

# Corporate Governance Report

Medivir AB (publ) was founded in 1988 and has been quoted on Nasdaq OMX Stockholm since 1996. Medivir adopted the revised Swedish Code of Corporate Governance (“the Code”) on 1 July 2008, as part of Nasdaq OMX Stockholm’s regulatory structure. Medivir did not deviate from the Code in 2008. Pursuant to the Swedish Corporate Governance Board’s adoption guidelines, this Corporate Governance Report includes a separate section on how internal controls of financial reporting are organized. The Report is not part of the formal Annual Report documentation, and has not been reviewed by the company’s auditor.

The figure to the right illustrates Medivir’s corporate governance model, and the operations of its central bodies.

## Internal regulatory structures and policies that affect corporate governance

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

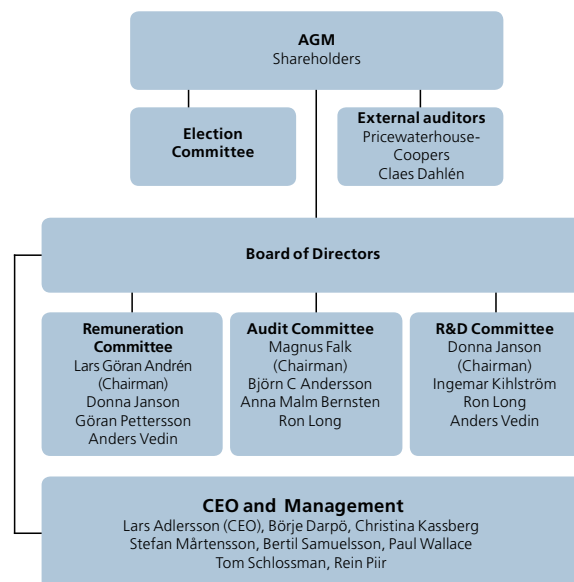
## External regulatory structures that affect corporate governance

- Swedish Companies Act
- The Swedish Book-keeping Act
- Swedish Annual Accounts Act
- Nasdaq OMX Stockholm’s Listing Agreement
- Swedish Code of Corporate Governance

## Shareholders

Medivir’s class B share was floated on Nasdaq OMX Stockholm in 1996. The high-vote class A share is not listed. All shares possess equal rights to participation in Medivir’s assets and profits. Class A shares confer ten votes and class B shares confer one vote. Medivir’s share capital was SEK 104,2 (104,2) m at year-end, divided between 20 843 547 (20 843 547) shares. The closing price on 30 December 2008 was SEK 46.90 per share, equating to market capitalization of some SEK 980 m.

## Medivir’s corporate governance model



As of 31 December 2008, there were 4,868 shareholders, of which 4,012 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. 5,5% of shareholders held 1,000 shares or less and the ten largest shareholders held 48,5% of the total number of shares and 61,2% of the voting rights. The share of foreign shareholders was 27,6% of total equity.

For more information on ownership structure, see The Medivir share on page 12.

## Annual General Meeting

Shareholders exercise control over the company at the Annual General Meeting (AGM). The AGM is held within six months of the end of the financial year. At the AGM, shareholders resolve issues including election of the Board of Directors, and where appropriate auditors, how to appoint the Election Committee and discharging the Board of Directors and CEO from liability for the past year. The AGM also considers adoption of the Income Statement and Balance Sheet, fees to the Board of Directors and Auditors and remuneration guidelines for the CEO and other senior executives. The minutes from the AGM 2008 are available at [www.medivir.se](http://www.medivir.se).

The AGM 2009 will be held on 23 April 2009. Minutes from the AGM will be uploaded to Medivir’s website, [www.medivir.se](http://www.medivir.se).

### Election Committee

The procedures of the Election Committee adopted at the AGM 2008 require the Chairman of the Board to contact at least three of the largest shareholders as of the end of the third quarter of the year. These shareholders are each requested to appoint a representative to the Election Committee, which should also include the Chairman of the Board. If any of these shareholders waives their right to appoint a representative, this right transfers to that shareholder with the largest shareholding after the aforementioned shareholders. The Election Committee appoints a Chairman to lead its work internally.

The Election Committee prepares proposals for electing and remunerating the Board of Directors,

Chairman, and where appropriate, Auditors, and the method for appointing the Election Committee and its Chairman to be submitted to the AGM for resolution.

The Election Committee's proposals will be published at the latest coincident with the notice convening the AGM. Shareholders were able to submit proposals to the Election Committee by 31 December 2008 by means including e-mail at; valberedning@medivir.se. The name of the shareholders representatives on the Election Committee should be published as soon as they are appointed.

