

Corporate Governance Report

The Chairman's Statement

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

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

operations and an exclusive focus on oncology, and by targeting a higher percentage of late phase projects.

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



of the fact that we, in parallel with our strategic work, carried out a review of our methodology and cost structure that unfortunately resulted in around 40 employees becoming surplus to requirements.

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

Anna Malm Bernsten
Chairman of the Board

The Medivir Group comprises 6 companies. The Parent Company is the Swedish public limited company Medivir AB, whose shares are quoted on the Nasdaq Stockholm stock exchange.

Good corporate governance is an essential component of Medivir’s efforts to create value for its shareholders and we endeavour at all times to:

- Generate optimum conditions for active and responsible corporate governance.
- Achieve a well-balanced division of responsibility between owners, the Board of Directors, and the company management.
- Maintain a high level of transparency in relationships with owners, the capital market, employees and society at large.

Compliance with the Swedish Code of Corporate Governance (Code)

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

Decision-making at shareholders’ meetings

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

Annual General Meeting

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

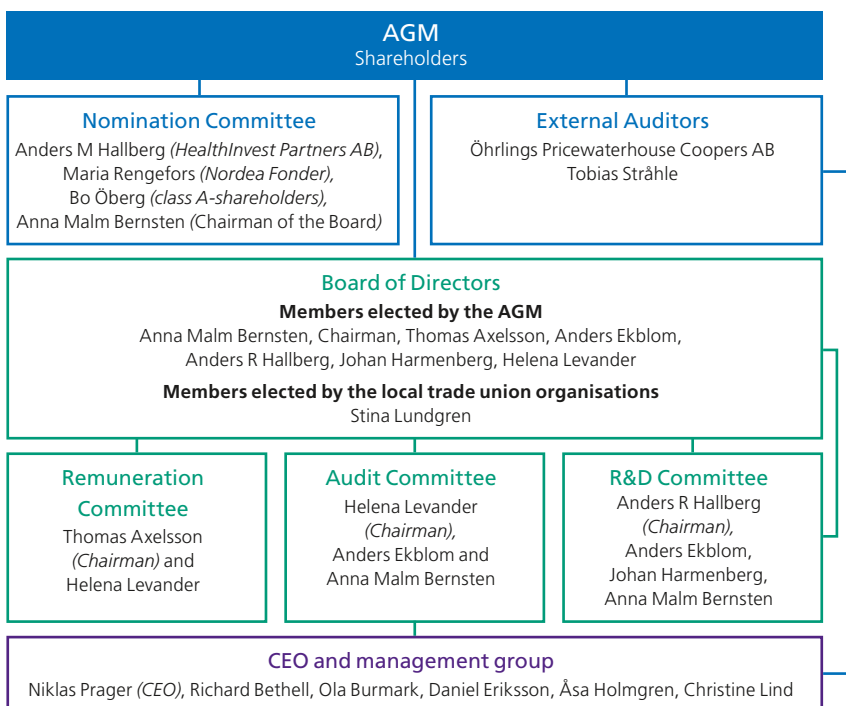
2016 AGM

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

- The re-election of the Board Members, Anna Malm Bernsten, Anders Ekblom, Anders R Hallberg, Johan Harmenberg and Helena Levander. The new election of one Member, Thomas Axelsson. Anna Malm Bernsten was elected Chairman of the Board.
- The Auditor’s fee for the period until the next AGM shall be payable upon approval of their invoice within the framework of the amount quoted.

- Remuneration guidelines to senior executives.
- Procedures for the appointment of the Nomination Committee and its work.
- The Directors’ fees for the period until the next AGM were maximised at SEK 2,750,000, divided as follows: the Chairman of the Board shall receive SEK 575,000 and other Members who are not employed by the company shall each receive SEK 240,000. Remuneration for committee work shall be paid in a sum of SEK 655,000, to be divided into SEK 210,000 in respect of the Audit Committee (of which SEK 80,000 shall be paid to the convening officer and SEK 65,000 to each of the other 2 members), SEK 115,000 in respect of the Remuneration Committee (of which SEK 65,000 shall be paid to the convening officer and SEK 50,000 to one other member), and SEK 330,000 in respect of the R&D Committee (of which SEK 90,000 shall be paid to the convening officer and SEK 80,000 to each of the other 3 members). The Meeting also approved the proposal that Board Members who have placed special emphasis on commercial development and other structural measures on behalf of the company, over and above their Board duties shall, as approved by the Board, be eligible to receive reasonable remuneration for such work, but no more than a combined maximum of SEK 320,000.

