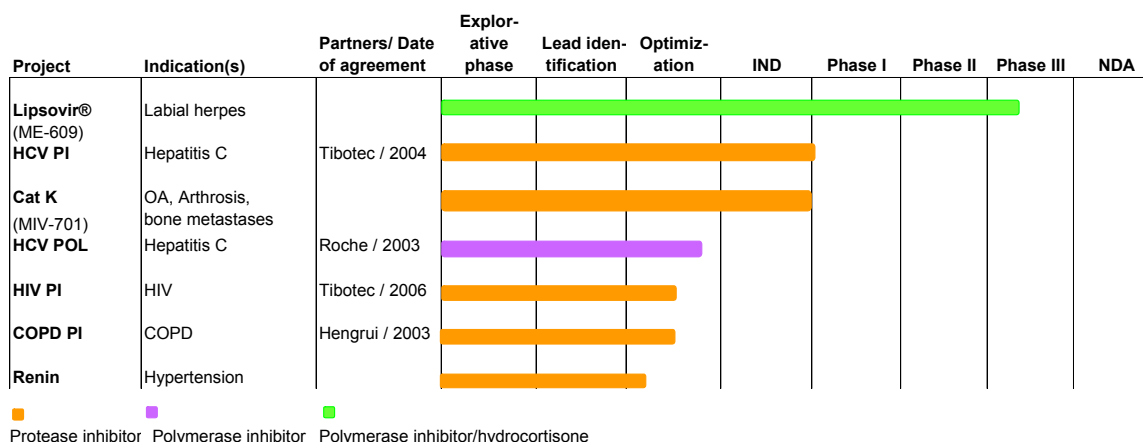
The relocation of research activities from the company's facility in Essex, UK to Huddinge, Sweden, is now essentially complete. The transfer of projects proceeded better than expected, and these projects are now being run at full speed. Of the 48 employees of Medivir UK Ltd., 40 have left the company. The remaining eight are still active as specialists on various projects, which is according to plan. As previously reported, Medivir will now be hiring a small number of researchers for Medivir AB to conduct the company's projects in a time-efficient manner. Overall, Medivir will have over 30 fewer employees, and thus achieve its established objective of annual cost savings of SEK 50 m.

## MEDIVIR'S INTERNALLY PRIORITIZED PROJECT PORTFOLIO

Medivir's internally prioritized project portfolio currently comprises Lipsovir® (formerly ME-609) against labial herpes and the protease projects against hepatitis C, osteoporosis, osteoarthritis, metastasing skeletal cancer, rheumatoid arthritis, multiple sclerosis, HIV, COPD and a project against hypertension (renin inhibitors).

### Other projects

In addition to the internally prioritized projects, there are a number of protease-based projects, which however, are not being actively conducted by Medivir at present. These are Cathepsin S (focus on autoimmune disorders and pain) and a project against Alzheimer's which is in the optimization phase. There is also early activity within protease research in collaboration with partners or in networks with a range of universities. These activities are intended to provide Medivir with new ideas and thereby secure long-term project-generation.



## CLINICAL PROJECTS

### **Lipsovir®—phase III study progressing well**

Lipsovir® (ME-609) is a project against labial herpes conducted by Medivir in-house. Data from a phase II study on the **labial herpes** (cold sores) indication demonstrates that upon early treatment onset, Lipsovir® can prevent the incidence of cold sores and lesions. These study results indicate that Lipsovir® is superior to existing drugs for treating cold sores.

This project features low development risk, and has the potential to offer patients treatment that prevents the incidence of herpes cold sores for the first time.

Medivir began the pivotal phase III study in early-July, which is a few months faster than previously expected. The study is being conducted in North America at some 50 study centers.

The purpose of the study is to demonstrate that Lipsovir® prevents the incidence of cold sores and lesions. Nearly 1,300 patients will be treated, and as of mid-January 2007, 60% of the patients in the study had undergone treatment with either Lipsovir®, acyclovir or placebo. Two smaller scale studies, which apart from the pivotal study, will be included in a planned NDA (New Drug Application) also started in January 2007.

Medivir considers that market approval from the FDA may be received in late-2008.

Lipsovir® recently secured consolidated and extended patent protection in the US, which applies until 2020. In 2006, the cost of the phase III studies amounted to SEK 59 m. Because the process of including patients and their treatment has progressed faster than expected during the autumn, costs also rose in the fourth quarter. This discrepancy does not alter the total cost for the phase III program and should be viewed as costs being brought forward.

### **HCV protease inhibitor—recently initiated clinical trials**

In late 2004, Medivir outlicensed this project to Tibotec, a Johnson & Johnson Group company. The project is based on several mutually independent compound classes with very attractive characteristics.

At the end of December, Tibotec Pharmaceuticals applied for permission to begin clinical phase I studies on HCV protease inhibitors and this application triggered a milestone payment of EUR 2.5 m to Medivir. This phase I study began in early February, triggering a further milestone payment of EUR 2.5 m to Medivir.

