

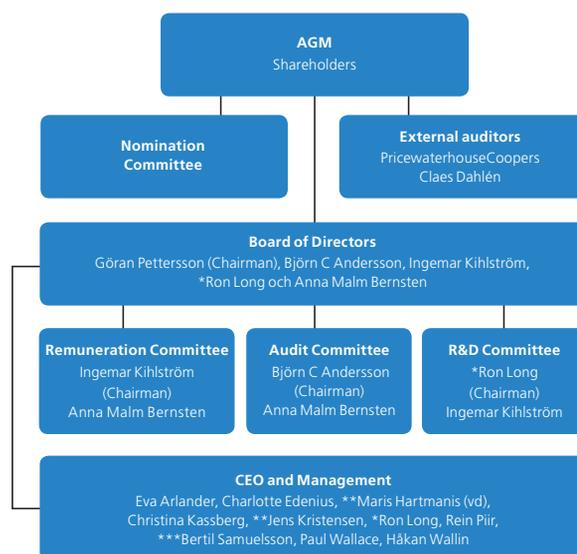
# Corporate Governance Report

The Medivir group consists of 14 companies, which conduct operations in three countries. The parent company of the group is the Swedish public limited company, Medivir AB, whose shares are quoted on Nasdaq OMX Stockholm.

Good corporate governance is an essential component in the work behind 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's corporate governance model



\* Ron Long resigned 26 September.

\*\* Appointed 1st September 2011.

\*\*\* Up to and including 1st September.

## External regulation

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

- The Swedish Companies Act
- Accounting regulations
- Nasdaq OMX Stockholm's Rules for Issuers
- The Code of Corporate Governance

## Compliance with applicable regulations for stock market trading

No breaches of existing stock market rules occurred, and Medivir's operations were conducted in accordance with generally accepted practice on the stock market.

## Compliance with the Swedish Code of Corporate Governance

Medivir has applied the Code of Corporate Governance since 1 July 2008, and has undertaken to follow best practice with regards to corporate governance wherever possible. This includes continuing to comply with the Code of Corporate Governance. Medivir has deviated with the Code of Corporate Governance in respect of the number of members of the Audit Committee, with more information under 'Audit committee' below. Information on the Code of Corporate Governance is available at [www.bolagsstyrning.se](http://www.bolagsstyrning.se).

## Internal regulations

For compliance with laws and regulations and to satisfy the high ethical standards we apply to Medivir ourselves, Medivir also has internal regulations including:

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

## Significant events in 2011

- On 1 June, Medivir reported the completion of the public take-over bid of BioPhausia AB. BioPhausia was de-listed from the Stockholm Stock Exchange on 15 July 2011.
- Maris Hartmanis was appointed as Deputy CEO and Chief Operating Officer (COO) and as a new member of Group Management on 1 September 2011.
- Bertil Samuelsson was appointed as Chief Scientific Adviser (CSA) on 1 September 2011, and thus left Group Management after 11 years' service as Vice President of Discovery Research.
- Charlotte Edenius was appointed Executive Vice President of Research & Development on 1 September 2011. Charlotte Edenius was already a member of Group Management.
- Jens D. Kristensen was hired as Executive Vice President of Clinical and became a new member of Group Management.

- Ron Long left Medivir on 26 September after approximately 2½ years as CEO and President.
- He simultaneously resigned his Board and Committee positions with Medivir.
- Maris Hartmanis was appointed CEO and President effective 26 September 2011.

### The share 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 156.3 (143.0) m at year-end, divided between 31,253,827 (28,593,229) shares, each with a nominal value of SEK 5. The closing price at year-end was SEK 66.50 (141.25) per share, equating to market capitalization of SEK 2,035 (3,996) m.

At year-end there were 10,635 (6,601) shareholders, of which 9,425 (5,517) had holdings of 1,000 shares or less. Bo Öberg was the largest shareholder in terms of voting rights, followed by Nils-Gunnar Johansson and Staffan Rasjö. 88.6% (83.5) of shareholders held 1,000 shares or less and the ten largest shareholders held 29.1% (36.4) of the total number of shares and 40.4% (33.5) of the total number of votes. Foreign shareholders held 27.97% (30.0) of total equity. For more information about ownership structure, see 'the Medivir share' on page 36.

