

## INTERIM REPORT, 1 January - 31 March 2003

- MIV-210 producing positive results in ongoing phase I trial.
- More opportunities for Cathepsin S inhibitor.
- Successes in the explorative activities in the preclinical discovery have given a several new projects.
- Lars Adlersson took up position as Medivir's CEO and President on 1 March.
- Profit after financial items: SEK -38.6 (2.8) m. Net sales amounted to SEK 43.4 (86.6) m.
- CCS' net sales increased to SEK 42.1 (35.0) m. Profit after financial items was SEK 8.8 (3.1) m.

### FOR MORE INFORMATION, PLEASE CONTACT:

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### FORTHCOMING FINANCIAL INFORMATION

The Annual General Meeting will be on 29 April 2003

The Second-quarter Interim Report 2003 will be published on 9 July 2003.

The Third-quarter Interim Report 2003 will be published on 23 October 2003.

Medivir's financial reports are available at its Website, [www.medivir.se](http://www.medivir.se) as of these dates, under the 'Financial Information' heading.

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### *The Medivir Group*

Medivir is an innovative, specialist research corporation that produces and develops pharmaceuticals. The company is located in Huddinge, Sweden and Cambridge, UK. Medivir's research is focused on developing new drug compounds based on proteases and polymerases as target enzymes.

The group comprises Medivir AB, the subsidiaries Medivir UK Ltd. and CCS AB, plus second-tier subsidiaries CCS (UK) Ltd. and Nordic Care Sweden AB. CCS develops, manufactures and markets skin-care products and pharmaceuticals. Medivir has been quoted on the Stockholm Stock Exchange since 1996.

Medivir's research portfolio includes projects against HIV, jaundice, shingles, cold sores, osteoporosis, RA (rheumatoid arthritis), asthma and MS (multiple sclerosis).

Medivir has four projects in clinical development phases, two of which are entering phase III after completing phase II. One project is in phase I and one is in phase II.

In the first stage, Medivir has some ten activities in explorative activities; the second, lead identification, encompasses three projects. The third stage, optimization, has one project, and two projects entering this phase. One project—MV026048—is in preclinical development, the stage closest to clinical development.

## **INFECTIOUS DISEASES**

### **RP-606 (Previously MIV-606) against Shingles; Phase II Complete, Proceeding to Phase III**

Medivir's partner Reliant will fund clinical phase III trials, apply for market registration in the US and other countries, and after approval, market and sell RP-606 in North America.

Efforts have been oriented on synthesis and formulation development, substance production and planning ahead of forthcoming phase III trials. An extensive synthesis development process has now been successfully conducted; substance production ahead of upcoming phase III trials will soon begin.

### **ME-609 against Labial Herpes (Cold Sores); Phase II Complete, Proceeding to Phase III**

Efforts in the quarter were focused on consolidating ME-609's European patents, work scheduled for completion in summer 2003, providing reinforced patent protection, a necessity for securing optimal collaboration agreements with one or more external partners.

### **MIV-310 against Multiresistant HIV; Phase II Trials Continue**

The phase IIa trial concluded in 2002 demonstrated MIV-310's efficacy on patients whose HIV infection could not be arrested with extant drugs because of resistance development. MIV-310 may be part of future treatments for the growing patient population with multiresistant HIV. Discussions regarding the onward progress of this project are in hand with potential partners.

### **MIV-210 against HIV and Hepatitis B Virus (Jaundice); Phase I Trials Continue**

MIV-210 is in a clinical phase I multidosage trial, which began in the quarter and has achieved very positive results. Healthy volunteers received MIV-210 in capsular form twice daily for a total of nine days. The treatment demonstrated good safety, with high tolerance. The results indicate that the substance has good bioavailability and achieves advantageously high plasma levels even at low dosages. During the period, ongoing toxicological studies demonstrated good safety margins. Medivir's objective for this promising product is to sustain its clinical development, and at a suitable occasion, to secure a partnership.

### **MV026048 against HIV; in Preclinical Development**

MV026048 is an NNTRI polymerase inhibitor now in preclinical development. Medivir outlicensed this project to Roche in April 2002 who is responsible for the development work. The project is expected to enter clinical development during the year.

### **MIV-170 against HIV; Proceeding to Optimization**

MIV-170 is an NNRTI polymerase inhibitor, a sequel project to MV0260408, focusing specifically on treatment of the growing patient population with multiresistant HIV. Major advances have been made in a very short space of time, and the project is now heading towards its optimization phase.

