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MEDIVIR INTERIM REPORT 1 January – 31 March 2004

- The Board of Medivir AB decided on 15 March 2004 to conduct a new share issue of approximately SEK 322m. The decision is conditional on approval by the shareholders' meeting.
- A candidate drug was selected in the Cathepsin S research program against autoimmune disorders at the end of March.
- An EU patent was granted in late March on Medivir's herpes project ME-609.
- One more program, HCV polymerase in Medivir's preclinical research, has reached project status in the quarter.
- Net sales amounted to SEK 4.9 (43.4 including CCS and 1.5 excluding CCS) m in the period.
- The loss after tax was SEK -45.3 (-38.6 incl. CCS and -47.1 excl. CCS) m. Earnings per share were SEK -5.27 (-4.50).

FOR MORE INFORMATION, PLEASE CONTACT

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FORTHCOMING FINANCIAL INFORMATION

The Annual General Meeting will be held on 22 April 2004, from 3 p.m.

The Six-month Interim Report will be published on 6 July 2004

The Nine-month Interim Report will be published on 26 October 2004

Medivir's financial reports are available from its Website, www.medivir.se from these dates, under the 'Financial Information' heading.

Medivir in brief

Medivir is an innovative, specialised research company that develops pharmaceuticals with the aim of becoming a sustainable and profitable pharmaceuticals company. The company is located in Huddinge, Sweden and Cambridge, UK.

Medivir's research focuses on developing new pharmaceutical compounds based on polymerases and proteases as target enzymes. The Group comprises Medivir AB, its subsidiary Medivir UK Ltd. and Medivir Personal AB. At the end of 2003, the Group had 109 employees. In 1996, Medivir was listed on Stockholmsbörsen and since 1 July 2003, the company's shares are traded on the Attract40 segment of the O-list.

The research portfolio includes projects in the area of HIV infection, hepatitis, shingles, cold sores, osteoporosis, rheumatoid arthritis (RA), asthma and multiple sclerosis (MS). Medivir has five individual projects in the clinical development phase, all with a unique clinical profile. The company's broad pre-clinical research portfolio includes five defined projects and some ten activities in different pre-clinical phases.

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INFECTIOUS DISEASES

RP-606 against Shingles; Phase II Complete, Proceeding to Phase III

In the forthcoming phase III trials the hope is to demonstrate that RP-606 alleviates both the acute symptoms and the chronic pain associated with shingles, PHN (post-herpetic neuralgia), which is difficult to treat and strikes a large amount of patients.

The project is outlicensed to Reliant Pharmaceuticals, which is responsible for the clinical phase III trials, application for market registration in the US and other countries, and after approval, marketing and sales in North America. Medivir has retained the rights to the Nordic market. Furthermore, Medivir and Reliant have a joint venture to secure a marketing partner for RP-606 in Europe and Asia when suitable.

Reliant's efforts in the quarter were oriented on preparations ahead of forthcoming phase III trials.

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

ME-609 may be the first drug to prevent the incidence of cold sores.

Medivir's ambition is to have the project ready for phase III trials, while simultaneously identifying a suitable partnership structure for this well-advanced project.

During the quarter, Medivir continued its efforts in preparing for forthcoming phase III trials. Efforts were oriented on upscaling the production method and preparations ahead of a meeting with the FDA.

In late March, the European authorities granted a product patent on ME-609. This patent covers all topical pharmaceuticals containing the antiviral agent acyclovir and glucocorticoid hydrocortisone for treating herpes infections. This patent applies until 2016, and will probably be granted an extension through the issuance of a Supplementary Protection Certificate.

The US patent, which has been granted since 2001, applies to all immunomodulatory and antiviral compounds, and also runs until 2016. However, there are, to some extent, conflicting patent claims in the US, from Novartis. Novartis's later patent, was granted despite it partially overlapping with Medivir's previously filed patent. Medivir intends to resolve this issue through an administrative procedure with the patent authorities, or an agreement between Medivir and Novartis.

MIV-310 against Multiresistant HIV; Phase II ongoing

Medivir has outlicensed this project to BI (Boehringer Ingelheim), who is responsible for the global drug development and has exclusive rights to the global markets apart from the Nordic countries, which Medivir has retained.