### Decision-making at shareholders' meetings

Medivir's shareholders exercise their right of decision at shareholders' meetings (Annual General Meeting and, when invoked, Extraordinary General Meetings). Most of the decisions at shareholders' meetings are taken with a simple majority. However, in certain cases the Swedish Companies Act prescribes that decisions are reached by a qualified majority.

### 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 managers. Information on the company's previous AGMs is 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.

### Annual General Meeting 2011

The AGM 2011 was held on 5 May 2011. 78 (38) shareholders attended the meeting, personally or by proxy, representing some 42.40% (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.
- Board of Directors' fees for the period until the next AGM of a maximum of SEK 1,520,000 divided as follows.
  - Chairman of the Board: SEK 450,000
  - Other Board members not employed by the company: SEK 200,000 each
  - Chairman of the Audit Committee: SEK 80,000
  - Other members of the Audit Committee: SEK 65,000 each
  - Chairman of the R&D Committee: SEK 80,000
  - Other R&D Committee members not employed by the company: SEK 65,000 each
  - Chairman of the Remuneration Committee: SEK 65,000
  - Other Remuneration Committee members not employed by the company: SEK 50,000 each
- As before, Auditors' fees for the period until the next AGM would be payable according to open account.
- Guidelines for remunerating senior managers.
- Procedures for the Nomination Committee's appointment and work.
- 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.\*

\*This authorization has not been utilized.

**Extraordinary General Meeting 2011**

An Extraordinary General Meeting (EGM) was held on 5 May 2011. The minutes of this shareholders' meeting are on Medivir's website. Some of the resolutions reached by the meeting were:

To authorize the Board of Directors to decide on the new issue of class B shares on one or more occasions before the next AGM, with the right and obligation to pay for the new shares through transfer (in kind) of shares of BioPhausia AB (publ) shares to Medivir, because of Medivir's public take-over bid.

**Annual General Meeting 2012**

Medivir's AGM 2012 will be held on 10 May at the Polstjärnan Conference Centre, Stockholm, Sweden on 10 May. Shareholders that wish to have a matter considered by the AGM should submit their written request to the Board of Directors in good time prior to the Meeting. More information is available on Medivir's website.

**Nomination Committee**

The Nomination Committee procedure adopted at the AGM 2011 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, who are offered the opportunity to each appoint a representative to a Nomination Committee.
- 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.
- According to this procedure, the Chairman of the Board should also be a member of the Nomination Committee. The Nomination Committee should select 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](mailto:valberedning@medivir.se). The names of shareholders' representatives on the Nomination Committee are published by no later than six months prior to the AGM.

**Members of the Nomination Committee**

The current Nomination Committee consists of the Chairman of the Board and three members appointed

by the three largest shareholders in terms of the votes as of 30 September 2011:

- Anders Algotsson, Chairman and representative of AFA Försäkring
- Caroline af Ugglas, representative of Skandia Liv
- Bo Öberg, representative of class A shareholders
- Göran Pettersson, Chairman of Medivir

**Nomination Committee for the AGM 2012**

Name	Representing	Prop. of votes, % 30 Sep. 2011
Caroline af Ugglas	Skandia Liv	3.44
Anders Algotsson	AFA Försäkring	3.04
Bo Öberg	Class A shareholders	18.74
Göran Pettersson	Medivir's Board of Directors	0.03
<b>Total</b>		<b>25.25</b>

**Nomination Committee duties**

Over the years, the duties of the Nomination Committee have changed to satisfy the standards of the Swedish Code of Corporate Governance. However, the primary duty of the Nomination Committee remains to propose candidates for election to the Board of Directors. To do this, the Nomination Committee must stay informed on the group's strategy and its future challenges in order to be able to judge which competence and experience are necessary for Board members. Moreover, the Nomination Committee must consider all applicable rules governing the non-affiliation of Board members. In addition, the Nomination Committee consults on proposals for AGM resolutions regarding remuneration and fees to:

- Non-employed Board members elected by the AGM
- The auditor
- Members of the Nomination Committee.