### **Other**

Medivir's early-phase collaboration with Chiron Corporation for screening Medivir's substance library in Chiron's hepatitis C polymerase models did not achieve the desired results, and accordingly, was concluded in the quarter. Medivir's in-house efforts with anti-hepatitis C polymerase inhibitors continue.

## **IMMUNOLOGICAL DISEASES**

### **Cathepsin S against RA and MS; in Preclinical Optimization**

Medivir's Cathepsin S (protease inhibitor) project—intended as therapy against autoimmune diseases—is now well advanced in its optimization phase. This project is being pursued against indications such as RA and MS, jointly with Peptimmune of the US, which recently consolidated its financial position by USD 41.2 m. The Cathepsin S inhibitor has recently accessed a major new potential indication, with reported effect against acute and chronic pain.

## OTHER THERAPY AREAS

### **Cathepsin K against Osteoporosis; Proceeding to the Preclinical Optimization Phase**

Cathepsin K is a protease whose activity results in the breakdown of skeletal tissue. If Cathepsin K activity increases, or upon an imbalance between skeletal accumulation and breakdown, osteoporosis (brittle bones) results. It has been demonstrated that the pathogenic resorption of skeletal tissue can be radically retarded if Cathepsin K activity is reduced. Medivir's inhibitor has demonstrated good efficacy in a human cellular model of skeletal resorption (breakdown). This project is now proceeding to its optimization phase.

## CCS

CCS sustained positive sales performance, registering gains of 21%, attributable to further brisk sales growth across CCS' entire product range. CCS advanced its market positioning in skin-care products and pharmaceuticals in the period. The underlying growth for pharmaceuticals, excluding acquired eye-care products and Nezeril, amounted to just over 20% in the quarter.

Operating profit increased significantly in the period, with operating margins returning to historical levels. This progress is explained by a better product mix, and the fact that profit was no longer burdened by restructuring and non-recurring costs, related to events including the take-over of AstraZeneca's eye-care products and the contract manufacture of Nezeril, as it was in H1 2002.

## MEDIVIR'S CONSOLIDATED TURNOVER AND COSTS

### **The Group**

In the first quarter 2003, consolidated net sales were SEK 43.4 (86.6) m. Operating costs amounted to SEK -83.3 (-85.5) m, costs which include SEK -0.8 (-0.8) m of goodwill amortization. Medivir's net financial position was SEK 0.3 (1) m. Profit after financial items amounted to SEK -38.6 (2.8) m.

### **Medivir's Research Activities**

The net sales of Medivir's research activities, which encompass Medivir AB and Medivir (UK) Ltd., totaled SEK 1.5 (51.9) m in the period, with the previous year's turnover comprising the outlicensing of RP-606 to Reliant Pharmaceuticals.

Operating costs stood at SEK -48.5 (-52.4) m divided between external costs of SEK -24.0 (-30.8) m, personnel costs of SEK -20.6 (-17.8) m and depreciation of SEK -3.9 (-3.8) m. In the previous year, external costs included the write-off of parts of RP-606 inventories (approximately SEK 7.5 m). Operating profit was SEK -47.0 (-0.5) m; profit after financial items amounted to SEK -46.6 (0.5) m.

## CCS

The CCS group encompasses CCS AB, Nordic Care Sweden AB and CCS (UK) Ltd. CCS' net sales grew to SEK 42.1 (34.9) m. CCS' consolidated operating profit rose to SEK 8.9 (3.1) m, while profit after financial items was SEK 8.8 (3.1) m; 34.5 (31.5)% of CCS AB's product sales comprise contract manufacture and 13.8 (13.4)% exports. Sales and profits progressed positively, the consequence of the corporation advancing its market share of proprietary products, and that the production and sale of acquired eye-care products and nasal decongestant Nezeril now being underway.

## **Financial Position**

Consolidated liquid assets including short-term investments stood at SEK 105.7 (176.0) m, with the market value of listed equities of SEK 9.0 (15.5) m being additional. As of 31 March, interest-bearing liabilities were SEK 4.3 (2.4) m. Shareholders' equity was SEK 280.3 (363.3) m. The consolidated equity ratio was 83.6 (87.0)%.

## **Investments**

Gross investments in consolidated tangible fixed assets were SEK 4.4 (1.6) m in the period, primarily attributable to the acquisition of research equipment for Medivir, and production equipment within CCS.

## **Other**

Lars Adlersson took up position as the company's CEO and President on 1 March. Mr. Adlersson previously held a number of executive positions in Janssen Pharma and the Glaxo group. While at Glaxo, Mr. Adlersson was CEO for Sweden and Austria. Mr. Adlersson succeeded Bo Öberg, who was CEO in the period 1 January to 28 February.

