


Why?

MedImmune, Inc. Annual Report 2003

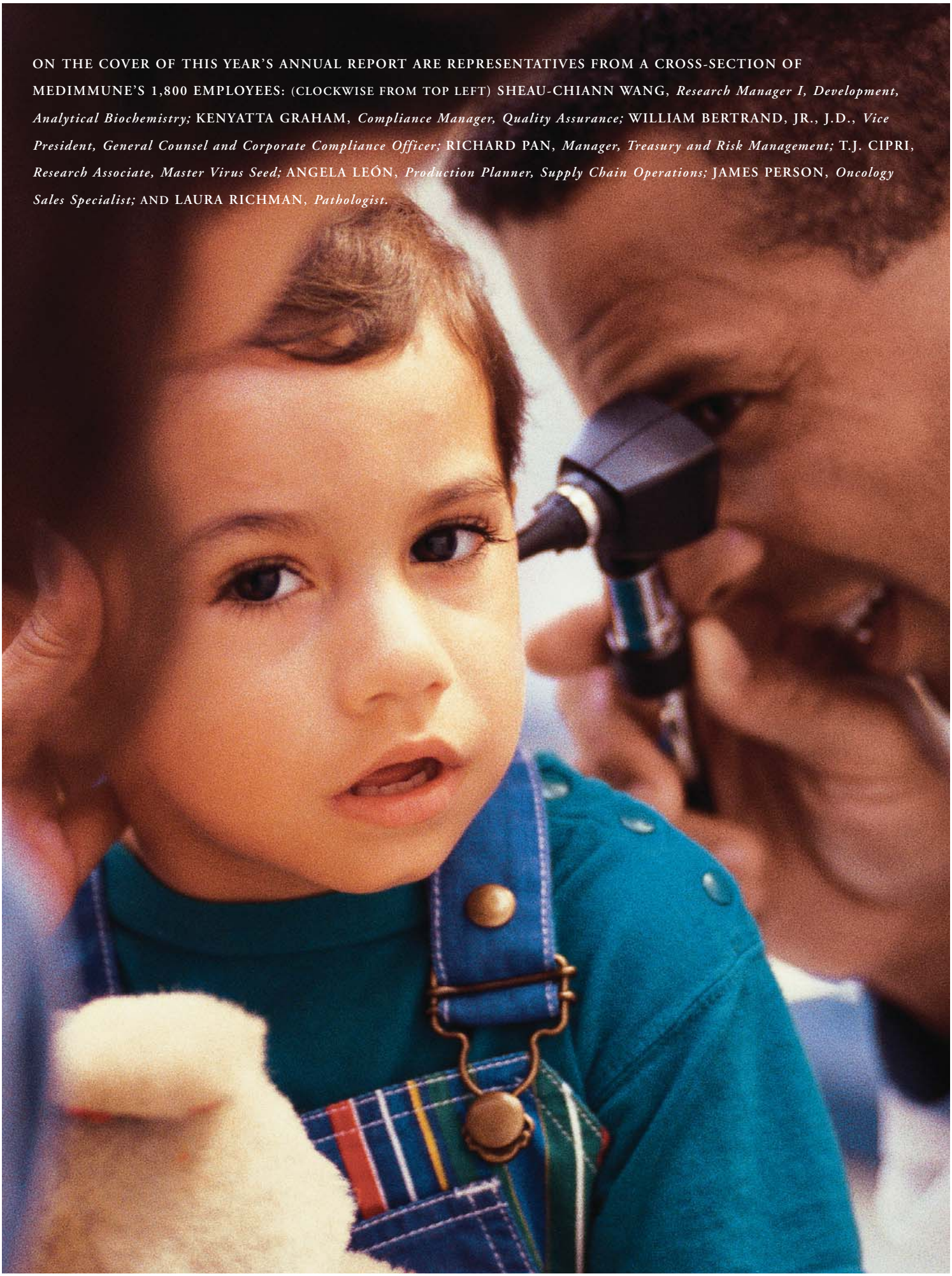



For Life

For our children, parents, neighbors, and friends — from the smallest and most fragile infant struggling through the first years of life to the cancer patient fighting through aggressive chemotherapy — we at MedImmune do what we do because we are committed to saving and improving lives.