- Authorisation of the Board on one or more occasions before the next AGM, with or without deviation from the shareholders’ preferential rights, to approve the new issue of class B shares in a number that shall not, collectively, exceed 10% of the total number of class B shares outstanding after utilisation of the authorisation¹⁾.
- Authorisation of the Board on one or more occasions before the next AGM, to transfer the company’s own shares. At the end of 2016, Medivir held 49,455 (130,000) of its own shares, acquired at an average price of SEK 80.0. The 80,545 shares transferred during the year have been used within the company’s LTI 2013 incentive plan.



The model reflects the situation as of 30 December 2016.

¹⁾ The authorisation was not utilised in 2016.

2017 AGM

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

Nomination Committee

The Nomination Committee procedure adopted at the 2016 AGM means that the Chairman of the Board shall contact the 3 biggest shareholders in terms of the number of votes at the end of the 3rd quarter and offer them the opportunity to each appoint a representative to the Nomination Committee. If any of these shareholders waive their right to appoint a representative, the right shall pass to the shareholder with the next largest shareholding after these shareholders. The Chairman of the Board shall also be a member of the Nomination Committee. The Committee members shall jointly elect a Chairman to lead the work of the Committee.

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

Nomination Committee duties

The duties have changed over the years in order to comply with the requirements of the Code. The primary duty of the Committee continues, however, to be to propose candidates for election to the Board of Directors. The Committee must, in order to ensure its ability to evaluate the expertise and experience required of the Board

Members of the Nomination Committee

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

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

Members, keep itself informed of the Group's strategy and the challenges it will face. The Committee must also take into consideration all applicable rules governing the independence of the Board Members. The Committee shall also draw up proposals for resolution by the AGM regarding the remuneration and fees payable to:

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

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

The work of the Nomination Committee ahead of the 2017 AGM

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

The Chairman of the Board is responsible for the annual appraisal of the work of the Board, including the efforts of the individual Members of the Board. The Nomination Committee has been informed of the results of these appraisals, including the appraisal of the Chairman of the Board. The Committee is thus able to adjudge the expertise and experience required on the part of the Members of the Board. The Nomination Committee has also studied the Group's and Audit Committee's

appraisals of the quality and efficiency of the Auditor's work, including recommendations for auditors and audit fees.

The Committee has held 4 meetings, at which all members were present, by 28 February 2017. The Committee's full proposals for the 2017 AGM were published in conjunction with the issue of the notice convening the AGM.

Duties and work of the Board of Directors

The primary duty of the Board is to manage the Group's operations on behalf of the owners in such a way that the owners' interests, in terms of a long-term healthy return on capital invested, are optimally protected. The Board manages and decides on Group-wide issues such as:

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

The composition of the Board of Directors

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

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

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

Rules of Procedure and Board Meetings

The Board of Directors adopts written Rules of Procedure every year, clarifying the duties of the Board and regulating the division of labour of the Board and its Committees, including the role of the Chairman, the decision-making process within the Board, the Board’s schedule of meetings, notices convening Board meetings, agendas and minutes. The Rules of Procedure also regulate how the Board shall receive information and documentation in order to ensure its ability to take well-founded decisions. The Board adopts written instructions for the CEO each year, clarifying the CEO’s responsibility for the ongoing administration, methods of reporting to the Board, the requirement for internal control instruments, and other matters requiring a decision by the Board or which must be reported to the Board.

The Rules of Procedure require an inaugural Board Meeting to be held immediately after the AGM. The Board normally also holds a minimum of 6 further Meetings each year. Four of these Meetings are held in conjunction with the publication of the Group’s annual and interim reports. At least one of the Meetings deals with the

research portfolio and at least one deals with specific strategic issues. The budget and economic outlook are addressed during the final Meeting of each calendar year. Additional Meetings, inc. telephone conferences, are held as required.

