

# 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 had no instances of non-compliance with the code in 2009. 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

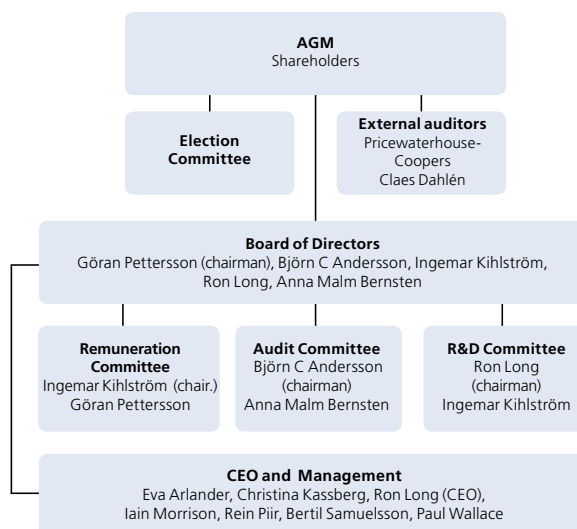
## External regulatory structures that affect corporate governance

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

## The share and 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 at year-end was SEK 80.50 (46.90) per share, equating to market capitalization of SEK 1,678 (980) m.

## Medivir’s corporate governance model



At year-end there were 5,207 (4,868) shareholders, of which 4,395 (4,012) had holdings of 1,000 shares or less.

Bo Öberg was the largest shareholder in terms of voting rights, followed by Staffan Rasjö and Nils-Gunnar Johansson. 84.4 (82.4)% of shareholders held 1,000 shares or less and the ten largest shareholders held 54.1 (48.5)% of the total number of shares and 60.7 (61.2)% of the votes. The share of foreign shareholders was 23.4 (27.6)% of total equity.

For more information on ownership structure, see The Medivir share on page 38.

## 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 Nomination 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 and 2009 are available at the company’s website.

The AGM 2010 will be held on 29 April. Minutes from the AGM will be uploaded to Medivir’s website, [www.medivir.se](http://www.medivir.se).

### Nomination Committee

The procedures of the Nomination Committee adopted at the AGM 2009 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 Nomination 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 Nomination Committee appoints a Chairman to lead its work internally.

The Nomination Committee prepares proposals for electing and remunerating the Board of Directors, Chairman, and where appropriate, Auditors, and the method for appointing the Nomination Committee and its Chairman to be submitted to the AGM for resolution.

The Nomination Committee's proposals for 2010 will be published at the latest coincident with the invitation

to the AGM 2010. Shareholders were able to submit proposals to the Nomination Committee by 31 December 2009 by means including e-mail to valberedning@medi-vir.se. The name of the shareholders representatives on the Nomination Committee should be published as soon as they are appointed. The Nomination Committee for the AGM 2010 consists of Eva Gottfridsdotter-Nilsson (representing Länsförsäkringar Fonder, 4.2% of the votes\*), Frank Larsson (representing Handelsbanken Fonder, 4.4% of the votes\*), Bo Öberg (representing class A shareholders, 26% of the votes\*) and Göran Pettersson, Chairman of Medivir's Board, as published in the prescribed manner. The mandate term runs until the composition of the next Nomination Committee has been published.

Since its appointment in autumn 2009, the Nomination Committee has met on three occasions where all members attended, apart from on one occasion. On this occasion, the member was able to study the decisions

\* Record date 31 December 2009

### Board members' attendance in 2009

Name	Function	Board meetings	R&D Committee	Remuneration Committee	Audit Committee
Björn C Andersson	Member	100%			100%
Ingemar Kihlström	Member	100%	100%	100%	
Ron Long	Member	100%	100%		
Anna Malm Bernsten	Member	100%			100%
Göran Pettersson	Chairman	100%		100%	

### Composition of the Board of Directors, May 2009 – April 2010

Name	Remuneration Committee	Audit Committee	R&D Committee	Affiliation to the company's management and major shareholders
Björn C Andersson		Chairman		No
Ingemar Kihlström	Chairman		Member	No
Ron Long*			Chairman	Yes
Anna Malm Bernsten		Member		No
Göran Pettersson	Member			No

\* Ron Long is an employee of the company and holds 10,975 class B shares with total voting power of 0.04%.