Medivir's and Tibotec's projects in the hepatitis C segment are continuing to make very positive progress, resulting in Tibotec extending its collaboration agreement and research support until at least July 2007. Within the auspices of this agreement, Medivir is receiving finance for a considerable number of researchers, who remain active on the project. In addition to this project finance, the agreement may raise a maximum of another EUR 68.5 m for Medivir in various milestone payments, of which EUR 16.5 m has been received. Additionally, Medivir will receive royalties on global sales outside the Nordic region, where it has retained rights, and where it intends to conduct sales in-house. At an agreed time, this deal also encompasses product rights in the Nordic region for one drug with a defined product profile from the Johnson & Johnson Group.

## PRE-CLINICAL PROJECTS

### **Cathepsin K—application to start clinical phase I studies with MIV-701 filed**

The enzyme **Cathepsin K** is considered to play a central role in diseases like osteoporosis, osteoarthritis, rheumatoid arthritis and metastasing skeletal cancer. Medivir designated a CD, **MIV-701** in 2005, a selective, potent inhibitor of the protease Cathepsin K, for development

against osteoporosis. In 2006, the collaboration was successfully concluded with the development of large-scale synthesis, the production of high compound volumes, and safety studies. In January 2007, Medivir applied to begin a phase I study on MIV-701 which is expected to start in the first quarter of 2007. Medivir's strategy for the MIV-701 project is to subsequently run parallel phase I studies against osteoporosis, osteoarthritis and metastasing skeletal cancer and to subsequently locate an industrial partner to take the project on towards market registration.

**MIV-701** has demonstrated good efficacy in a preclinical *in vivo* model of osteoporosis, and moreover, enjoys very promising pharmacokinetic characteristics, which are prerequisites for treatment with a single daily tablet. MIV-701 demonstrates dosage-dependent, potent inhibition of Cathepsin K-mediated metabolism of type 1 collagen (a key component of bone) in a human osteoclast bone resorption model. The objective of this program is to develop compounds that reduce the resorption of skeletal tissue, and restore the balance between the formation and resorption of bone. In clinical studies, Cathepsin K inhibitors have recently demonstrated both significant reduction of skeletal resorption and retained skeletal formation, resulting in increased bone mineral density. Overall, this is expected to lead to increased skeletal strength and result in the reduced incidence of fractures. The fast onset and cessation of effect on skeletal resorption constitute a major competitive edge on the most commonly used anti-osteoporosis drugs, bisphosphonates, whose residual effect may remain for several years after treatment concludes. Accordingly, this therapy is reversible, implying that its effect ceases if the patient stops therapy, and is therefore suitable for other types of combination therapy. The concept of inhibiting Cathepsin K for treating osteoporosis has been studied by Novartis and Merck in phase II studies, with efficacy validated in humans.

Cathepsin K inhibitors are also considered to have sizeable potential as drugs against osteoarthritis, because they are expected to prevent cartilage breakdown and protect against the pathological resorption of cartilaginous tissue, which protects the bone sections affected by osteoarthritis.

Inhibiting Cathepsin K activity is also expected to be highly significant for the treatment and prevention of bone metastases in certain types of cancer. Cancers that metastase to bone over-express Cathepsin K, enabling the cancer cells to secure in the bone, and thus spread into skeletal tissue.

In addition to MIV-701, Medivir has an extensive program whose objective is to develop new types of Cathepsin K inhibitors as follow-ups and/or complements to MIV-701. This program is in its late optimization phase, and activities are underway on evaluating efficacy in a range of test models that simulate various diseases. These results will be the basis for ongoing activities to optimize the structural compound classes now in development.

### **MMP—protease inhibitor against chronic obstructive pulmonary disease (COPD)**

This project is being conducted alongside Chinese drug corporation Hengrui, with the objective of designating one or more CDs for onward development towards the clinic. This project is now in its preclinical optimization phase.

In collaboration with a French research institution, Medivir evaluated a Medivir compound in a preclinical test model against COPD, generating positive efficacy data. Medivir's new protease inhibitor demonstrated high efficacy in this disease model, reducing the release of inflammatory biomarkers that are characteristic of COPD.

### **HIV protease inhibitors—in optimization alongside Tibotec**

The HIV PI drug project is targeted at inhibiting HIV's protease enzyme and is in its preclinical

optimization phase. The project has been brought from its idea stage to outlicensing in approximately one year. The compounds Medivir has produced in its HIV PI project so far have very promising characteristics. Alongside Tibotec, Medivir will continue to develop compounds on this project ahead of a future CD designation. Tibotec is paying pre-determined research support for Medivir's continued involvement on the project.

This agreement implies that Tibotec paid EUR 2 m on signing, followed subsequently by up to EUR 62 m subject to the successful achievement of specific predetermined milestones within preclinical research, clinical development and regulator processing. Medivir possesses the right to royalties on global sales of future products, apart from the Nordic market, where Medivir has retained the rights.