## **Accounting Principles**

The group observed the Swedish Annual Accounts Act when preparing this Interim Report. The accounting and valuation principles applied are consistent with RR (the Swedish Financial Accounting Standards Council) recommendations and statements.

## **Outlook**

Medivir's capacity to produce new CDs (candidate drugs) cost efficiently for development into new drugs through clinical trials, to create partnerships on its projects, and finally, for clinical development projects to transform into successful marketing initiatives and generate sales, is decisive to Medivir's future.

Medivir's objective for 2003 is to enter more partnerships, which although they will have a major impact on Medivir's turnover and cash position, are impossible to timetable. CCS' sales and profits are expected to continue their positive progress in 2003.

As a consequence of difficulties in determining the timing of new partnerships and outlicensing, Medivir will not publish any profit forecast for 2003.

Medivir  
The Board  
Huddinge, Sweden  
29 April 2003

This Report has not been subject to specific review by Medivir's auditors.

## CONSOLIDATED INCOME STATEMENT

Summary, SEK m

	2003	2002	2001	2002
	Jan. - Mar.	Jan. - Mar.	Jan. - Mar.	Jan. - Dec.
<b>Turnover, etc.</b>				
Net sales	43.4	86.6	30.3	256.3
Change in inventories and other revenues	0.9	0.7	1.9	3.1
<b>Total</b>	<b>44.4</b>	<b>87.3</b>	<b>32.2</b>	<b>259.4</b>
<b>Operating costs</b>				
Raw materials and consumables	-16.3	-15.2	-14.7	-63.4
Other external costs	-30.4	-36.9	-28.2	-131.1
Personnel costs	-30.3	-27.5	-23.0	-111.2
Depreciation	-6.3	-6.0	-5.0	-24.3
<b>Total operating costs</b>	<b>-83.3</b>	<b>-85.5</b>	<b>-71.0</b>	<b>-330.0</b>
<b>Operating profit</b>	<b>-38.9</b>	<b>1.8</b>	<b>-38.8</b>	<b>-70.6</b>
Profit from financial investments	0.3	1.0	4.1	6.4
<b>Profit after financial items</b>	<b>-38.6</b>	<b>2.8</b>	<b>-34.7</b>	<b>-64.2</b>
Tax*	0	0	0	4.4
<b>Net profit</b>	<b>-38.6</b>	<b>2.8</b>	<b>-34.7</b>	<b>-59.8</b>
Earnings per share, SEK	-4.50	0.34	-4.18	-7.09
Average number of shares, 000	8,590	8,288	8,288	8,439
Number of shares, closing balance, 000	8,590	8,288	8,288	8,590

\* The group has estimated accrued tax-deductible losses of at least SEK 350 m until 2002 inclusive.

The positive tax amounts are mainly attributable Medivir UK's tax credits, a consequence of UK fiscal legislative support for research.

## CONSOLIDATED BALANCE SHEET

Summary, SEK m

	2003	2002	2001	2002
	31 Mar.	31 Mar.	31 Mar.	31 Dec.
<b>Assets</b>				
<b>Fixed assets</b>				
Intangible fixed assets	36.2	36.4	39.8	37.1
Tangible fixed assets	108.0	106.7	100.2	109.4
Financial fixed assets	3.1	3.1	3.3	3.1
<b>Total fixed assets</b>	<b>147.3</b>	<b>146.3</b>	<b>143.3</b>	<b>149.7</b>
<b>Current assets</b>				
Inventories	36.6	45.7	47.8	34.0
Current receivables	45.8	49.4	29.1	42.9
Short-term investments	87.6	164.3	274.3	110.4
Cash and bank balances	18.1	11.7	19.5	33.4
<b>Total current assets</b>	<b>188.1</b>	<b>271.1</b>	<b>370.8</b>	<b>220.7</b>
<b>Total assets</b>	<b>335.4</b>	<b>417.4</b>	<b>514.1</b>	<b>370.4</b>
<b>Liabilities and shareholders' equity</b>				
Restricted equity	584.0	569.6	575.0	585.4
Accumulated deficit/non-restricted equity	-303.6	-206.3	-112.8	-265.4
<b>Total shareholders' equity Note 1</b>	<b>280.3</b>	<b>363.3</b>	<b>462.2</b>	<b>320.0</b>
Provisions	3.7	4.5	5.3	3.7
Long-term liabilities	4.3	0.9	0	4.5
Current liabilities	47.1	48.7	46.7	42.2
<b>Total liabilities and shareholders' equity</b>	<b>335.4</b>	<b>417.4</b>	<b>514.1</b>	<b>370.4</b>