Until the present, the Nomination Committee has not proposed that any remuneration should be paid to its members. The Nomination Committee proposes candidates for auditor jointly with the Board of Directors' Audit Committee.

The Nomination Committee should also propose a candidate for election as Chairman of the AGM.

**Work of the Nomination Committee for the AGM 2012**

The work of the Nomination Committee commences with a review of a checklist of all the duties the Nomination Committee should conduct as defined by the Swedish Code of Corporate Governance, and the Rules of Procedure of the Nomination Committee, which are adopted at the AGM. In addition, a schedule

**Composition of the Board of Directors, May 2011 - May 2012**

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	Member		No
Göran Pettersson	2008	1945	Chairman				No

\* Ron Long is affiliated to the company due to his employment as Medivir's CEO. Ron Long resigned on 26 September 2011.

**Board members' attendance in 2011\***

Name	Function	Board meetings	Remuneration Committee	Audit Committee	R&D Committee
Björn C Andersson	Member	23/23		6/6	
Ingemar Kihlström	Member	22/23	4/4		2/2
Ron Long**	Member	11/18			1/1
Anna Malm Bernsten***	Member	14/23	4/4	6/6	
Göran Pettersson	Chairman	23/23			

\* If a member was prevented from participating in a Board meeting, they had the opportunity of presenting their views to the Chairman before the meeting.

\*\* Ron Long resigned on 26 September 2011.

\*\*\* Anna Malm Bernsten did not participate in the Board of Directors' consultations and decision-making regarding the purchase of BioPhausia AB.

is set for the work to be conducted. A good understanding of Medivir's operations is decisive for the members of the Nomination Committee to perform their duties.

The Chairman of the Board is responsible for appraising the work of the Board of Directors including individual members' efforts annually. The Nomination Committee has been kept closely informed of the results of these appraisals, including the appraisal of the Chairman of the Board. Based on this information, the Nomination Committee can judge which competence and experience are necessary for Board members.

In addition, the Nomination Committee has received the group's and Audit Committee's appraisal of the quality and effectiveness of the work of the auditor, including recommendations for auditors and audit fees. By 26 March 2012, the Nomination Committee had held four meetings, which all members attended. The Nomination Committee's complete proposals for the AGM 2012 were published in tandem with the invitation to the AGM.

**Board of Directors**

The Board of Directors bears ultimate responsibility for Medivir's organization and administration of the company's operations and has the overall duty of administering the company's affairs on behalf of the shareholders in the best manner possible. The Board of Directors sets the guidelines and instructions for day-to-day operations led by the CEO and President. In turn, the CEO and

President ensures that the Board of Directors is kept regularly informed of events that are significant to the group. This includes the progress of the group and the group's results of operations, financial position and liquidity.

In accordance with the Articles of Association, the Board of Directors should consist of a minimum of three and a maximum of ten members, with a maximum of two deputies.

Members serve, effective from the end of the AGM when they are elected until the end of the succeeding AGM. There is no limit to the number of consecutive periods a member may serve on the Board of Directors.

The CEO may be elected to the Board of Directors, but according to the Swedish Companies Act, the CEO of a public company may not be appointed as Chairman of the Board.

**Composition of the Board of Directors**

The Board of Directors elected by the shareholders at the AGM 2011 for the period until the end of the AGM 2012 consisted of five members including the Chairman of the Board. Ron Long resigned on 26 September 2011, whereupon the Board of Directors had four members including the Chairman of the Board. Ron Long was the only Board member who was also a member of Medivir's management in 2011. For a review of the Board members, see page 48.

### Rules of Procedure

In accordance with the Swedish Companies Act, each year, the Board of Directors adopts written 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.

According to the Rules of Procedure, a Board meeting following election should be held immediately after the AGM. In addition, the Board of Directors normally holds at least six scheduled meetings each year. Four of these are held in conjunction with publication of the group's annual and interim financial statements. At least one meeting deals with the research portfolio, and at least one meeting deals with specific strategy issues. Budgets and financial prospects are dealt with during the final month of the calendar year. Additional meetings, including telephone conferences, are held as necessary.