The Election Committee for the AGM 2009 consists of Eva Gottfridsdotter-Nilsson (representing Länsförsäkringar Fonder, 3,9% of votes\*), Frank Larsson (representing Handelsbanken Fonder, 2,8% of votes\*), Bo Öberg (representing class A shareholders, 27% of votes\*) and

\* Record date 30 December 2008.

### Board members' attendance in 2008\*

Name	Function	Board meetings	R&D Committee	Remuneration Committee	Audit Committee
Anders Vedin	Chairman	100%	100%	100%	
Björn C Andersson	Member	88%			100%
Lars-Göran Andrén	Member	100%		100%	
Anna Malm Bernsten	Member	90%			100%
Magnus Falk	Member	100%			100%
Donna Janson	Member	100%	67%	100%	
Ingemar Kihlström	Member	100%	100%		
Ron Long	Member	100%	67%		75%
Göran Pettersson	Member	88%		100%	
Bo Öberg	Member	100%			

\*If a member was unable to attend a Board meeting, he/she had the opportunity of submitting views to the Chairman before the meeting.

### Composition of the Board of Directors, from 2008 onwards

Name	Remuneration Committee	Audit Committee	R&D Committee	Affiliation to the company's management and major shareholders
Anders Vedin	Member		Member	No
Björn C Andersson		Member		No
Lars-Göran Andrén	Chairman			No
Anna Malm Bernsten		Member		No
Magnus Falk		Chairman		No
Donna Janson	Member		Chairman	No
Ingemar Kihlström			Member	No
Ron Long**		Member	Member	No
Göran Pettersson	Member			No
Bo Öberg				Yes*

\* Bo Öberg is employed by the company and holds 284,000 class A shares and 333,280 class B shares with 11.8% of the voting rights in total.

\*\* Ron Long became CEO of Medivir AB on 1 February 2009 and is thus no longer independent of the company's management. He is also no longer a member of the Audit Committee.

**Directors' fees for the period May 2008 - April 2009 (SEK)\***

<b>Namn</b>	<b>Function</b>	<b>Directors' fee</b>	<b>Committee fees</b>	<b>Total</b>
Anders Vedin	Chairman	435 000	100 000	535 000
Björn C Andersson	Member	185 000	65 000	250 000
Lars-Göran Andrén	Member	185 000	65 000	250 000
Anna Malm Bernsten	Member	185 000	65 000	250 000
Magnus Falk	Member	185 000	80 000	265 000
Donna Janson	Member	185 000	115 000	300 000
Ingemar Kihlström	Member	185 000	50 000	235 000
Ron Long**	Member	185 000	115 000	300 000
Göran Pettersson	Member	185 000	50 000	235 000
Bo Öberg	Member	0	0	0
<b>Total</b>		<b>1 915 000</b>	<b>705 000</b>	<b>2 620 000</b>

\* Consulting fees were not paid to Board members.

\*\* Ron Long was appointed as CEO of Medivir AB on 1 February 2009 and his remuneration will be adjusted accordingly.

Anders Vedin, Chairman of Medivir's Board, as published in the prescribed manner. The mandate term runs until the composition of the next Election Committee has been published.

Since its appointment in autumn 2008, the Election Committee has met on one occasion where all members attended. The Chairman of the Board reported to the Election Committee on the annual appraisal process for the Board of Directors, Board members and CEO to the Election Committee, and also informed them of the outcome of this appraisal. The Election Committee also met the company's new (2009) CEO.

The Nomination Committee is proposing at the Annual General Meeting 2009 that a new Board of Directors is appointed through the re-election of five members, namely Göran Pettersson (new Chairman of the Board), Björn C. Andersson, Anna Malm Bernsten, Ingemar Kihlström and Ron Long (CEO). Former members Lars-Göran Andrén, Magnus Falk, Donna Janson, Anders Vedin and Bo Öberg are not standing for re-election.

**Board of Directors**

The over-arching task of the Board of Directors is to manage the company's affairs on behalf of the shareholders in the best way possible. The Board of Directors possesses substantial skills and experience in pharmaceuticals research, finance and strategy.

The Board of Directors evaluates the group's financial situation and appraises its executive management on an ongoing basis. The Board considers matters including the group's strategic orientation and organization, and decides on significant investments and commitments.

The Board adopts Rules of Procedure including the CEO's Instructions annually, which formalize matters including the division of responsibilities between the Board of Directors and Chief Executive Officer. The Rules of Procedure also formalize how Board activities are divided between Board members, how often the Board should meet and how work should be delegated to Board committees.