### Note 1

#### Change in shareholders' equity (SEK m)

	Restricted Equity	Accumulated Deficit/ Non-restricted Equity	Tot. Shareholders' Equity
Balance sheet, 31 Dec. 2002	585.4	-265.4	320.0
Transfer between restricted and non-restricted reserves	-1.4	1.4	0
Exchange rate differences		-1.0	-1.0
Net profit		-38.6	-38.6
<b>Balance Sheet, 31 Mar. 2003</b>	<b>584.0</b>	<b>-303.6</b>	<b>280.3</b>

## CONSOLIDATED CASH FLOW STATEMENT

Summary, SEK m

	2003	2002	2001	2002
	Jan. - Mar.	Jan. - Mar.	Jan. - Mar.	Jan. - Dec.
<b>Ongoing operations</b>				
Operating profit after financial items	-38.6	2.8	-34.7	-64.2
Estimated subsidiary tax credit	0	0	0	4.1
Adjustment for items not included in cash flow:				
Depreciation and write-downs	6.3	6.0	5.0	24.3
Capital gain/loss on divestment of fixed assets and exchange rate difference	-0.6	0	-0.4	-1.2
Tax received/paid	1.5	-1.1	-1.1	-1.2
<b>Cash flow from ongoing operations before change in working capital</b>	<b>-31.4</b>	<b>7.7</b>	<b>-31.2</b>	<b>-38.3</b>
Change in working capital	-2.1	-12.8	-10.3	-0.9
<b>Cash flow from ongoing operations</b>	<b>-33.6</b>	<b>-5.1</b>	<b>-41.5</b>	<b>-39.2</b>
<b>Investment activity</b>				
Acquisitions/divestment of tangible fixed assets	-4.4	-1.6	-7.3	-20.3
Acquisitions of intangible fixed assets	0	0	0	-3.4
Acquisitions of financial fixed assets	0	0	-0.2	0
<b>Cash flow from investment activity</b>	<b>-4.4</b>	<b>-1.6</b>	<b>-7.5</b>	<b>-23.7</b>
<b>Financing activity</b>				
Financial payments	0	0	0	20.5
Increase (+) / decrease (-) in long-term liabilities	-0.2	-0.1	0	3.6
<b>Cash flow from financing activity</b>	<b>-0.2</b>	<b>-0.1</b>	<b>0</b>	<b>24.1</b>
<b>Cash flow for the period</b>				
Liquid assets, opening balance*	143.9	182.7	342.8	182.7
Change in liquid assets	-38.1	-6.8	-49.0	-38.9
Exchange rate difference, liquid assets	-0.1	0	0	0
<b>Liquid assets, closing balance*</b>	<b>105.7</b>	<b>176.0</b>	<b>293.8</b>	<b>143.9</b>

\* Liquid assets comprise cash and bank balances, plus short-term investments.

The market value of listed equities, of SEK 9.0 m (9.7 m at year-end 2002) is additional to the above.

## KEY FIGURES

	2003	2002	2001	2002
	Jan. - Mar.	Jan. - Mar.	Jan. - Mar.	Jan. - Dec.
Return on:				
- equity, %	-12.87	0.77	-7.23	-17.60
- capital employed, %	-12.68	0.87	-7.21	-18.50
- total capital, %	-10.95	0.76	-6.50	-16.30
Average number of shares, 000	8,590	8,288	8,288	8,439
Number of shares, closing balance, 000	8,590	8,288	8,288	8,590
Outstanding warrants, 000	513.4	313.4	450.3	513.4
Earnings per share, SEK	-4.50	0.34	-4.18	-7.09
Shareholders' equity per share, SEK	32.64	43.83	55.76	37.26
Cash flow per share after investments, SEK	-4.42	-0.80	-5.91	-7.45
Earnings per share, SEK*	-4.18	0.38	-3.90	-6.42
Shareholders' equity per share, SEK*	37.89	48.22	60.92	42.44
Equity ratio, %	83.58	87.04	89.90	86.40

For forecast year-2003 earnings per share, please refer to the 'Outlook' heading in the section on Medivir's consolidated turnover and costs.

\* After full utilization of outstanding warrants.

RR's (the Swedish Financial Accounting Standards Council) instruction No. 18 stipulates that any potential ordinary shares do not give rise to any dilution effect when their conversion into ordinary shares results in increased EPS, which would occur upon the conversion of Medivir's outstanding warrants. Thus, the above should not be considered a calculation of dilution effects but a theoretical calculation of profit and shareholders' equity per share, after the full exercise of outstanding warrants.