

Corporate Governance Report

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

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

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

Medivir's corporate governance model



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

Internal regulatory structures and policies that affect corporate governance:

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

External regulatory structures that affect corporate governance

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

The shares and shareholders

Medivir's class B shares have been traded on Nasdaq OMX Stockholm's main market since 1996. The class A shares are not quoted. All shares are equally entitled to participation in Medivir's assets and profits. Class A

shares have ten votes per share and class B shares have one vote per share. Class A shares are covered by a pre-emption clause in the Articles of Association and a conversion clause, whereby class A shares may be converted to class B shares. At shareholders' meetings, each party entitled to vote may vote for the full number of shares held and represented without limitation.

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

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

Annual General Meeting

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

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

- Re-election of the Board members Göran Pettersson, Björn C. Andersson, Anna Malm Bernsten, Ingemar Kihlström and Ron Long (CEO).
- Re-election of Chairman of the Board Göran Pettersson.
- That maximum Directors' fees of SEK 2,620,000 would be payable, divided as follows, in the period until the next AGM. Directors' fees of SEK 435,000 would be payable to the Chairman of the Board and SEK 185,000 each to the other members that are not employed by the company. For work on the Audit Committee, fees of SEK 80,000 would be payable to the Committee Chairman and SEK 65,000 each to the Committee's other two members. For work on the Remuneration Committee, SEK 65,000 would be payable to be Committee Chairman and SEK 50,000 each to the

Committee's other two members. For work on the R&D Committee (if such a Committee is required) fees of SEK 65,000 would be payable to the Committee Chairman and SEK 50,000 each to the Committee's other two members. As before, Auditors' fees for the period until the next AGM would be payable according to open account.

- Guidelines for remunerating senior executives.
- Procedures for the Nomination Committee's appointment and work.
- Approval of a new issue of class B shares with preferential rights for existing shareholders.
- Authorizing the Board of Directors to decide on the new issue of class B shares at a total not exceeding 10% of the total number of outstanding class B shares of the company after utilizing this authorization on one or more occasions before the next AGM, with or waiving shareholders' preferential rights.*
- The adoption of an option plan 2010/2013 to issue a maximum of 394,400 share warrants, of which 171,500 are staff stock options.

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

Nomination Committee

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

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

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

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

The Nomination Committee's proposals to the AGM 2011, were published in tandem with the invitation to the AGM. The Chairman of the Board is responsible for appraising the work of the Board of Directors including individual members' efforts. This is conducted yearly pursuant to an established process. The appraisal is assisted by an external consultant with some regularity. In 2010, an appraisal was conducted through interviews and discussions between the Nomination Committee and individual Board members, as well as feedback and

discussion by the whole Board. The appraisal focuses on matters including access to, and needs for, specific competence and working methods. The appraisal also constitutes supporting data for the Nomination Committee in terms of proposing Board members and remuneration levels.

Nomination committee for the AGM 2011

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

Totalt

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

Board of Directors

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

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

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

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

Board members' attendance in 2010**

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

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

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

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

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

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

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

The Board of Directors' work in 2010

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

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

Board committees

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

Remuneration Committee

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

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

Board of Directors



GÖRAN PETTERSSON

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

BJÖRN C ANDERSSON

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

INGEMAR 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 Artimplant AB, Creative Antibiotics AB, Hammercap AB and RecoPharma AB, and is Deputy Chairman of Diagenic ASA. Medivir shareholding: 3,850 class B.



RON LONG

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

ANNA MALM BERNSTEN

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

MEDIVIR UK LTD.

Board members:
Bertil Samuelsson and Bo Öberg.

MEDIVIR HIV FRANCHISE AB

Board members:
Rein Piir and Bo Öberg.

MEDIVIR PERSONAL AB

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

AUDITORS

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

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

Audit Committee

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

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

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

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

Pursuant to the Corporate Governance Code, the Audit Committee should consist of at least three Board members. In 2010, Medivir chose not to comply with this stipulation, because the Board considers that Björn C Andersson and Anna Malm Bernsten have the required

competence to perform the Committee's duties, and that accordingly, an additional member would be of no further value.

R&D Committee

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

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

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

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

Management

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

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

Auditing

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

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

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

Remuneration to the Board of Directors and senior executives

Guidelines for remuneration

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

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

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

Remuneration to senior executives (kSEK)

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

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

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

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

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

* Remuneration excluding travel expenses. No consulting fees were paid to Board members in 2010/2011. In 2009/2010 consulting fees of SEK 25,000 were paid to Anna Malm Bernsten and SEK 60,000 to Ingemar Kihlström.

** Ron Long became CEO on 1 February 2009, and accordingly, due to his employment by the company, does not draw any special Directors' fees or other remuneration for his work on the R&D Committee.

Long-term incentive schemes

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

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

Remuneration to senior executives

Senior executives mean the CEO and other members of management. Medivir collates and evaluates information on market remuneration levels for relevant sectors and

markets on a continuous basis. In 2010, remuneration was payable according to the table above.

Remuneration to the Board of Directors

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

Auditors' fees

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

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

Internal controls

Internal controls regarding financial reporting

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

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

Control environment

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

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

Financial reports are prepared monthly and quarterly for the Group, parent company, subsidiaries and for functions and projects. Forecasts, extensive analysis and comment, with purposes including quality-assuring financial reporting, are prepared in tandem with reporting. Medivir has prepared an accounting handbook comprising internal instructions and directions.

There are also checklists for significant routines and processes. Internal instructions and routines are subject to continuous enhancement.

Risk assessment

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

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

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

Control activities

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

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

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

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

Information and communication

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

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

Monitoring

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

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

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