### Non-affiliation

Several different types of non-affiliation requirement apply to the Board of Directors and its committees. Medivir applies the non-affiliation standards of applicable Swedish legislation, the Swedish Code of Corporate Governance and NASDAQ's stock exchange rules. The Board of Directors' composition satisfies all applicable requirements of non-affiliation.

For the AGM 2011, in accordance with the standards of the Swedish Code of Corporate Governance, the Nomination Committee's judgment was that four of the members proposed as Board members were non-affiliated to Medivir, its management and major shareholders. These four people are: Göran Pettersson, Björn C. Andersson, Anna Malm Bernsten and Ingemar Kihlström.

### Board of Directors' duties

The primary duty of the Board of Directors is to manage the group's operations on behalf of the shareholders in such a way that shareholders' interests in terms of good,

long-term returns on capital are satisfied in the best possible way. The Board of Directors' work is regulated through the Swedish Companies Act, the Articles of Association, the Code and the Rules of Procedure that the Board of Directors has adopted for its work. Medivir's Articles of Association are available at the company's website.

The Board of Directors manages and decides on overall group issues such as:

- Primary goals
- Strategic orientation
- Essential issues relating to finance, investment, acquisitions and divestments
- Following up and controlling operations, corporate communications and organizational matters, including appraising the group's executive management
- Election of, and where required, termination of, the company's CEO
- Overall responsibility for preparing effective systems for internal control and risk management
- Important policies.

### The Board of Directors' work in 2011

In 2011, the Board held 23 meetings where minutes were taken. All meetings in the year conformed to an approved agenda, which was supplied to members before meetings, with documentation for each item on the agenda. Normally, each scheduled Board meeting lasts half a day to provide time for presentations and discussions. An appointed lawyer served as secretary at all Board meetings. The CEO attended the majority of Board meetings.

Other Medivir employees reported at Board meetings as required. Each scheduled Board meeting includes a review of current business conditions, the Group's results of operations and financial position as well as prospects for the remainder of the year. Reports on the work of Committees by the Chairmen of each Committee are usually dealt with at each board meeting. The work of the Board of Directors was intensive in the year, with more Board meetings than usual, which largely focused on:

- Acquisitions
- Finance issues and the Group's capital structure
- Strategic focus
- Financial performance
- Research and pharmaceutical development
- Partnerships and collaborations
- 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 2011, the Remuneration Committee had the following members: Ingemar Kihlström (Chairman) and Anna Malm Bernsten. 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. In 2011, the Remuneration Committee held four meetings where minutes were taken that all members attended. In addition, the Committee held a number of consultations by telephone and email. Largely, the Committee focused on:

- Review of proposals for a new program for short-term performance-related pay.
- Review of proposals on salary and benefits for senior managers for 2011.

#### Audit Committee

The Audit Committee is appointed by the Board and should consist of a maximum of four members. In 2011, the Audit Committee had the following members: Björn C Andersson (Chairman) and Anna Malm Bernsten. Both members are non-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 2011, the Audit Committee held six meetings where minutes were taken that all members attended. Largely, the committee focused on:

- The scope and accuracy of the financial statement.
- Reviewing the company's risk management, governance and internal controls
- Reviewing the key policies
- Significant audit issues
- Reviewing reports from the company's Auditor elected by the AGM including the Auditor's audit plan

According to the Code of Corporate Governance, the Audit Committee should consist of at least three Board members. In 2011, 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.

#### R&D Committee

The R&D Committee is appointed by the Board and should consist of a maximum of four members. Up until 26 September 2011, the R&D Committee was comprised of Ron Long (Chairman) and Ingemar Kihlström. Because on 26 September, Ron Long left his position as CEO and President of Medivir, he also resigned his Board position and position on the R&D Committee.

The Committee is advisory and is not entitled to take decisions, over and above what is stated below.