During the quarter, BI's efforts were primarily oriented on planning and preparations for phase IIa dose response trials, which are intended to identify the optimal clinical dose for the further development. These trials began in April, i.e. after the end of the accounting period.

MIV-210 against HIV and Hepatitis B Virus (Jaundice); Phase I Complete

Medivir has a global licensing agreement with GSK (GlaxoSmithKline), which will primarily focus on the onward development of MIV-210 for the treatment of HIV. GSK is responsible for drug development and has rights to the global market excluding the Nordic countries, which Medivir has retained.

MIV-210 was presented at GSK's R&D day in December 2003, in a very positive context. GSK continued extensive R&D efforts in the quarter ahead of further clinical trials.

MIV-150 against HIV; in Phase I

Medivir has outlicensed MIV-150 to the Population Council, a New York-based non-profit organisation. The Population Council is responsible for development and the funding of forthcoming clinical trials. Medivir has donated the rights for topical use in a vaginal microbicide in developing countries.

For the usage in other countries Medivir have retained the right to revenues and an option for exclusive rights in the Nordic region.

Medivir and the Population Council presented the results of preclinical trials of a combination of MIV-150 and Carraguard against HIV at the international congress Microbicides 2004 in London in late March. This combination in a microbicide has triple effect: MIV-150 de-activates HIV outside cells, Carraguard prevents HIV from entering cells and MIV-150 suppresses the multiplication of the HIV that eventually succeeds in entering cells. This combination is expected to offer women a more effective means of preventing HIV. This type of combination product may become a key tool in the fight against the increasing spread of HIV.

MV026048 against HIV; in Preclinical Development Phase

MV026048 is an NNRTI polymerase inhibitor now in preclinical development. In November, Medivir assumed development responsibility from Roche, which will have an advisory role in this project. Efforts remain focused on preclinical and safety studies ahead of phase I clinical trials.

MIV-170 against HIV; in Preclinical Optimisation Phase

MIV-170 is an NNRTI polymerase inhibitor, particularly focused on therapy for the growing multiresistant HIV patient population. Efforts in the optimisation phase continue, and at present, selective efforts are being made to safeguard the product profile. Extensive patenting efforts were concluded in 2003, and patent protection has been assured.

HCV Polymerase; Preclinical Optimisation Phase

Medivir entered a collaborative agreement with Roche to jointly develop a drug against chronic HCV (hepatitis C virus) in November 2003. Medivir is receiving research contribution and will receive milestone payments and royalty revenues. Medivir have retained the rights to the Nordic markets.

This collaboration is based on sizeable shared knowledge of nucleoside analogues, and Roche's know-how in the HCV segment. This joint research collaboration has progressed very well and the project is in optimisation phase, implying that it achieved project status within Medivir during the quarter.

AUTOIMMUNE DISORDERS

Cathepsin S against RA and MS; CD Selected, Proceeding to Preclinical Development

The cathepsin S project (protease inhibitor) is intended for the treatment of autoimmune disorders. This project is being pursued jointly with Peptimmune of the US, against RA (rheumatoid arthritis), MS (multiple sclerosis) and other potential indications including chronic pain.

During the quarter, the project made major advances through the selection of a CD in late March, which is a key project milestone, leading the way forwards towards clinical trials. The project is now entering the regulated preclinical development phase, and the objective is to file an IND (Investigational New Drug) application and proceed to clinical trials.

OTHER THERAPY AREAS

Cathepsin K against Osteoporosis; in Preclinical Optimisation Phase

Cathepsin K is a protease whose activity results in skeletal breakdown. Osteoporosis (brittle bones) arises coincident with increased Cathepsin K activity or an imbalance between skeletal formation and bone resorption.

Disease models recently demonstrated that the pathological breakdown of skeletal tissue can be radically reduced if Cathepsin K activity is suppressed. Medivir's inhibitor has demonstrated very good efficacy in a human cell-based model of skeletal resorption (breakdown).

This project is sustaining brisk progress in its optimisation phase, with a broad array of substances demonstrating promising data. In the next developmental step, the ambition is to select a CD in this project.

OTHER ACTIVITIES

Preclinical research activities are continuing their very positive progress, with particularly significant advances being made within hepatitis C-protease, a research program now expected to achieve project status during the year.