We are dedicated to discovering, developing and commercializing innovative products designed to treat or prevent a number of debilitating and life-threatening diseases. The patients that use our products could be our next-door neighbor, the new baby in the family, or one of our employees. These patients are in need of new and promising options that provide hope for a better life. Our efforts thus far have helped hundreds of thousands of people the world over. We have protected the lives of tiny premature infants who leave the hospital at high-risk of severe respiratory illness. We have improved the quality of life of cancer patients undergoing aggressive chemotherapy and radiation treatments by reducing the impact of incapacitating side effects. We have helped transplant patients reduce the chance of organ rejection or death due to complications from infection, and we have helped to protect people against dangerous viruses, such as influenza. Why do we do what we do? Because through our work we can help people enjoy longer, healthier, more fulfilling lives.

AS MEDIMMUNE'S FLAGSHIP PRODUCT, SYNAGIS HELPS TO PREVENT THE MOST COMMON CAUSE OF LOWER RESPIRATORY TRACT INFECTIONS IN INFANTS. TO DATE, MORE THAN 500,000 CHILDREN HAVE BENEFITED FROM THE PROTECTION SYNAGIS PROVIDES.



ON THE COVER OF THIS YEAR'S ANNUAL REPORT ARE REPRESENTATIVES FROM A CROSS-SECTION OF MEDIMMUNE'S 1,800 EMPLOYEES: (CLOCKWISE FROM TOP LEFT) SHEAU-CHIANN WANG, *Research Manager I, Development, Analytical Biochemistry;* KENYATTA GRAHAM, *Compliance Manager, Quality Assurance;* WILLIAM BERTRAND, JR., J.D., *Vice President, General Counsel and Corporate Compliance Officer;* RICHARD PAN, *Manager, Treasury and Risk Management;* T.J. CIPRI, *Research Associate, Master Virus Seed;* ANGELA LEÓN, *Production Planner, Supply Chain Operations;* JAMES PERSON, *Oncology Sales Specialist;* AND LAURA RICHMAN, *Pathologist.*

For Passion

We are scientists and physicians, nurses and business professionals, sales representatives and pharmacists, passionate about our life's work. Individually and collectively, we push ourselves every day to improve health through cutting-edge research and product development. It is through our dedication to healthcare that tomorrow's life-saving products will be discovered.

We define passion by our commitment to the promise of advances in science. For over a decade, MedImmune has turned those advances into medical solutions. Our researchers and scientists continue to work to match their passion for excellence with unmet needs in healthcare to develop meaningful new products. Through our perseverance, the use of breakthroughs in science and technology, and our understanding of human disease, we are advancing an ever-growing pipeline of promising candidates. Over the last several years, we have focused on building our internal research capabilities, while at the same time expanding our business development efforts to identify and license interesting new technologies. Our passion for scientific research is visible even in the design of our new research and development facility and headquarters where the company's research team is the central focal point of the architecture. We expect this new facility to further enhance our collaborative efforts and increase the productivity that has been the driver of our past successes. Why do we do what we do? Because we believe that by harnessing our passion for scientific excellence, we can make a difference.

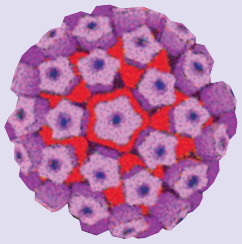
SHEAU-CHIANN WANG WORKS IN ANALYTICAL BIOCHEMISTRY TO HELP CONFIRM THE QUALITY OF OUR DEVELOPMENT-STAGE ANTIBODY PRODUCTS BEFORE THEY ARE USED IN HUMAN CLINICAL TRIALS. THE LONG-TIME MEDIMMUNE RESEARCHER IS DRIVEN BY THE CONTRIBUTION HER WORK MAKES TO THE LIVES OF PEOPLE SUFFERING FROM DISEASE.

FROM OUR FREDERICK MANUFACTURING CENTER, KENYATTA GRAHAM MONITORS CUSTOMER FEEDBACK RELATED TO OUR PRODUCT QUALITY. IN THIS CAPACITY, SHE SEEKS TO ENSURE THAT WE CONTINUOUSLY DELIVER SAFE AND EFFECTIVE PRODUCTS. SHE SAYS, "IT'S MY MISSION TO TRULY HEAR WHAT OUR CUSTOMERS ARE SAYING."