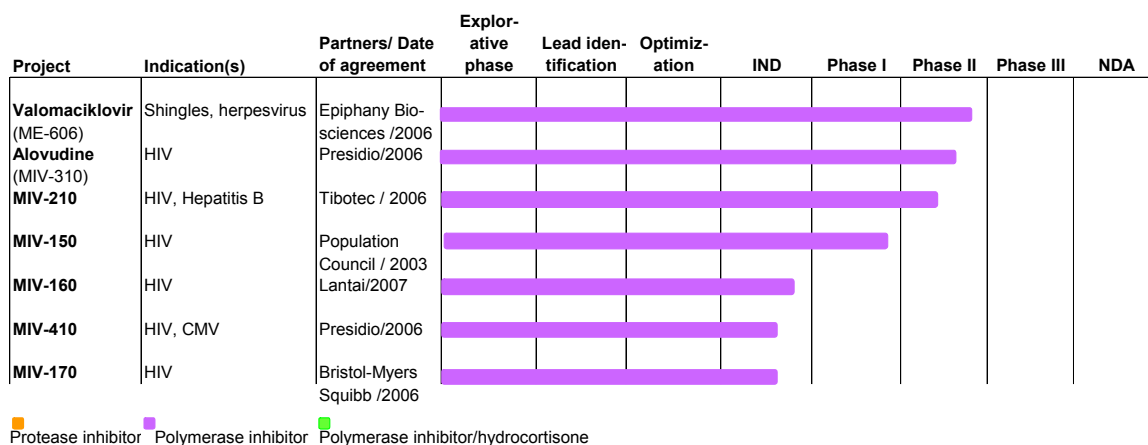
### Renin—protease inhibitor against hypertension

The project, which entered the pre-clinical optimization phase in the fourth quarter 2006, is based on Medivir's protease inhibitor expertise and is focused on the treatment of hypertension. The project has developed three entirely new selective and highly potent series of renin inhibitors. These have rapidly been optimized based on Medivir's expertise surrounding protease inhibitors. The next step is efficacy studies in a pre-clinical *in vivo* test model.

### HCV POL—collaboration with Roche

Medivir's active participation in the project ceased according to plan in January 2006. Roche is responsible for the project, which is focused on developing drugs against chronic hepatitis C (HCV, based on the development of nucleoside analogues, which inhibit hepatitis C virus polymerase, and thereby prevent virus replication.

## POLYMERASE BASED PROJECTS – MEDIVIR HIV FRANCHISE AB



Medivir HIV Franchise AB is responsible for outlicensing Medivir's polymerase-based projects against HIV, HBV and shingles. In 2006, the process of outlicensing and/or divesting these projects generated licensing agreements for valomaciclovir (shingles) with Epiphany Biosciences, MIV-210 (HIV/hepatitis B) with Tibotec, MIV-170 (HIV) with Bristol-Myers Squibb and alovudine (MIV-310-HIV) and MIV-410 (HIV) to Presidio Pharmaceuticals.

Additionally, in February 2007, the last of these projects, MIV-160, was outlicensed to Guangdong Lantai Viewland Pharmaceutical Co. Ltd.

### **Valomaciclovir (MIV-606)—outlicensed to Epiphany Biosciences**

In phase IIa studies, the polymerase inhibitor valomaciclovir (NRTI) has demonstrated efficacy and safety on patients with shingles caused by VZV. MIV-606 is also an effective inhibitor of other herpes viruses, which are increasingly associated with various disorders such as Chronic Fatigue Syndrome (ME), MS and the accelerated development of HIV/AIDS. Medivir outlicensed this project to Epiphany Biosciences in September, which will be responsible for, and fund, its ongoing clinical development, primarily for the shingles indication.

According to the agreement, Medivir will obtain shares in Epiphany Biosciences, milestone payments of a maximum of USD 24.5 m and royalties on sales globally with the exception of the Nordic region where Medivir retains the marketing rights for all indications.

### **Alovudine (MIV-310)—outlicensed to Presidio Pharmaceuticals**

In December, Medivir AB and Presidio Pharmaceuticals Inc entered into a licensing agreement for alovudine (MIV-310), Medivir's phase II compound with high efficacy against multiresistant HIV. Phase II studies have demonstrated that alovudine is more effective against multiresistant HIV than other nucleoside analogues. New *in vitro* results indicate that the margin for error can be increased by a combination of alovudine and zidovudine at the same time as a synergistic effect is obtained against HIV.

Presidio is responsible for the further development of alovudine. According to the agreement which also applies to MIV-410, Medivir will obtain shares in Presidio, milestone payments of a maximum of USD 75.25 m and royalties on sales. Medivir has retained the marketing rights for the products in the UK and the Nordic countries, and holds an option on the rights in the rest of the EU.

### **MIV-210—hepatitis B and HIV therapy in collaboration with Tibotec**

In June, Medivir signed a licensing agreement has been entered with Tibotec regarding antiviral compound MIV-210 against hepatitis B and HIV. Tibotec paid an up-front fee of USD 0.5 m on signing the agreement in June, which may be followed by up to USD 29.5 m subject to the achievement of predetermined milestones within clinical development and regulator processing. Medivir possesses the right to royalties on global sales of a future product, apart from the Nordic market, where Medivir has retained the rights.

### **MIV-150—Population Council funding clinical studies**

Medivir has voluntarily donated the rights for topical use of MIV-150 in a vaginal microbicide in developing countries to the Population Council, a New York-based non-profit organization. The Population Council will be responsible for the development and funding of forthcoming clinical studies. Medivir has rights to sales in other markets, and Medivir has an option on exclusive rights on the Nordic markets. MIV-150 is currently in clinical phase I.