The duties of the Chairman of the Board

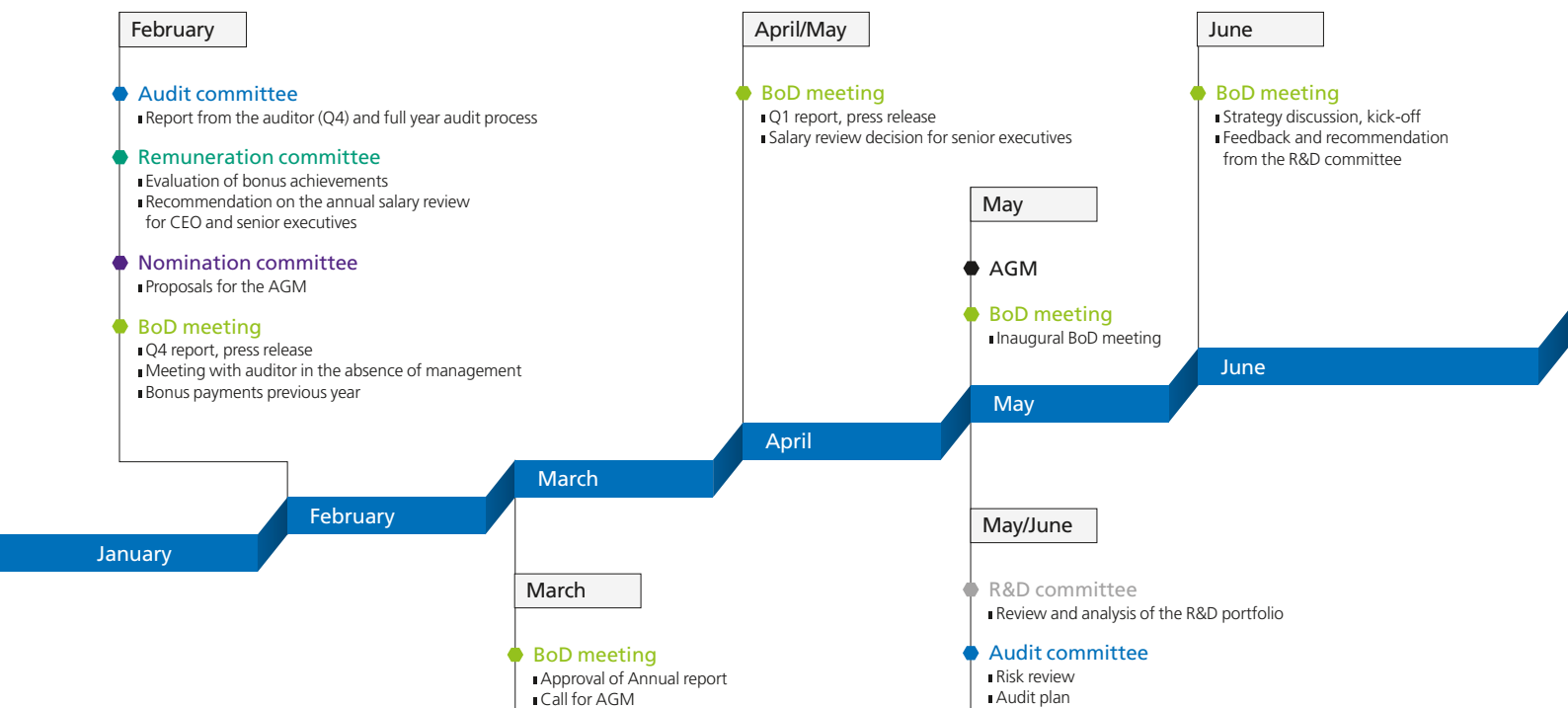
The Chairman is responsible for ensuring that the work of the Board is well-organised, conducted efficiently, and that the Board fulfils its obligations. The Chairman monitors company operations in dialogue with the CEO and is responsible for ensuring that other Board Members receive the information and documentation required to enable a high standard of discussion and decision-making, and for monitoring the implementation of the Board’s decisions. The Chairman is responsible for conducting an annual appraisal of the Board’s work and for ensuring that the Nomination Committee is provided with the results of the appraisals. The Board has evaluated its work during the year by means of an online questionnaire comprising ca. 50 questions in 7 areas. The area receiving the highest rating was that of the Chairman’s role and competence, whilst scope exists for reviewing the distribution of responsibilities within the Board. The results of the

evaluation have been submitted to the Nomination Committee. The Chairman represents Medivir on ownership issues.