The primary duty of the R&D Committee is to review Medivir's research portfolio and provide the Board of Directors with decision-support data for the strategic orientation of the R&D portfolio. In addition, the R&D Committee should:

- Approve project start-ups at the start of lead optimization.
- Advise management on complex scientific issues.

In 2011, the R&D Committee held two meetings when minutes were taken, which all members sitting at the time attended.

#### Group Management

The Board of Directors appoints the CEO and President, and where necessary, the Chief Operating Officer. In Medivir, the CEO and President is the same person. The CEO leads the work of Group Management and is responsible for operating activities jointly with Group Management in accordance with the Swedish Companies Act, other laws and ordinances, applicable rules for listed companies, the Articles of Association and the CEOs Instructions. Group Management consists of eight people, including the CEO, and has a broad composition

of individuals with in-depth, thorough experience of the research and development, marketing and sales of pharmaceuticals. Management also possesses the necessary skills in accounting, finance and corporate communications. For a presentation of management, see page 39.

The role of Group Management is to:

- Establish a long-term vision, corporate culture and strategies and policies based on the goals set by the Board of Directors.
- Set goals for the operational units, allocate resources and monitor the results of these units.
- Produce information and documentation as supporting data for the Board of Directors to be able to take well-founded decisions.

Medivir transforms its strategic goals into goals for the operational units. This is conducted primarily to measure:

- Progress of the research portfolio
- Financial performance and results of operations per operational unit
- Employee satisfaction and influence.

Goals for the coming year are updated on the basis of yearly strategy work. Goals are set for each unit and communicated through the whole organization and constitute a management tool for adapting the goals of operational units and employs to the company's goals, and to monitor fulfillment of goals and monitor identified risks.

Medivir has two dimensions. The legal entities of 14 companies, which are active in three countries, and the operational units organized into two business areas: Pharmaceuticals and Parallel Import. The Pharmaceuticals business area includes the group's research portfolio and the original pharmaceuticals that BioPhausia has unlimited ownership of. The Parallel Import business area conducts the parallel import of pharmaceuticals.

#### **Election of auditors**

The duties of the Nomination Committee include proposing an auditor to the AGM. Medivir's auditor is authorized public accounting firm PricewaterhouseCoopers, with Auditor-in-Charge Claes Dahlén. PricewaterhouseCoopers was elected by the AGM 2008 for a period of four years. This agreement runs until its expiry in 2012, and subsequently, from the AGM 2012 onwards, auditors will be elected for one year.

The work of the auditors:

- The auditors work according to an audit plan, which obtains the views of the Audit Committee and the Board of Directors, and reports its observations continuously to the Audit Committee and to the Board

of Directors partly during the process of the audit, and partly in tandem with adopting the annual accounts.

- Reviewing interim reports and annual financial statements to judge their accuracy, completeness and the consistency of the accounting records with generally accepted accounting practice and relevant accounting principles.
- The auditors also participate at the AGM, where they review their audit work and any observations.

In the fourth quarter of 2011, PricewaterhouseCoopers replaced audit firm Ernst & Young as auditor of the BioPhausia group. In 2011, all Medivir's interim reports were reviewed by the auditor.

Apart from auditing, Medivir also consulted PricewaterhouseCoopers on tax issues and a range of audit and finance matters. PricewaterhouseCoopers verifies 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 managers**

##### **Principles for remuneration**

Principles for the remuneration of senior managers of Medivir are approved by the Annual General Meeting (AGM). Senior managers are the CEO and other members of the Management team.

The AGM 2011 approved the Nomination Committee's proposed guidelines for senior managers. Essentially, these guidelines are consistent with the principles adopted to date. Essentially, these guidelines mean that the company would offer total compensation on market terms that would enable the hiring and retention of skilled senior managers. Remuneration to senior managers may consist of basic salary, performance-related pay, incentive plans resolved by the AGM, pensions and other benefits. Basic salary should consider individual areas of responsibility and experience. Cash performance-related pay maybe a maximum of 50% of annual basic salary. Performance-related pay should be linked to predetermined and measurable criteria, designed with the aim of promoting the company's long-term value creation.

For more information on remuneration, see Note 5 on pages 63-67.