### **MIV-160—outlicensed to Lantai Pharmaceutical**

The **polymerase inhibitor MIV-160 (HIV)** is in late preclinical development. In February 2007, Medivir outlicensed this anti-HIV NNRTI to Chinese corporation Lantai, which is responsible for development and possesses commercial rights in China. Medivir is retaining the rights in the rest of the world.

### **MIV-170—outlicensed to Bristol-Myers Squibb**

The MIV-170 project represents a new structural class in the NNRTI segment. The polymerase inhibitor MIV-170 has demonstrated excellent potency *in vitro*, and an enhanced resistance barrier in preclinical studies. Assuming positive data in forthcoming studies, MIV-170 may constitute a new therapy alternative for HIV patients. Bristol-Myers Squibb is responsible for global development and commercialization in all countries apart from the Nordic region, where Medivir has retained rights to commercialization. Medivir received a USD 7.5 m up-front payment from Bristol-Myers Squibb on signing the agreement, which also encompasses predetermined payments totaling USD 97 m linked to specific development and registration milestones, as well as up to double-digit royalty percentages on product sales in the project's commercialization phase.

### **MIV-410—outlicensed to Presidio Pharmaceuticals**

In December, Medivir entered into a licensing agreement relating to MIV-410, an NRTI that demonstrates good efficacy against multiresistant HIV and is highly effective against SIV (simian immunodeficiency virus) and HIV-2 infections in preclinical models. The compound has also demonstrated efficacy against cytomegalovirus (CMV) *in vitro*. The compound is in its preclinical development phase. The terms of the agreement are presented under the description of alovudine, see preceding page.

## **MEDIVIR'S CONSOLIDATED TURNOVER AND COSTS**

### **The Group**

Consolidated total net sales for continuing and discontinued operations amounted to SEK 126.0 (102.6 m) for the year.

Consolidated net sales for continuing operations, encompassing Medivir AB and Medivir UK Ltd., were SEK 67.9 (102.6) m. The sales are mainly attributable to remuneration for research collaboration and a milestone payment of SEK 22.7 m (EUR 2.5 m) on HCV protease inhibitors from Tibotec Pharmaceuticals Ltd. The SEK 18.4 m (EUR 2 m) for the HIV PI project obtained in July 2006 will be allocated over the period of the collaboration agreement with Tibotec and SEK 9.2 m was posted to revenue in 2006.

Operating costs for continuing operations were SEK -317.3 (-206.9) m, comprising external costs of SEK -163.8 (-87.2) m, personnel costs of SEK -106.1 (-99.5) m and depreciation and amortization of SEK -47.1 (-20.2) m. These costs include non-recurring costs for the restructuring of research operations from the UK to Sweden, amounting to SEK 33.3 m, divided between external costs of SEK 2.3 m, personnel costs of SEK 6.9 m and write-downs of fixed assets of SEK 24.1 m. There was also a direct write-down of the intangible balance sheet item 'acquired research and development' totaling SEK 5.6 m because the research projects that the item was attributable to are no longer actively pursued as a result of the restructuring of the research operations.

Apart from non-recurring costs, the increase in external costs of SEK 76.6 m is, largely attributable to the ongoing phase III study on the Lipsovir<sup>®</sup> (ME-609) project and increased research costs for the MIV-701 project relating to preparations for the start of phase I. The operating loss for continuing operations was SEK -245.8 (-102.1) m, the net financial position was SEK 1.1 (8.3) m and the loss after financial items was SEK -244.7 (-93.7) m.

As reviewed earlier, in late December 2005, Medivir decided that activities on polymerase projects against HIV/hepatitis B and shingles would be outlicensed/divested. Net profits of SEK 44.2 (-14.1) m have been accounted separately in the Income Statement as “discontinued operations”. The net profits comprise revenue largely attributable to the up-front payment from Bristol-Meyers Squibb of SEK 54.5 m (USD 7.5 m), with Bristol-Meyers Squibb responsible for the development and commercialization of MIV-170, a pre-clinical NNRTI polymerase inhibitor for the treatment of HIV-1 infection, and the SEK 3.6 m (USD 0.5 m) obtained in July 2006 for the MIV-210 project. Costs incurred of SEK -13.9 (-14.1) m relate to all polymerase inhibitor projects that have been or will be outlicensed/divested.

The consolidated net loss for the year amounted to SEK -195.6 (-104.6) m.

**Medivir AB, corporate identity no. 556238-4361, parent company**

Medivir AB’s operations comprise research operations and group-wide administrative functions.

Parent company net sales for continuing operations amounted to SEK 77.0 (110.5) m, and as stated above, primarily comprised remuneration for research collaboration and a milestone payment of SEK 22.7 m (EUR 2.5 m) on HCV protease inhibitors from Tibotec Pharmaceuticals Ltd. and revenue from an allocated portion of the up-front payment received from the outlicensing of the HIV PI project (see above).