For the Future

At MedImmune, the future of healthcare starts today — and every day. We understand that today's scientific discoveries and advancements may lead to tomorrow's products; and that those products will improve the lives of our generation, and generations to come.

We think of the future in different ways at MedImmune. In one way, it is the promise of our current research and development pipeline, funded by our commercial success, that will lead to our future products and revenue, and a return to our shareholders. In another way, the future is not so much what we do, as it is for whom we do it. Our families, friends and future generations will hopefully benefit from the efforts we put forth today. In yet another way, our future is defined by the first-class careers of our employees built by their hard work, collaborations and joint success in making additional advances in the scientific areas for which MedImmune is a recognized leader. Today's work at MedImmune may lead to vaccines of the future against new pediatric respiratory illnesses and to several antibodies treating a wide array of devastating cancers or debilitating immunological disorders. At MedImmune, we believe that the efforts we put forth today will save and improve lives tomorrow. Why do we do what we do? Because the future of healthcare starts anew each day — and with us.



MILLIONS MAY ONE DAY RECEIVE A VACCINE TO PREVENT CERVICAL CANCER, WHICH IS CAUSED BY CERTAIN STRAINS OF THE HUMAN PAPILLOMAVIRUS (HPV). THIS DEVELOPMENT-STAGE VACCINE RELIES UPON A VIRUS-LIKE PARTICLE TECHNOLOGY FOR PRODUCING A NON-INFECTIOUS FORM OF HPV THAT TRICKS THE BODY INTO CREATING PROTECTIVE ANTIBODIES.

SINCE ITS INCEPTION IN 1988, MEDIMMUNE HAS INVESTED NEARLY $2 BILLION IN ITS QUEST TO DISCOVER AND ADVANCE SCIENTIFIC BREAKTHROUGHS THAT IMPROVE HUMAN HEALTH. SINCE TURNING PROFITABLE IN 1998, THE COMPANY HAS CONTINUALLY INCREASED ITS COMMITMENT TO SUPPORTING NON-PROFIT ORGANIZATIONS FOCUSED ON HEALTH AND SCIENTIFIC EDUCATION AND TO PROVIDING EDUCATIONAL GRANTS TO THIRD-PARTY RESEARCH INSTITUTIONS.