MEDIVIR'S CONSOLIDATED TURNOVER AND COSTS

The Group

Consolidated net sales in 1 January - 31 March 2004 amounted to SEK 4.9 (43.4) m, and operating costs were SEK -51.0 (-83.3) m, which include goodwill amortisation of SEK -0.4 (-0.8) m. The net financial position was SEK 0.7 (0.3) m, while profit after financial items was SEK -45.3 (-38.6) m. The consolidated figures for January - March 2003 include the CCS group's turnover and costs. The group was divested on 1 July 2003, and the gains from this transaction are accounted in the Income Statement for the full year 2003 under the 'profit from financial investments' item.

Medivir's Research Operations

The net sales of Medivir's research operations, encompassing Medivir AB and Medivir UK Ltd., were SEK 4.9 (1.5) m in the period, which primarily comprises remuneration from Roche for its research efforts on HCV polymerase inhibitors. Operating costs amounted to SEK -51.0 (-48.9) m, divided between external costs of -24.6 (-24.0) m, personnel costs of SEK -22.4 (-20.6) m and depreciation and amortisation (including goodwill amortisation) of SEK -4.0 (-4.3) m. Operating profit was SEK -46.0 (-47.5) m, while profit after financial items was SEK -45.3 (-47.1) m.

Medivir AB, Corp. ID No. 556238-4361, the Parent Company

The operations of Medivir AB comprise research activities and group-wide coordinating administrative functions. In the period 1 January to 31 March, 2004, parent company net sales were SEK 6.2 (2.9) m, while operating costs were SEK -46.2 (-42.1) m, including SEK -14.4 (-11.3) m of contracted remuneration to Medivir UK for preclinical research performed in Cambridge. Profit after financial items and profit after tax were SEK -39.2 (-38.7) m. Liquid assets amounted to SEK 197.3 (94.7) m, and investments, principally in research equipment, were SEK 2.2 (3.1) m.

Financial Position

As of 31 March, consolidated liquid assets including short-term investments amounted to SEK 197.5 (105.7) m, with the market value of listed equities, which is shown under Financial fixed assets, of SEK 10.2 (9.0) m being additional. As of 31 March, interest-bearing liabilities were SEK 3.6 (4.3) m. Shareholders' equity amounted to SEK 234.4 (280.3) m. The consolidated equity ratio was 87.0 (83.6)%.

Investments

Gross investments in consolidated tangible fixed assets were SEK 6.4 (4.4) m in the period. These investments are principally attributable to the acquisition of research equipment within Medivir AB and Medivir UK Ltd. Gross investments include SEK 3.3 m of work in progress for new research premises within Medivir UK.

Medivir's planned future investments primarily comprise the acquisition of further research equipment and investments as a consequence of Medivir UK relocating to new premises in Cambridge in autumn 2004. The total investments in the new premises in Cambridge are estimated at some SEK 48 m, for which Medivir has secured a loan commitment. The costs for rent and operation of the new premises are estimated at just below prevailing levels.

Rights Issue

The Board of Medivir AB decided on 15 March 2004 to conduct a new share issue of approximately SEK 322m. The decision is conditional on approval by the shareholders' meeting. The company's shareholders will have the right to subscribe for one new class B share for SEK 75 for every two class A and/or class B shares they hold. As a consequence, the company's share capital will increase by a maximum of SEK 21,498,410 through the issuance of a maximum of 4,299,682 class B shares, each share with a nominal value of SEK 5. The record date for shareholder participation in the new issue will be 27 April 2004. Subscription with preferential rights will be effected through cash payment in the period 3 - 25 May 2004.

Other

Additionally, the Board of Directors proposes that the AGM resolves on the adoption of Medivir AB's staff stock option plan 2004/2009 encompassing 210,000 options, of which 166,000 will be apportioned to staff of the Medivir group. Medivir Personal AB will retain the remaining options as a hedge to cover future social security costs.

Accounting Principles

This Interim Report has been prepared pursuant to the Swedish Annual Accounts Act and RR's (Redovisningsrådet, the Swedish Financial Accounting Standards Council) recommendation RR 20 Interim Reports. The accounting and valuation principles are consistent with RR recommendations and statements.