The work of the Board of Directors in 2016

The Board has held 18 minuted Meetings in 2016. The attendance of the individual Members at these Meetings is shown in the table on page 47. All of the Meetings have followed an approved agenda which, together with the documentation for every item, was supplied to the Members before the relevant Meeting. An ordinary Board Meeting usually lasts for half a day in order to ensure sufficient time for presentations and discussions. An appointed Attorney-at-Law has acted as Secretary at the majority of Board Meetings. The CEO and CFO participate in the majority of Board Meetings. Reviews of the current business position, the Group’s results and financial position, and the outlook for the rest of the year are conducted at every ordinary Board Meeting. A member of the Group’s management group will review a relevant strategic issue. Reports on the work of the Committees are presented at each Board Meeting by the Chairmen of the respective Committees.

The Board’s annual work



The Board of Directors' attendance and fees (SEK k)⁹⁾

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

¹⁾ Appointed at the 2016 AGM.

²⁾ Travel expenses totalling SEK 4 thousand (SEK 0 k) have, in addition to Directors' fees, been paid to Nxt Science AB in 2016.

³⁾ Royalties in accordance with pre-existing agreements have, in addition to Directors' fees, been paid to Uppsala Hallbechem AB in the sum of SEK 512 thousand (SEK 3,259 k) for 2016.

⁴⁾ Independent in relation to the company's major shareholders, but not independent in relation to the company and the company management.

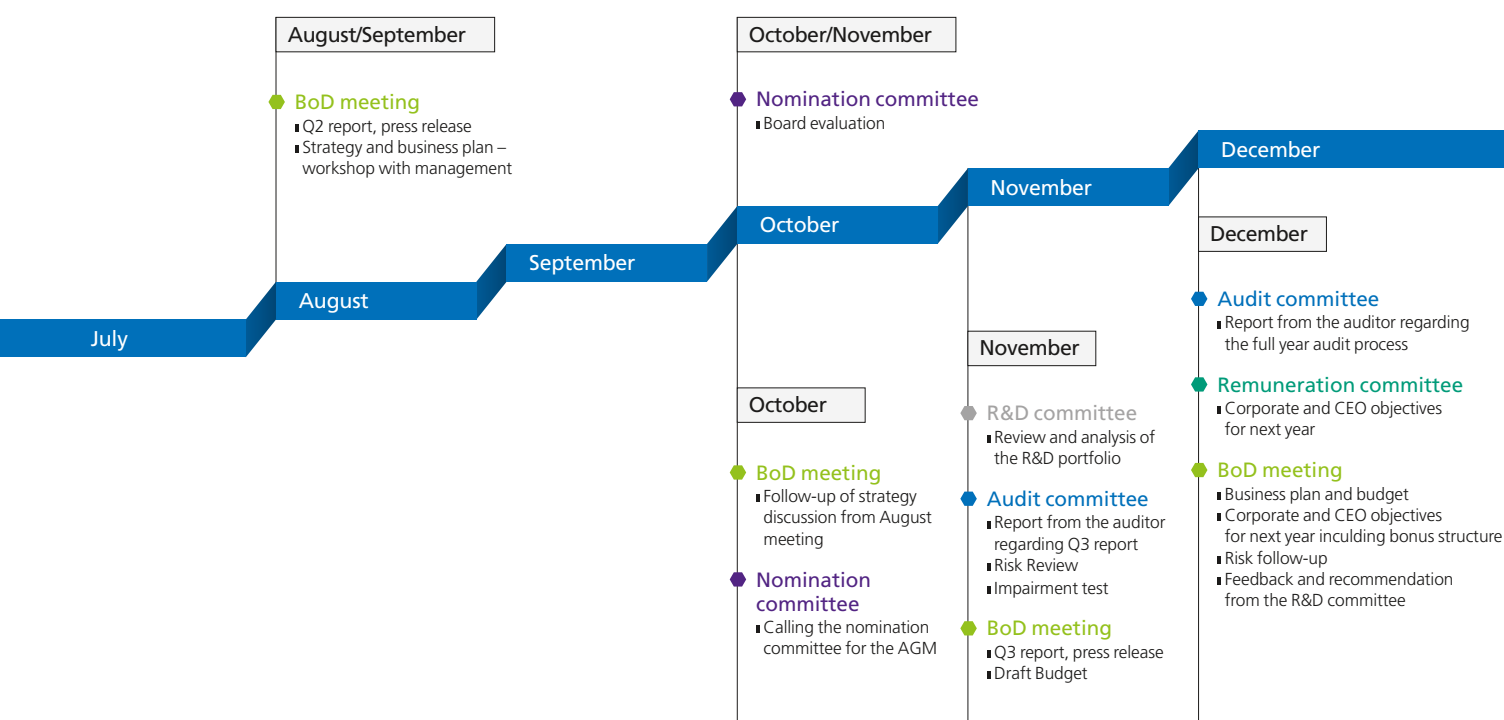
⁵⁾ Resigned at the 2016 AGM. For remuneration, see also Note 5 on pages 71–72. Royalties in accordance with pre-existing agreements have, in addition to Directors' fees, been paid to SYBESAM AB in the sum of SEK 969 thousand (SEK 8,998 k) for 2016.