Operating costs for continuing operations were SEK -252.9 (-188.2) m, divided between external costs of SEK -175.2 (-111.2) m, personnel costs of SEK -68.9 (-66.3) m and depreciation and amortization of SEK -8.9 (-10.6) m. The increase in external costs is largely attributable to the ongoing phase III study on the Lipsovir<sup>®</sup> (ME-609) project and increased research costs for the MIV-701 project relating to preparation for the start of phase I. The external costs item also includes SEK -46.2 (-53.7) m of remuneration to Medivir UK for contracted preclinical research conducted by Medivir UK. These costs are on market terms.

Operating profit for continuing operations was SEK -172.7 (-75.3) m, and profit after financial items and profit after tax was SEK -263.9 (-90.3) m. Profit from financial items includes a cost for the write-down of an unconditional shareholder contribution to Medivir UK Ltd. of SEK -65.7 (-25.1) m which Medivir AB issued to consolidate the subsidiary’s shareholders’ equity, and a further write-down of shares in the subsidiary of SEK -28.4 m as a result of the relocation of a significant proportion of operations from Medivir UK to Medivir AB.

As stated previously under “Group”, profits are affected by revenues and expenses relating to the polymerase projects that have been or will be outlicensed/divested. Net profits from “discontinued operations” of SEK 44.9 (-10.2) m comprise earnings largely attributable to the up-front payment from Bristol-Myers Squibb of SEK 54.5 m (USD 7.5 m), which is responsible for the development and commercialization of MIV-170, and the SEK 3.6 m (USD 0.5 m) obtained in July 2006 for the MIV-210 project. Costs paid of SEK -13.2 (-14.1) m relates to all the projects that have been or will be outlicensed/divested.

These projects have not been assigned any value in the Balance Sheet.  
The parent company's net loss for the year amounted to SEK -219.0 (-104.3) m.

### **Financial position**

Consolidated liquid assets including short-term investments with a maximum maturity of three months stood at SEK 195.1 (301.8) m. As of 31 December, there were SEK 6.9 (18.4) m in interest-bearing liabilities. Shareholders' equity stood at SEK 186.3 (378.0) m and the consolidated equity ratio was 65.0 (82.9)%.

### **Investments**

Gross investments in consolidated intangible and tangible fixed assets amounted to SEK 5.6 (15.7) m in the period, mainly in research equipment and existing research premises. Medivir's future investments primarily comprise the acquisition of additional research equipment and the relocation of some research equipment from Medivir UK to Medivir AB.

### **The share and stock options**

As of 31 December, there were a total of 12,902,611 outstanding shares, comprising 660,000 class A and 12,242,611 class B shares. The total number of outstanding options is 676,995, and upon full conversion, the total number of shares would be 13,598,306.

### **New share issue**

On 22 December 2006, the Extraordinary General Meeting of Medivir AB resolved to adopt the Board resolution from 5 December 2006 relating to a new share issue of a maximum of 7,741,566 class B shares, implying a share capital increase of a maximum of SEK 38,707,830. The right to subscribe for new shares in the period 15 January - 2 February 2007 applied to the company's shareholders, whereupon 5 existing shares, irrespective of share class, conferred the holder with the right to subscribe for 3 new class B shares. The subscription price per share was SEK 29. The new share issue was fully subscribed, raising approximately SEK 217 m for the company in February 2007 after deductions for issue expenses of approximately SEK 8 m.

### **Focusing of operations**

In order to focus the company's resources further, in December the company resolved to focus its research operations to the facility in Huddinge, Sweden, implying that net expenses are expected to be reduced by approximately SEK 50 m annually.

### **Employees**

As of 31 December 2006, the number of employees of the group stood at 133 (133) and the average number of employees in the year was 126 (125). However, as a consequence of the operations being focused on Sweden, the net number of employees is expected to reduce by just over 30, after necessary recruiting in Sweden.

### **Dividends**

The Board proposes that no dividends be paid in the financial year 2006.

### **Annual General Meeting**

The Annual General Meeting will be held in the Polstjärnan Auditorium, Sveavägen 77, Stockholm, Sweden on Tuesday 24 April 2007 at 3 p.m.

## **ACCOUNTING PRINCIPLES**

### **The Group**

Medivir prepares its consolidated financial statements pursuant to IFRS, as endorsed by the EU. These are the same principles as applied in the Annual Report for 2005. Apart from the aforementioned IFRS, the group also observes RR's (Redovisningsrådet, the Swedish Financial Accounting Standards Council) recommendations RR 30 (complementary accounting standards for corporate groups) and RR 31 (interim reporting for corporate groups) and applicable RR Emerging Issues Task Force statements. The Interim Report has been prepared pursuant to IAS 34 Interim Financial Reporting.

### **Parent company**

In its accounting, as previously, Medivir AB applies the principles applicable to legal entities that prepare consolidated financial statements and are listed on a stock exchange. Briefly, this implies the continued application of RR's recommendations to the extent they are applicable to a group parent company. Thus Medivir AB observes RR 32:2005 'Accounting for Legal Entities'.