From 1 January 2004, Medivir is applying RR's recommendation RR 29 Employee Benefits. Medivir AB's ITP (supplementary pensions for salaried employees) is insured with Alecta, and should be regarded as a defined-benefit pension plan, pursuant to statement URA 42 from the RR Emerging Issues Task Force. Because Alecta is unable to provide sufficient information, at present, the plan is accounted as a defined-contribution plan. The group's other pension plans are defined contribution. Accordingly, the application of RR 29 has not implied any change to Medivir's accounting of pension commitments compared to its Annual Report for 2003.

Otherwise, the accounting principles and calculation methods are unchanged compared to the Annual Report for 2003.

The Share

During the period 9,765 new B-shares has been issued via conversion of Medivir stock options and at the end of the period, there were 8,599,365 outstanding shares, of which 660,000 class A shares and 7,939,365 class B shares. There are 440,135 outstanding options, and upon full exercise of outstanding options, the total number of shares would amount to 9,039,500.

Outlook

Medivir's ability to produce new CDs cost efficiently, which develop into new drugs through clinical trials, to enter partnerships on its projects, and clinical development projects are pursued to successful market launches, which then generate sales, is decisive to Medivir's future.

Medivir's objective is to enter partnerships on a continuous basis to run projects optimally in terms of time and risk.

Existing and new partnerships may exert a major influence on Medivir's sales and cash position, although scheduling revenue flows is impossible. Medivir's estimated research costs in 2004 are some SEK 175 m, which is consistent with the previous year.

Medivir does not publish profit forecasts, the reason being that it is impossible to definitively determine if or when the group will receive revenues as a result of entering new partnerships and/or achieving development objectives.

Huddinge, Sweden, 22 April 2004

Medivir
The Board

Audit Report

We have performed a summary review of this Interim Report in accordance with the recommendation issued by FAR (the Institute for the Accounting Profession in Sweden). A summary review is significantly more limited in scope than a full audit. Nothing has arisen to suggest that this Interim Report does not satisfy the stipulations of the Swedish stock exchange or annual accounts legislation.

Stockholm, Sweden, 22 April 2004

Liselott Stenudd
Authorised Public Accountant

Peter Clemedtson
Authorised Public Accountant

CONSOLIDATED INCOME STATEMENT

Summary, SEK m

	2004	2003	2002	2003
	January-March	January-March	January-March	January-December
Turnover, etc.				
Net sales	4.9	43.4	86.6	149.0
Change in inventories and other revenue	0.1	0.9	0.7	3.6
Total	5.0	44.4	87.3	152.6
Operating costs				
Raw materials and consumables	0.0	-16.3	-15.2	-33.7
Other external costs	-24.6	-30.4	-36.9	-101.8
Personnel costs	-22.4	-30.3	-27.5	-109.0
Depreciation and amortization	-4.0	-6.3	-6.0	-20.4
Total operating costs	-51.0	-83.3	-85.5	-264.9
Operating profit	-46.0	-38.9	1.8	-112.3
Profit from financial investments	0.7	0.3	1.0	69.6
Profit after financial items	-45.3	-38.6	2.8	-42.7
Tax*	0.0	0.0	0.0	2.4
Net profit	-45.3	-38.6	2.8	-40.3
Earnings per share, SEK	-5.27	-4.50	0.34	-4.69
Average number of shares, 000	8,595	8,590	8,288	8,590
Number of shares, closing balance, 000	8,599	8,590	8,288	8,590

* The positive tax amount is mainly attributable to Medivir UK's tax credits, a consequence of UK fiscal legislative support for research. The group has estimated accrued tax-deductible losses of at least SEK 400 m until 2003 inclusive.