⁶⁾ Resigned at the 2016 AGM. For remuneration, see also Note 5 on pages 71–72.

⁷⁾ The 2016 AGM resolved that Board Members who have, in respect of commercial development and other structural measures that may be taken in order to generate added value for the shareholders, carried out work on behalf of the company over and above their Board duties shall, as approved by the Board, be eligible to receive reasonable remuneration for such work, but no more than a combined maximum of SEK 320 thousand.

⁸⁾ Pia Appelqvist resigned in July 2016. Susana Ayasa Alvarez resigned in November 2016. Stina Lundgren became an ordinary Member of the Board in November 2016, prior to which she was a Deputy Member. Veronica Werlinder resigned in September 2016.

⁹⁾ The table refers to fees paid to the Board of Directors during the period from May 2016 – April 2017 (2016). The fee payable to Members of the Board elected by the Annual General Meeting is determined by the Annual General Meeting in line with a proposal by the Nomination Committee. Fees for 2016 have been paid in the amounts shown in the above table, which excludes travel expenses. Differences arise between the maximum fee approved by the Annual General Meeting and the actual amount disbursed, as the actual amount disbursed during the calendar year is a combination of the fees paid between the two most recent General Meetings. See Note 5 on pages 71–72 for actual amounts disbursed.



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

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

Board Committees

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

The Remuneration Committee

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

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

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

The Committee has also held consultations by telephone and email and has largely focused on:

- Reviews of proposals regarding salaries and remuneration for the CEO and other senior executives.
- Reviews of proposals for a programme for short-term performance-related pay.
- Review of the results of existing long-term incentive plans.
- Evaluation of the talent pool, contracts, and remuneration.

The Audit Committee

The members are independent and have audit competence. The Committee advises the Board of Directors and has no independent right of decision.

The primary duty of the Committee is to support the Board in its work with Medivir's risk management, governance and internal control, and to quality assure the financial reporting. The Committee considers significant auditing issues that affect the Group and meets on an ongoing basis with Medivir's auditors and evaluates the audit process. The Committee assists the Nomination Committee in the production of proposals for auditors and the fees payable to auditors, and approves the supplementary services that the company may purchase from its external auditors.

The Chairman of the Audit Committee is responsible for ensuring that the entire Board of Directors is kept continuously informed of the work of the Committee and, when necessary, submits matters to the Board for decision.

The Committee has held 5 minuted meetings in 2016. The attendance of the respective Members is shown in the table on page 47.

The CFO has attended all meetings. The Committee has largely focused on:

- The scope and accuracy of the Year-End Financial Statement.
- Reviews of the company's risk management, governance, and internal controls.
- Significant audit issues.
- Reviews of reports from the company's Auditor elected by the AGM, including the Auditor's audit plan.

The R&D Committee

The Committee is an advisory one and has no independent right of decision.