### **Discontinued operations**

In late-December 2005, Medivir decided that its HIV, hepatitis B (HBV) and shingles projects based on the older research platform of polymerase inhibition, would be outlicensed/divested. Accordingly, Medivir is accounting the polymerase projects that have been or will be outlicensed/divested pursuant to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, separately in its income statement. No assets or liabilities directly attributable to these projects existed as of 31 December, and accordingly, no divestment groups are accounted in the Balance Sheet. Revenues and costs attributable to these operations are accounted separately in the Income Statement as "discontinued operations".

The research operations carried out in the UK have largely been relocated to Sweden and have not been discontinued. A restructuring has occurred, where the research operations have been relocated/focused to Sweden, implying restructuring costs.

### **Revenue, remuneration at the beginning of the agreements**

IAS 18 stipulates that up-front payments of licensing agreements, where there are also commitments remaining to conduct services on the licensor's part, are considered as advance payments for a right acquired by the buyer to utilize patented technology in the future. As a consequence, the licensor has not concluded its earning of revenues before the estimated or determined contract term expires. In cases where an agreement implies that Medivir has outstanding undertakings and/or is to provide services for the counterparty, Medivir allocates the remuneration of up-front payments received pursuant to the estimated or determined contract term.

### **Fixed assets held for sale**

Because the research operations in Medivir UK have largely been relocated to Medivir AB and the remaining equipment is to be divested, tangible fixed assets to be divested within one year have been reclassified as current assets, pursuant to IFRS 5.

## **NOMINATION COMMITTEE**

In accordance with an Annual General Meeting resolution, the Election Committee for 2006-2007 will comprise representatives of at least the three largest shareholders at the end of the third

quarter 2006, and the Chairman of the Board. With regard to proposed nominations for new Board members, please refer to the new nomination committee which from 1 October comprises Joachim Spetz (Handelsbanken Funds), Roger Johanson (Skandia), Bo Öberg and the Chairman of the Board Anders Vedin.

## OUTLOOK

Medivir's ability to produce new CDs, to enter partnerships on its projects, and to bring its development projects to market launches and sales, is decisive to its future. The progress of existing partnerships and securing new partnerships will exert a major influence on Medivir's revenues and cash position, although scheduling revenue flows is impossible.

Huddinge, Sweden, 14 February 2007.

Medivir AB  
The Board

## REVIEW REPORT

We have conducted a limited review of the interim financial statements for Medivir AB (publ) for the period 1 January – 31 December 2006. The preparation and presentation of these interim financial statements in accordance with the Swedish Annual Accounts Act and IAS 34 are the responsibility of the company's management. Our responsibility is to report our conclusions concerning these interim financial statements on the basis of our limited review.

We have conducted our limited review in accordance with the Standard for Limited Review (SÖG) 2410 *Limited review of interim financial information conducted by the company's appointed auditor*, issued by FAR. A limited review consists of making inquiries, primarily to individuals responsible for financial and accounting matters, as well as performing analytical procedures and taking other limited review measures. A limited review has a different focus and significantly less scope than an audit according to RS Auditing Standards in Sweden and generally accepted auditing practice. The review procedures undertaken during a limited review do not enable us to obtain a level of assurance at which we would be aware of all important circumstances which would have been identified had an audit been conducted. Therefore, a conclusion reported on the basis of a limited review does not reach the level of certainty of a conclusion reported on the basis of an audit.

Based on our limited review, no circumstances have come to our attention which would give us reason to believe that the interim financial statements are not, in all material respects, prepared in accordance with the Swedish Annual Accounts Act and IAS 34.

Stockholm, Sweden, 14 February 2006

Liselott Stenudd  
Authorized Public Accountant  
PricewaterhouseCoopers AB

Peter Clemedtson  
Authorized Public Accountant  
PricewaterhouseCoopers AB

**CONSOLIDATED INCOME STATEMENT**  
SEK m

	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>Jan-Dec</b>	<b>Jan-Dec</b>	<b>Jan-Dec</b>
<b>Continuing operations</b>			
<b>Turnover, etc.</b>			
Net sales	67.9	102.6	82.6
Other revenue	3.3	2.2	2.5
<b>Total</b>	<b>71.2</b>	<b>104.8</b>	<b>85.1</b>
<b>Operating costs</b>			
Other external costs	-163.8	-87.2	-90.8
Personnel costs	-106.1	-99.5	-90.8
Depreciation and amortization	-17.5	-20.2	-16.6
Write-downs	-29.6	-0.0	-0.0
<b>Total operating costs</b>	<b>-317.0</b>	<b>-206.9</b>	<b>-198.2</b>
<b>Operating profit</b>	<b>-245.8</b>	<b>-102.1</b>	<b>-113.1</b>
Profit from financial investments	1.1	8.3	12.3
<b>Profit after financial items</b>	<b>-244.7</b>	<b>-93.8</b>	<b>-100.8</b>
Tax	4.9	3.2	2.5
<b>Net profit from continuing operations</b>	<b>-239.8</b>	<b>-90.6</b>	<b>-98.3</b>
<b>Discontinued operations</b>			
Net profit from discontinued operations	44.2	-14.1	-13.2 A)
<b>Net profit</b>	<b>-195.6</b>	<b>-104.7</b>	<b>-111.5</b>
Earnings per share, SEK	-15.16	-8.10	-10.38
Average number of shares, 000	12,903	12,903	10,746
Number of shares at end of period, 000	12,903	12,903	12,903

The Group has estimated accrued tax-deductible losses of some SEK 800 m-plus until 2006 inclusive.