### Directors' fees for the period May 2009-April 2010 (SEK)

Name	Function	Directors' fees	Committee fee	Total
Björn C Andersson	Member	185,000	80,000	265,000
Ingemar Kihlström*	Member	185,000	90,000	275,000
Ron Long**	Member	0	0	0
Anna Malm Bernsten*	Member	185,000	65,000	250,000
Göran Pettersson	Chairman	435,000	50,000	485,000
<b>Total</b>		<b>990,000</b>	<b>285,000</b>	<b>1,275,000</b>

\* In addition, consulting fees of SEK 25,000 were paid to Anna Malm Bernsten and consulting fees of SEK 60,000 were paid to Ingemar Kihlström.

\*\* Ron Long was appointed as CEO on 1 February 2009 and thus has not drawn Directors' fees.

subsequently and approve them. The Chairman of the Board reported to the Nomination Committee on the annual appraisal process for the Board of Directors, Board members and CEO to the Nomination Committee, and also informed them of the outcome of this appraisal.

The Nomination Committee is proposing at the Annual General Meeting 2010 that a Board of Directors is appointed through the re-election of its five members, namely Göran Pettersson (Chairman of the Board), Björn C. Andersson, Anna Malm Bernsten, Ingemar Kihlström and Ron Long (CEO).

### **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 pharmaceutical industry, 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 the CEO. 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, the group's results of operations 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 pages 20-21.

### **The work of the Board in 2009**

The Board of Directors elected its officers on 23 April 2009, held 6 meetings where minutes were taken in 2009 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, partnerships, significant investments, financing, quarterly reports, the Financial Statement and Annual Report.

### **Directors' fees 2009**

The AGM on 23 April 2009 resolved on maximum 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 is payable to the Chairman of the Committee, and SEK 65,000 to each of the Committee's members. For work on the Remuneration Committee, a fee of SEK 65,000 is payable to the Chairman of the Committee and SEK 50,000 to each of the Committee's members. For work on the R&D Committee, a fee of SEK 65,000 is payable to the Chairman of the Committee and SEK 50,000 to each of the Committee's 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. The members are Ingemar Kihlström (Chairman) and Göran Pettersson. The Committee is advisory and does not have the right to take decisions. This Committee submits proposals to the Board regarding:

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

In 2009, the Remuneration Committee held three meetings where minutes were taken, where all members attended. In addition, the Committee held a number of consultations by 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. The members are Björn C

Andersson (Chairman) and Anna Malm Bernsten. 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 Nomination 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 2009, the Audit Committee considered the company's risk analysis, finance policy and significant audit matters. The Committee also studied 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 2009, the Audit Committee held three meetings where minutes were taken, where all members attended. The Auditors and Chief Financial Officer also attended all meetings, and the Chairman of the Board attended two meetings.

#### **R&D Committee**

The R&D Committee is appointed by the Board and has a maximum of four members. The members are Ron Long (Chairman) and Ingemar Kihlström. The Committee is advisory and does not have the right to take decisions. This Committee's main tasks are, in consultation with Medivir's management team, to:

- (a) participate in preparing the principles for managing and prioritizing, and systems for monitoring, R&D activities,
- (b) review and provide the Board with decision-support data regarding the strategic focus of R&D operations and
- (c) periodically screen the research portfolio and participate in structuring proposals for overall priorities ahead of budget decisions and major updates.
- (d) conduct a review of the project portfolio twice yearly. At each meeting, Medivir's project teams will update the prepared review templates for each research project.
- (e) prepare written feedback to project managers regarding decisions on project priorities and allocation of resources. The management team is responsible for com-

municating the background to decisions. In addition, and on demand from the management team, the R&D Committee should

- approve project start-ups coincident with the start of lead optimization
- take decisions on the appointment of project managers
- be advisory to the management team regarding complex scientific matters.

In 2009, the R&D committee held one meeting 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 seven 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. Management also possesses the necessary skills in accounting and finance, legal issues and corporate communications.

#### **Remuneration guidelines for senior executives**

The AGM 2009 resolved that the compensation package offered by Medivir will follow market norms and enable skilled senior executives to be hired and retained. Remuneration to senior executives will consist of basic salary, potential performance-related pay, stock options in the stock option plans resolved by AGMs, pension and other benefits. Basic 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 basic 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 4 on pages 50-52.

## 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 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 three 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 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. Information on audit fees is stated in Note 3 on page 50.

## 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 2009 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 report 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 systematically 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 53-56.

#### **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 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 Auditors conduct their audit process 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 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.