The Board of Directors' proposed guidelines for remuneration for the AGM 2012 are essentially consistent with those principles applied until the present. The Board of Directors' complete proposals to the AGM 2012 are stated on pages 31-32.

**Remuneration to senior executives (kSEK) \***

Function	Year	Basic salary	Performance-related pay	Severance pay	Benefits	Total	Pension	Total incl. pension
CEO	2011*	3,690	0	1,694	21	5,405	356	5,761
	2010	3,387	–	–	–	3,387	–	3,387
Other senior executives	2011**	8,818	–	–	4,906	13,724	1,940	15,664
	2010***	7,682	1,867	–	2,053	11,602	1,713	13,315
<b>Total</b>	<b>2011</b>	<b>12,508</b>	<b>0</b>	<b>1,694</b>	<b>4,927</b>	<b>19,129</b>	<b>1,940</b>	<b>21,425</b>
Total	2010	11,069	1,867	–	2,053	14,989	1,713	16,702

\*Ron Long resigned 26 september 2011 and was replaced by Maris Hartmanis.

\*\*In 2011, apart from the CEO, management consisted of seven people.

\*\*\*At the beginning of 2010, apart from the CEO, management consisted of six people, and at the end of the year, seven people.

**Directors' fees (kSEK)\***

Name	Function	Directors' fees		Audit Committee		Remuneration Committee		R&D Committee		Total	
		2011	2010	2011	2010	2011	2010	2011	2010	2011	2010
Björn C Andersson	Member	200	185	80	80	–	–	–	–	280	265
Ingemar Kihlström	Member	200	185	–	–	65	65	65	50	330	300
Anna Malm Bernsten	Member	200	185	65	65	50	–	–	–	315	250
Göran Pettersson	Chairman	450	435	–	–	–	50	–	–	450	485
<b>Total</b>		<b>1,050</b>	<b>990</b>	<b>145</b>	<b>145</b>	<b>115</b>	<b>115</b>	<b>65</b>	<b>50</b>	<b>1,375</b>	<b>1,300</b>

\* Remuneration to the Board of Directors for the period May 2011–April 2012 and for the period May 2010–April 2011, SEK 000. Fees to Board members elected by the AGM are resolved by the AGM after proposal from the Nomination Committee. Fees were payable according to the above table for 2010 and 2010. No consulting fees were paid to Board members. There is no remuneration to members that are also employees of the group. Remuneration is excluding travel expenses.

**Long-term incentive programs**

The intention of long-term incentive programs is to promote the company's long-term interests by motivating and rewarding the company's senior managers and other employees. Each year, the Board takes decisions on proposals to the AGM for potential new long-term incentive programs and their scope, goals and number of participants.

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 managers**

Senior managers mean the CEO and other members of management. Medivir obtains and evaluates information on market remuneration levels for relevant sectors and markets on a continuous basis. In 2011 and 2010, remuneration was payable according to the table on this page.

**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 on this page in 2011 and 2010.

**Auditors' fees**

Fees for the audit of Medivir are approved by the AGM's after the Nomination Committee's proposal. For 2011 and 2010, fees were payable as in the following table. In the 2010 figures, the balance sheet item equity also included an amount of SEK 1,195,000 for auditing in addition to the audit assignment relating to new share issues.

Auditors' fees (SEK 000)	2011	2010
<b>PWC</b>		
Auditing	537	330
Auditing services over and above audit assignment	330	284
Tax advice	336	108
Other services	1,323	898
<b>Sub-total</b>	<b>2,526</b>	<b>1,620</b>
<b>Ernst &amp; Young</b>		
Auditing	553	–
Auditing services over and above audit assignment	27	–
<b>Sub-total</b>	<b>580</b>	<b>–</b>
<b>Total</b>	<b>3,106</b>	<b>1,620</b>

# Board of Directors

## GÖRAN PETTERSSON

Chairman of the Board. 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 and Vivoxid Oy and a Board member of Pfizer Sweden's pension fund and Recipharm AB. Medivir shareholding (incl corp. holdings): 16,250 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 NAXS Nordic Access Buyout Fund AB and a Board member of Bliwa Livförsäkring, Euroben Life & Pension Ltd and Nordben Life Insurance & Pension Ltd. Medivir shareholding: 1,500 class B.