**A) Specification of discontinued operations**

<b>MSEK</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>Jan-Dec</b>	<b>Jan-Dec</b>	<b>Jan-Dec</b>
Revenue	58.1	0.0	0.0
Costs	-13.9	-14.1	-13.2
<b>Net profit from discontinued operations</b>	<b>44.2</b>	<b>-14.1</b>	<b>-13.2</b>

Discontinued operations include those polymerase inhibitor projects that have, or will be, outlicensed/divested, and where Medivir no longer conducts research in-house.

# **CONSOLIDATED INCOME STATEMENT**

SEK m

	<b>2006</b>	<b>2005</b>	<b>2004</b>
	<b>Oct-Dec</b>	<b>Oct-Dec</b>	<b>Oct-Dec</b>
<b>Continuing operations</b>			
<b>Turnover, etc.</b>			
Net sales	36.1	61.7	64.2
Other revenue	2.7	2.0	1.7
<b>Total</b>	<b>38.8</b>	<b>63.7</b>	<b>65.9</b>
<b>Operating costs</b>			
Other external costs	-55.8	-26.5	-22.2
Personnel costs	-31.5	-24.4	-25.4
Depreciation and amortization	-4.3	-4.9	-4.7
Write-downs	-29.6	-0.0	-0.0
<b>Total operating costs</b>	<b>-121.2</b>	<b>-55.8</b>	<b>-52.3</b>
<b>Operating profit</b>	<b>-82.4</b>	<b>7.9</b>	<b>13.6</b>
Profit from financial investments	-1.5	1.1	8.2
<b>Profit after financial items</b>	<b>-83.9</b>	<b>9.0</b>	<b>21.8</b>
Tax	4.5	2.9	2.1
<b>Net profit from continuing operations</b>	<b>-79.4</b>	<b>11.9</b>	<b>23.9</b>
<b>Discontinued operations</b>			
Net profit from discontinued operations	-1.2	-3.9	-3.2
<b>Net profit</b>	<b>-80.6</b>	<b>8.0</b>	<b>20.7</b>

## CONSOLIDATED BALANCE SHEET

SEK m

	2006 31 Dec	2005 31 Dec	2004 31 Dec
<b>Assets</b>			
<b>Fixed assets</b>			
Intangible fixed assets	1.4	9.1	10.9
Tangible fixed assets	33.4	81.7	80.7
<b>Total fixed assets</b>	<b>34.8</b>	<b>90.8</b>	<b>91.7</b>
<b>Current assets</b>			
Fixed assets held for sale	13.5	0.0	0.0
Current receivables	43.4	63.3	24.3
Short-term investments	172.1	283.5	419.6
Cash and bank balances	23.0	18.3	21.0
<b>Total current assets</b>	<b>252.0</b>	<b>365.1</b>	<b>464.9</b>
<b>Total assets</b>	<b>286.8</b>	<b>456.0</b>	<b>556.6</b>
<b>Liabilities and shareholders' equity</b>			
<b>Shareholders' equity</b>	<b>186.3</b>	<b>378.0</b>	<b>475.7</b>
Long-term liabilities, interest-bearing	0.0	9.2	18.7
Deferred tax liability	0.0	2.0	2.5
Current liabilities, interest-bearing	6.9	9.2	9.2
Current liabilities, non interest-bearing	93.6	57.7	50.5
<b>Total liabilities and shareholders' equity</b>	<b>286.8</b>	<b>456.0</b>	<b>556.6</b>

## STATEMENT OF CHANGES TO SHAREHOLDERS' EQUITY

SEK m

	2006 31 Dec	2005 31 Dec	2004 31 Dec
<b>Opening balance of shareholders' equity</b>	<b>378.0</b>	<b>475.7</b>	<b>274.8</b>
Effect of revised principle, IAS 39	-	1.5	0.0
Exchange rate differences	2.4	3.3	-2.6
<b>Total revenue and costs accounted directly in shareholders' equity</b>	<b>2.4</b>	<b>4.8</b>	<b>-2.6</b>
Net profit	-195.6	-104.7	-111.5
<b>Total accounted revenue and costs</b>	<b>-193.2</b>	<b>-99.9</b>	<b>-114.1</b>
New issue	0.0	0.0	313.6
Staff stock option plans, value of employee service	1.5	2.0	1.4
<b>Closing balance of shareholders' equity</b>	<b>186.3</b>	<b>378.0</b>	<b>475.7</b>