CONSOLIDATED BALANCE SHEET

Summary, SEK m

	2004	2003	2002	2003
	31 March	31 March	31 March	31 December
Assets				
Fixed assets				
Intangible fixed assets	10.3	36.2	36.4	10.7
Tangible fixed assets	43.9	108.0	106.7	40.2
Financial fixed assets	3.1	3.1	3.1	3.1
Total fixed assets	57.3	147.3	146.3	54.0
Current assets				
Inventories	0.0	36.6	45.7	0.0
Current receivables	14.8	45.8	49.4	14.5
Short-term investments	190.0	87.6	164.3	229.0
Cash and bank balances	7.5	18.1	11.7	10.2
Total current assets	212.3	188.1	271.1	253.7
Total assets	269.6	335.4	417.4	307.7
Liabilities and shareholders' equity				
Restricted equity	553.5	584.0	569.6	552.1
Accumulated deficit/non-restricted equity	-319.1	-303.6	-206.3	-274.2
Total shareholders' equity	234.4	280.3	363.3	277.8
Provisions	0.0	3.7	4.5	0.0
Long-term liabilities, interest-bearing	3.6	4.3	0.9	3.4
Current liabilities, non-interest-bearing	31.6	47.1	48.7	26.5
Total liabilities and shareholders' equity	269.6	335.4	417.4	307.7

CHANGE IN SHAREHOLDERS' EQUITY (SEK m)

	2004	2003	2002
	Jan-March	Jan-March	Jan-March
Balance Sheet, 31 December	277.8	320.0	361.2
New issue, Staff stock options	0.6		
Exchange rate differences	1.3	-1.0	-0.7
Net profit	-45.3	-38.6	2.8
Balance Sheet, 31 March	234.4	280.3	363.3

CONSOLIDATED CASH FLOW STATEMENT

Summary, SEK m

	2004	2003	2002	2003
	January- March	January- March	January- March	January- December
Ongoing operations				
Operating profit after financial items	-45.3	-38.6	2.8	-42.7
Estimated subsidiary tax credit	0.0	0.0	0.0	2.4
<i>Adjustment for items not included in cash flow:</i>				
Divestment of subsidiaries	0.0	0.0	0.0	-53.7
Depreciation, amortization and write-downs	4.0	6.3	6.0	20.4
Capital gain/loss on divestment of fixed assets and exchange rate difference	1.0	-0.6	0.0	-2.5
Tax paid/received	-0.4	1.5	-1.1	3.2
Cash flow from ongoing operations before change in working capital	-40.7	-31.4	7.7	-72.9
Change in working capital	5.2	-2.1	-12.8	5.5
Cash flow from ongoing operations	-35.6	-33.6	-5.1	-67.4
Investment activity				
Acquisition/divestment of tangible fixed assets	-6.4	-4.4	-1.6	-10.0
Divestment of subsidiaries	0.0	0.0	0.0	114.1
Reduction of long-term receivables	0.0	0.0	0.0	59.5
Cash flow from investment activity	-6.4	-4.4	-1.6	163.6
Financing activity				
Loans raised	0.3	0.0	0.0	0.0
Amortisation	0.0	-0.2	-0.1	-0.8
Cash flow from financing activity	0.3	-0.2	-0.1	-0.8
Cash flow for the period				
Liquid assets, opening balance*	239.2	143.9	182.7	143.9
Change in liquid assets	-41.7	-38.1	-6.8	95.4
Exchange rate difference, liquid assets	0.1	-0.1	0.0	-0.1
Liquid assets, closing balance*	197.5	105.7	176.0	239.2

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

The market value of listed equities, shown under Financial fixed assets, of SEK 10.2 m (10.4 m at year-end 2003) is additional to the above.

KEY FIGURES

	2004	2003	2002	2003
	January- March	January- March	January- March	January- December
Return on:				
- equity, %	-17.70	-12.87	0.77	-13.49
- capital employed, %	-17.44	-12.68	0.87	-13.91
- total capital, %	-15.69	-10.95	0.76	-12.43
Average number of shares, 000	8,595	8,590	8,288	8,590
Number of shares, closing balance, 000	8,599	8,590	8,288	8,590
Outstanding warrants, 000	440.1	513.4	313.4	449.9
Earnings per share, SEK	-5.27	-4.50	0.34	-4.69
Shareholders' equity per share, SEK	27.26	32.64	43.83	32.35
Cash flow per share after investments, SEK	-4.88	-4.42	-0.80	11.20
Earnings per share, SEK*	-4.97	-4.18	0.38	-4.27
Shareholders' equity per share, SEK*	31.31	37.89	48.22	36.33
Equity ratio, %	86.94	83.58	87.04	90.30

For forecast year-2004 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 options. Thus, the above should not be considered a calculation of dilution effects but a theoretical calculation of earnings and shareholders' equity per share, after the full exercise of outstanding warrants.