## INGEMAR KIHLESTRÖM

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 Creative Antibiotics AB, Hammercap AB and RecoPharma AB, and is Deputy Chairman of Diagenic ASA. Medivir shareholding (family): 5,850 class B.

## ANNA MALM BERNSTEN

Born in 1961. Member of Medivir's Board since 2006. Also a member of Medivir's Audit and Remuneration Committees. Anna holds a B.Sc. and has broad experience of life sciences and is a self-employed leadership and business development consultant. Senior executive experience at GE Healthcare Life Sciences, Pharmacia, Assa Abloy, Medivir, Baxter Medical and Carmeda AB. Anna is a Board member of Birdsteep ASA, Cellavision AB, Fagerhult AB, Matrison AB, Nolato AB and Chairman of Scientific Solutions AB and former Board member of BioPhausia AB. Medivir shareholding: 3,406 class B.



## BioPhausia AB

Chairman: Eva Arlander  
Board members:  
Maris Hartmanis and  
Christina Kassberg

## Cross Pharma AB

Chairman: Maris Hartmanis  
Board member:  
Christina Kassberg

## Auditors

PricewaterhouseCoopers AB for  
2008–2012. The Senior Auditor is  
Authorized Public Accountant  
Claes Dahllén

# Board of Directors' report on internal controls

The Board of Directors' responsibility for internal controls is regulated in the Swedish Companies Act and the Swedish Code of Corporate Governance. Internal controls over financial reporting are a component of the overall internal controls of Medivir, and are a central component of Medivir's corporate governance.

## Internal control over financial reporting

The overall 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. According to COSO framework, internal controls consist of components such as control environment, risk assessment, control activities, information and communication and monitoring.

## Control environment

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

The company's control environment is based on:

- Control documents such as the Board of Directors Rules of Procedure and CEO's instructions, policies and guidelines.
- Corporate culture
- The company's organization and the way it conducts operations, with clearly defined roles and responsibilities and the delegation of authority.
- Group-wide planning processes such as the R&D Portfolio Review process, and the yearly budget process.

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, the internal control environment includes policies and guidelines such as a finance policy, certification and authorization instructions as well as purchasing and investment policies. Internal control documents are updated regularly to capture changes to legislation. There are also checklists for significant routines and processes. Internal instructions and routines are subject to continuous enhancement. Financial statements are prepared monthly and quarterly for the Group,

parent company, subsidiaries, operational units and projects. This process involves special checks that can be conducted to ensure that reports maintain high quality.

## 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. If competing products take market shares or competing research projects achieve better efficacy and reach the market faster, the future value of Medivir's product and project portfolio may be lower than originally expected. Medivir's ability to produce new CDs, enter partnerships on its projects and successfully develop its projects to market launch and sustained sales, and to secure funding of its operations, are decisive to its future.

Medivir is exposed to the following main categories of risk:

- Exogenous risks such as regulatory approval, competition, price changes, external seasonal fluctuations and patent protection.
- Operating risks such as integration risk, production risk, dependency on key persons and partnerships;
- 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 33-35.

The risk of material misstatements in reporting may arise in conjunction with the book-keeping and measurement of assets, liabilities, revenues and expenses or non-compliance with disclosure requirements. Other risks in tandem with financial reporting include fraud, losses or embezzlement of assets or undue preference of another party at the expense of the company.

Medivir's risk assessment of financial reporting is designed to identify and evaluate the most significant risks affecting internal controls over financial reporting. Policies and guidelines for accounting and financial reporting cover segments of special significance to promote accurate and complete accounting, reporting and communication at the right time. Identified risks are managed through well-documented processes, through the clear division of duties and responsibilities and appropriate decision-making processes. This means that important transactions require special approval to ensure that assets are managed correctly.

### **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 largely 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](http://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 units consider appropriate. The intranet is a prime internal communication channel, where policies, guidelines and information are uploaded and briefings 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.