The primary duties of the R&D Committee are to review and evaluate the R&D portfolio and to provide the Board with supporting data ahead of decisions on strategic assessments and resource allocation within R&D. The Committee has an advisory role in relation to the company management with regard to specific scientific matters.

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

The Group management

The Board appoints the CEO and, where necessary, the Deputy CEO. The CEO leads the work of the Group management and is, together with the Group management, responsible for ensuring that the operating activities are conducted in accordance with the provisions of the Swedish Companies Act, other legislation and regulations, applicable regulations for listed companies,

Remuneration to senior executives (SEK k)¹⁻³⁾

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

¹⁾ The management group, including the CEO, comprised six persons at the beginning of 2016. The post of EVP Commercial has been removed from the management group in 2016 (up to and including May) and the post of Chief Information Officer has been added (from Dec.).

²⁾ Remuneration totalling SEK 1,206 thousand that was carried as an expense in 2014 has been disbursed in 2016 to former employees who were Other senior executives.

³⁾ A total of SEK 2,208 thousand in remuneration that was carried as an expense in 2015 has been disbursed in 2016 to former employees who were Other senior executives.

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

The role of the Group management is to:

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

Guidelines for remuneration to senior executives

Remuneration principles for senior executives are determined by the AGM. The guidelines for remuneration to senior executives conform to the principles applied in the past. Senior executives, in this context, refers to the CEO and other members of the Group management. The guidelines apply to contracts of employment entered into after the adoption of the guidelines by the AGM or AGM-approved amendments to existing terms. Medivir shall offer a competitive total compensation package that enables the recruitment and retention of qualified senior executives. Remuneration payable to the senior executives may

comprise a fixed salary, performance-based pay, AGM-approved incentive plans, pensions and other benefits. The fixed salary shall take into account the individual's areas of responsibility and experience. Performance-based pay, as a cash bonus, may comprise a maximum of 50% of the annual fixed salary. Performance-based pay shall be linked to predetermined and quantifiable criteria formulated in order to promote the company's long-term value creation.

Evaluation of principles for remuneration to senior executives

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

Long-term incentive plans

The purpose of long-term incentive plans is to generate the conditions for retaining and recruiting competent personnel and to offer employees an attractive opportunity to acquire a stake in the company, so as to encourage continued company loyalty by combining the interests of the shareholders and the employees. The 2013 and 2014 AGM's approved a three-year share saving plan, LTI 2013 and LTI 2014. Medivir believes that the plans will have a positive effect on the Group's further development and that LTI 2013 and LTI 2014 are, therefore, to the benefit of both the shareholders and the company. LTI 2013 was settled in June 2016 and 80,545 class B shares were allocated to those employees who had invested in the plan. The Board has concluded, in the light of the restructuring of the company, including the divestment

of BioPhausia in December 2016, that there is no purpose to be served, from a personnel perspective, by allowing the LTI 2014 incentive plan to continue until its scheduled end point, with share allocation not occurring until the late spring of 2017. The Board decided to accelerate the allocation of LTI 2014, which entails a minor deviation from point 9.7 of the Corporate Governance Code with regard to the requirement for a three year vesting period. Allocation of LTI 2014 occurred in January 2017 and 38,042 class B shares were allocated to the employees who had invested in the plan. The company consequently has no current long-term incentive plan.

Election of Auditors

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

Öhrlings PricewaterhouseCoopers AB (PwC) was appointed as the company's external auditors for a one-year period up to and including the 2017 AGM. Authorised Public Accountant, Tobias Strähle, is the Auditor-in-Charge for Medivir.

- The auditors work to an audit plan and report their observations on a rolling basis to the Audit Committee and the Board, both during the course of the audit and in conjunction with the preparation of the annual accounts.
- The auditors review one interim report and the annual financial statement in order to assess their accuracy, completeness and the correspondence of the accounts with generally accepted accounting practice and relevant accounting principles.
- The Auditor-in-Charge attends the AGM at which he or she presents details of the audit work and observations made.

When additional services are requested from PwC over and above the audit engagement, such as consultancy on tax issues and on different accounting and financial issues, such services are provided, subject to the approval of the Audit Committee.

Auditors' fees

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

Auditors' fees (SEK k)

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