## CONSOLIDATED CASH FLOW STATEMENT

SEK m

	2006 Jan-Dec	2005 Jan-Dec	2004 Jan-Dec	
<b>Ongoing operations</b>				
Profit after financial items	-200.4	-107.8	-114.0	A)
<i>Adjustment for items not included in cash flow, etc.</i>				
Depreciation, amortization and write-downs	47.1	20.2	17.9	
Profit from financial investments	-1.1	-8.3	-12.3	
Other adjustments	6.1	2.8	-1.0	
	<b>-148.3</b>	<b>-93.1</b>	<b>-109.5</b>	
Interest, yields and dividends, etc.	0.3	11.4	8.8	
Tax paid/received	-1.6	1.9	-1.4	
<b>Cash flow from ongoing operations before change in working capital</b>	<b>-149.6</b>	<b>-79.8</b>	<b>-102.0</b>	
Change in working capital	59.7	-33.7	16.6	
<b>Cash flow from ongoing operations</b>	<b>-89.9</b>	<b>-113.5</b>	<b>-85.4</b>	B)
<b>Investment activity</b>				
Acquisition/divestment of fixed assets	-5.4	-15.4	-51.3	
Acquisition/divestment of fixed-income securities	0.0	100.9	-100.9	C)
<b>Cash flow from investment activity</b>	<b>-5.4</b>	<b>85.5</b>	<b>-152.2</b>	D)
<b>Financing activity</b>				
New issue	0.0	0.0	313.6	
Amortization/change in loans	-11.4	-9.7	24.5	
<b>Cash flow from financing activity</b>	<b>-11.4</b>	<b>-9.7</b>	<b>338.1</b>	E)
<b>Cash flow for the period</b>				
Liquid assets, opening balance	301.9	339.6	239.2	F)
Change in liquid assets	-106.8	-37.7	100.5	
Exchange rate difference, liquid assets	0.0	0.0	0.0	
<b>Liquid assets, closing balance</b>	<b>195.1</b>	<b>301.9</b>	<b>339.6</b>	

A) Profit after financial items from continuing operations of the Medivir Group, SEK -244.7 m (Jan.-Dec. 2005 -93.8, Jan.-Dec. 2004 -100.8) and from discontinued operations SEK 44.2 m (Jan.-Dec. 2005 -14.1, Jan.-Dec. 2004 -13.2).

B) Cash flow from ongoing operations from continuing operations of the Medivir Group, SEK -134.1 m (Jan.-Dec. 2005 -99.4, Jan.-Dec. 2004 -72.1) and from discontinued operations SEK 44.2 m (Jan.-Dec. 2005 -14.1, Jan.-Dec. 2004 -13.2).

C) Reclassification of short-term investments with maturities of more than 3 months was conducted pursuant to IAS 7.

D) Cash flow from investment activity from continuing operations of the Medivir Group, SEK -5.4 m (Jan.-Dec. 2005 85.5, Jan.-Dec. 2004 -152.2) and from discontinued operations SEK 0 m (Jan.-Dec. 2005 0, Jan.-Dec. 2004 0).

E) Cash flow from financing activity from continuing operations of the Medivir Group, SEK -11.4 m (Jan.-Dec. 2005 -9.7, Jan.-Dec. 2004 338.1) and from discontinued operations SEK 0 m (Jan.-Dec. 2005 0, Jan.-Dec. 2004 0).

F) Liquid assets comprise cash and bank balances and short-term investments with maximum maturity of 3 months.

For the loan of SEK 6.9 m as of 31 Dec. 2006 that Medivir AB raised, the company has pledged short-term investments of SEK 3.4 m as collateral.

## KEY FIGURES

	2006 Jan-Dec	2005 Jan-Dec	2004 Jan-Dec
<i>Return on:</i>			
equity, %	-69.3	-24.5	-29.7
capital employed, %	-66.6	-23.7	-28.9
total capital, %	-52.8	-21.0	-26.2
Average number of shares, 000	12,903	12,903	10,746
Number of shares at end of period, 000	12,903	12,903	12,903
Outstanding warrants, 000	677.0	887.0	646.9
Earnings per share, SEK	-15.16	-8.10	-10.38
Shareholders' equity per share, SEK	14.44	29.29	36.87
Cash flow per share after investments, SEK	-7.39	-2.17	-22.12
Earnings per share after full exercise of outstanding warrants, SEK	-14.22	-7.34	-9.52
Shareholders' equity per share after full exercise of outstanding warrants, SEK	18.50	33.72	40.66
Equity ratio, %	65.0	82.9	85.5

For forecast year-2007 earnings per share, please refer to the 'Outlook' heading in the section on Medivir's consolidated turnover and costs.

The key figures are for the Group's total operations, i.e. no separate key figures for continuing and discontinued operations are disclosed.

A) After full utilization of outstanding warrants.

IAS 33 stipulates that any potential ordinary shares do not give rise to any dilution effect when their conversion into ordinary shares results in increased EPS, which would occur upon the conversion of Medivir's outstanding stock options. Thus, the above should not be considered a calculation of dilution effects but a theoretical calculation of earnings and shareholders' equity per share, after the full exercise of outstanding warrants.

B) Previous stock option plans from 2001 and 2002 have been recalculated due to the new issue consummated in June 2004. Warrants from these plans confer the rights to conversion of 1.10 shares per stock option, and the exercise price has been recalculated. The stock option plan from 2001 matured on 30 June 2006 without any conversion occurring, and is not included in the calculation of key figures as of 31 December 2006.