At each Board meeting, Board members receive a written agenda and comprehensive supporting documentation. Current business conditions, consolidated profits and financial position and the outlook for the remainder of the year are reviewed at each scheduled Board meeting. The Chairman of the Board leads the Board's work, represents the company on ownership issues and is responsible for appraising the Board's activities. The Chairman is also responsible for maintaining ongoing contacts with the group management, and for the Board performing its duties. Board members are presented on page 30.

**Board activities in 2008**

The Board of Directors elected its officers on 23 April 2008, held 11 meetings where minutes were taken in 2008 and was quorate on all occasions. Medivir's General Counsel, who is not a Board member, is Board Secretary. Other Medivir employees also participated at Board meetings, to submit reports. In the year, the Board of Directors mainly considered issues regarding strategy, research and development, outlicensing, collaboration, significant investments, financing, quarterly reports, the Financial Statement and Annual Report.

**Directors' fees 2008**

The AGM on 23 April 2008 resolved on total Directors' fees of SEK 2,620,000 payable for the period until the next AGM, divided as follows. Directors' fees of SEK 435,000 payable to the Chairman of the Board and SEK 185,000 to each of those Board members entitled to fees. For work on the Audit Committee, a fee of SEK 80,000 payable to the Chairman of the Committee, and SEK 65,000 to the Committee's three members. For work on the Remuneration Committee, a fee of SEK 65,000 payable to the Chairman of the Committee and SEK 50,000 to each of the Committee's three members. For work on the R&D Committee, a fee of SEK 65,000 payable to the Chairman of the Committee and SEK 50,000 to each of the Committee's three members.

**Board Committees**

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

*Remuneration Committee*

The Remuneration Committee is appointed by the Board of Directors and has a maximum of four members, who are Lars-Göran Andrén (Chairman), Donna Janson, Göran Pettersson and Anders Vedin. The Committee is advisory and does not have the right to take decisions. This Committee submits proposals to the Board regarding:

- (i) the Chief Executive Officer's salary and other employment terms,
- (ii) salaries and employment terms for other senior executives, and
- (iii) evaluation and proposals regarding incentive schemes.

In 2008, the Remuneration Committee held four meetings where minutes were taken, where all members attended. In addition, the Committee held a number of consultations via telephone and e-mail. At the AGM, the Board presents proposed guidelines for determining salary and other remuneration for the CEO and other members of the company's management, for the approval of the shareholders.

*Audit Committee*

The Audit Committee is appointed by the Board and has a maximum of four members, who are Björn C Andersson, Anna Malm Bernsten, Magnus Falk (Chairman) and Ron Long. The Committee is advisory and does not have the right to take decisions.

The primary task of the Committee is to support the Board in its work on the company's risk management, control and internal controls, and to quality-assure financial reporting. The Committee considers significant accounting issues affecting the group, and meets the company's auditors on an ongoing basis. The Committee evaluates audit work, supports the Election Committee in considering proposed auditors and their remuneration, and approves the supplementary services the company may purchase from external auditors. The Chairman of the Audit Committee is responsible for the whole Board being kept informed regarding audit work, and where necessary, submits matters for decision to the Board.

In 2008, the Audit Committee considered the company's risk analysis, finance policy and significant audit matters. The Committee also received and discussed the risk analysis and audit plan the auditors prepared as a basis for the statutory audit process. All of the Committee's members are independent of the company's major shareholders. In 2008, the Audit Committee held four meetings where minutes were taken, where all members attended. The Auditors, Chief Financial Officer and CEO also attended all meetings.

*R&D Committee*

The R&D Committee is appointed by the Board and has a maximum of four members, who are Donna Janson (Chairman), Ingemar Kihlström, Ron Long and Anders Vedin. The Committee is advisory and does not have the right to take decisions. This Committee's main tasks are to:

- (i) participate in preparing the principles for managing and prioritizing, and systems for monitoring, R&D activities,



(ii) review and provide the Board with decision-support data regarding the strategic focus of R&D operations and

(iii) periodically screen the research portfolio and participate in structuring proposals for overall priorities ahead of budget decisions and major updates. In 2008, the R&D Committee held three meetings where minutes were taken.

#### **Management**

The Chief Executive Officer leads the company's operations pursuant to instructions adopted by the Board of Directors. The CEO is responsible for keeping the Chairman and other Board members continuously informed on the company's progress, both financially and operationally, and for the required information being available to Board members.

Medivir's management has eight members including the CEO. The management has a broad composition of individuals with in-depth, thorough experience of the research and development, marketing and sale of pharmaceuticals. The management also possesses the necessary skills in accounting and finance, legal issues and corporate communications.

#### **Remuneration to senior executives**

The AGM 2008 determined that the compensation package offered by Medivir will follow market norms that enables skilled senior executives to be hired and retained. Remuneration to senior executives will consist of basic pay, potential performance-related pay, stock options pursuant to the 2007/2012 stock option plan resolved by the AGM, pension and other benefits. Fixed salaries relate to individual responsibilities and experience.

Performance-related pay – which at present, and where appropriate, is payable as a discretionary individual bonus – is a maximum of 50% of fixed salary. The CEO's pension scheme will conform to the ITP (supplementary pensions for salaried employees) scheme, and approximately 15% of basic pay excluding bonus and benefits. The pension plans of other senior executives will conform to the ITP scheme, and the relevant individual plan in the UK corresponds to legislated contributions, plus 6% of basic pay excluding bonus and benefits. The Board of Directors is entitled to diverge from the above guidelines if the Board considers that there are special circumstances in an individual case that justify this. For more detail on remuneration, see Note 3 on pages 52-54.

#### **Auditing**

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

On assignment from the Board, the Auditor conducts a summary review of all interim financial statements pursuant to the applicable standard for limited reviews (SÖG) 2410 "Limited review of interim financial information conducted by the company's appointed auditor". Other statutory audits of the Annual Report, Consolidated Financial Statements and accounting records and the Board of Directors' and Chief Executive Officer's management is conducted pursuant to applicable Swedish RS Auditing Standards. Audits of management, internal processes and control systems are conducted in the fourth quarter. The conclusions of this audit are reported to the

Audit Committee, and for the fourth quarter, also directly to the Board of Directors. During the year, the Auditors attended four meetings with the Audit Committee and one meeting with the Board of Directors.

Apart from auditing, Medivir also consulted PricewaterhouseCoopers on tax issues and a range of accounting matters. PricewaterhouseCoopers is accountable for verifying its independence ahead of decisions to also offer independent advisory services to Medivir apart from its auditing assignment. Information on audit fees is stated in Note 2 on page 52.

#### **Internal Audit**

The company has a simple legal and operational structure and formulated controlling and internal control systems. The Board of Directors and Audit Committee monitors the company's evaluation of internal controls through means including contacts with the company's Auditors. Against the above background, the Board of Directors has chosen not to conduct a dedicated internal audit process.

#### **Board of Directors' report for the financial year 2008 on the organization of internal control of financial reporting**

Pursuant to the Swedish Annual Accounts Act and the Swedish Code of Corporate Governance Medivir's Board of Directors is responsible for internal controls. This section has been prepared pursuant to section 3.7.2 of the Swedish Code of Corporate Governance, with supplementary instructions from the Swedish Corporate Governance Board. This report has not been reviewed by the company's auditors.

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

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

#### **Control environment**

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

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

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

#### **Risk assessment**

Effective risk assessment integrates Medivir's business opportunities and results with the requirements of shareholders and other stakeholders for stable, long-term value growth and control. Developing a new pharmaceutical to approved registration and launch is a highly capital intensive and risky process. The likelihood of reaching the market increases as the project moves through the development chain, which also affects costs, which rise steeply in later clinical phases.

Medivir is exposed to a range of risks, both operational and financial, including risks of misstatements in financial reporting. The company has an established risk management process for operational and financial risks. The company has identified, mapped and documented all significant operational risks and classified them system-

atically in terms of the likelihood and consequences of these risks for operations. The risk assessment and classification has been presented to, and is endorsed by, the Audit Committee and Board of Directors. Based on the outcome of internal and external risk assessment, the Committee continually discusses the focus and scope of the audit with the company's Auditors.

Financial risks such as liquidity risk, currency risk, interest risk and credit risk have been identified. They are mainly managed by the accounting and finance function pursuant to the group's finance policy. For a detailed review, see Note 8 on pages 55-58.

#### **Control activities**

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

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

There is an established controller function that conducts control activities at all levels of the company. This function analyses and monitors budget variances, prepares forecasts, investigates significant fluctuations over time 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 report and financial statement, and assigns the CEO to issue quarterly reports pursuant to the Board's Rules of Procedure. All financial reports are transmitted to Nasdaq OMX Stockholm first. They are also distributed to all shareholders that have not declined the opportunity of receiving this information. External information is also communicated continuously via 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 regarding the group's position and progress of profits. Meetings are held within the company at management level, and at the level individual function managers and project managers consider appropriate. The intranet is a prime internal communication channel, where policies, guidelines and information is uploaded and informative meetings for all staff are held on an ongoing basis.

#### **Monitoring**

The Board of Directors considers all the group's quarterly reports, financial statements and annual reports before publication. The Board receives regular financial reports on the group's position and profits, 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 Auditor conducts its audit process pursuant to the audit plan and monitors 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 the above 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.