Product Development

INFECTIOUS DISEASE

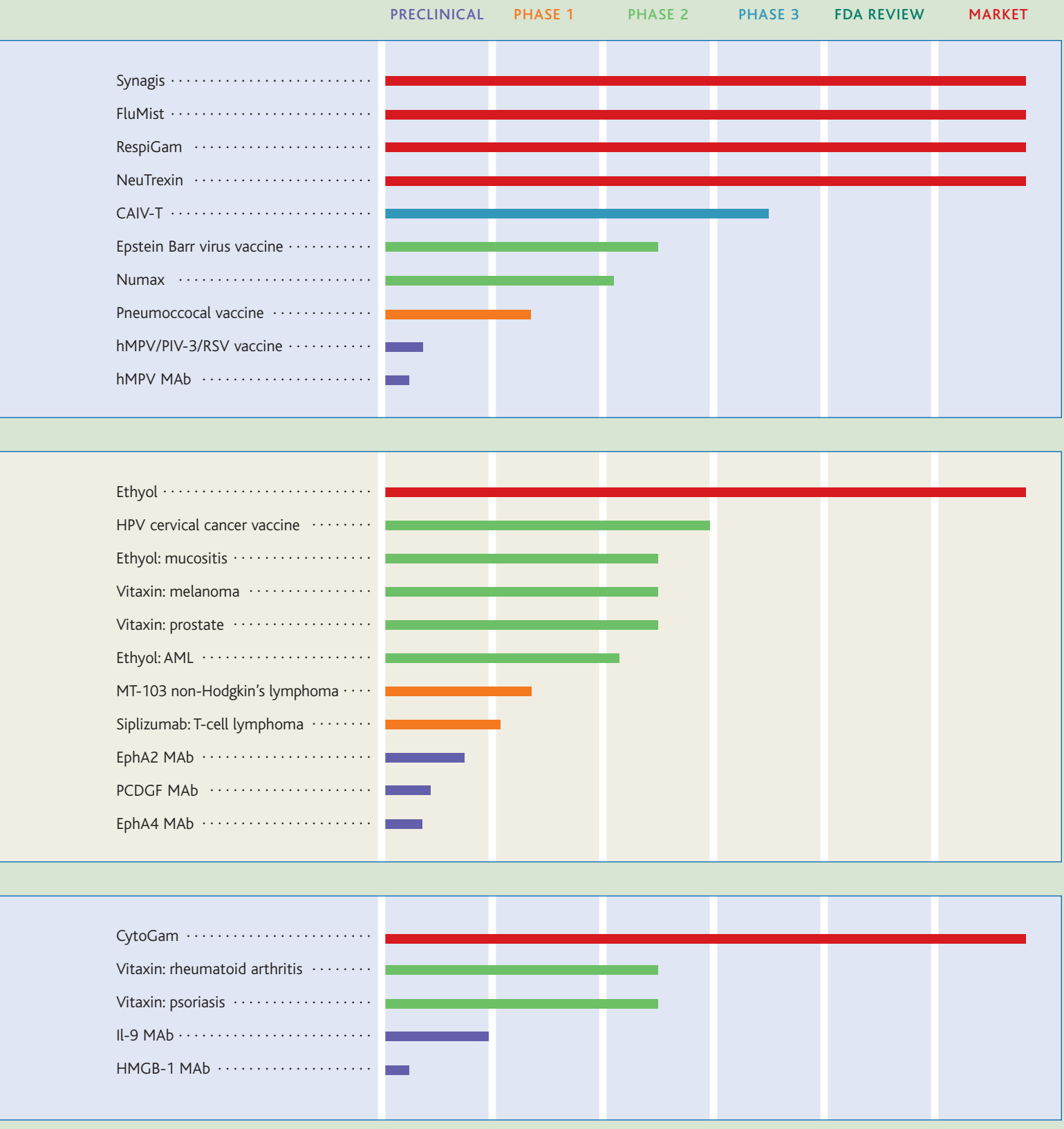
As the industry leader in developing breakthrough products to treat pediatric respiratory infectious diseases, MedImmune has substantially contributed to the health and well-being of infants and children worldwide. Our success to date has primarily come from the introduction of two generations of antibodies to prevent respiratory syncytial virus (RSV). The first was RespiGam, a polyclonal antibody introduced in 1996, followed in 1998 by Synagis, a monoclonal antibody. A third-generation antibody is now in clinical testing that may have the potential to further improve upon the profile established by Synagis in helping to prevent hospitalizations due to RSV in high-risk infants. In other areas of infectious disease, we recently launched FluMist, the first innovation in flu prevention in over 50 years, and continued our efforts to develop products targeting human metapneumovirus (hMPV) and parainfluenza virus type-3 (PIV-3).

ONCOLOGY

MedImmune has focused on building a solid foundation in the oncology arena in recent years. Our first marketed product, Ethyol, has become established as a unique drug that helps improve the quality of life of many cancer patients by reducing the impact of certain undesirable toxic side effects of both radiotherapy and chemotherapies. Additional research is being conducted to possibly extend Ethyol's use to other indications that may allow cancer patients to withstand greater doses of potentially life-saving anti-cancer therapies. A number of additional development programs are underway with several promising product candidates targeting a wide array of cancers, including cervical, breast, melanoma, prostate and lymphoma.

IMMUNOLOGY

Immunological disease research has long been a mainstay at MedImmune. Researchers are advancing a number of product candidates, such as Vitaxin, which targets a particular integrin found on newly forming blood vessels and osteoclasts that have a role in the destruction of bone in rheumatoid arthritis. The company is also working on antibodies to block IL-9 and HMGB-1 that may have the potential to manage asthma and other inflammatory diseases.


PRECLINICAL
PHASE 1
PHASE 2
PHASE 3
FDA REVIEW
MARKET
Synagis
FluMist
RespiGam
NeuTrexin
CAIV-T
Epstein Barr virus vaccine
Numax
Pneumoccocal vaccine
hMPV/PIV-3/RSV vaccine
hMPV MAb
Ethyol
HPV cervical cancer vaccine
Ethyol: mucositis
Vitaxin: melanoma
Vitaxin: prostate
Ethyol: AML
MT-103 non-Hodgkin's lymphoma
Siplizumab: T-cell lymphoma
EphA2 MAb
PCDGF MAb
EphA4 MAb
CytoGam
Vitaxin: rheumatoid arthritis
Vitaxin: psoriasis
Il-9 MAb
HMGB-1 MAb

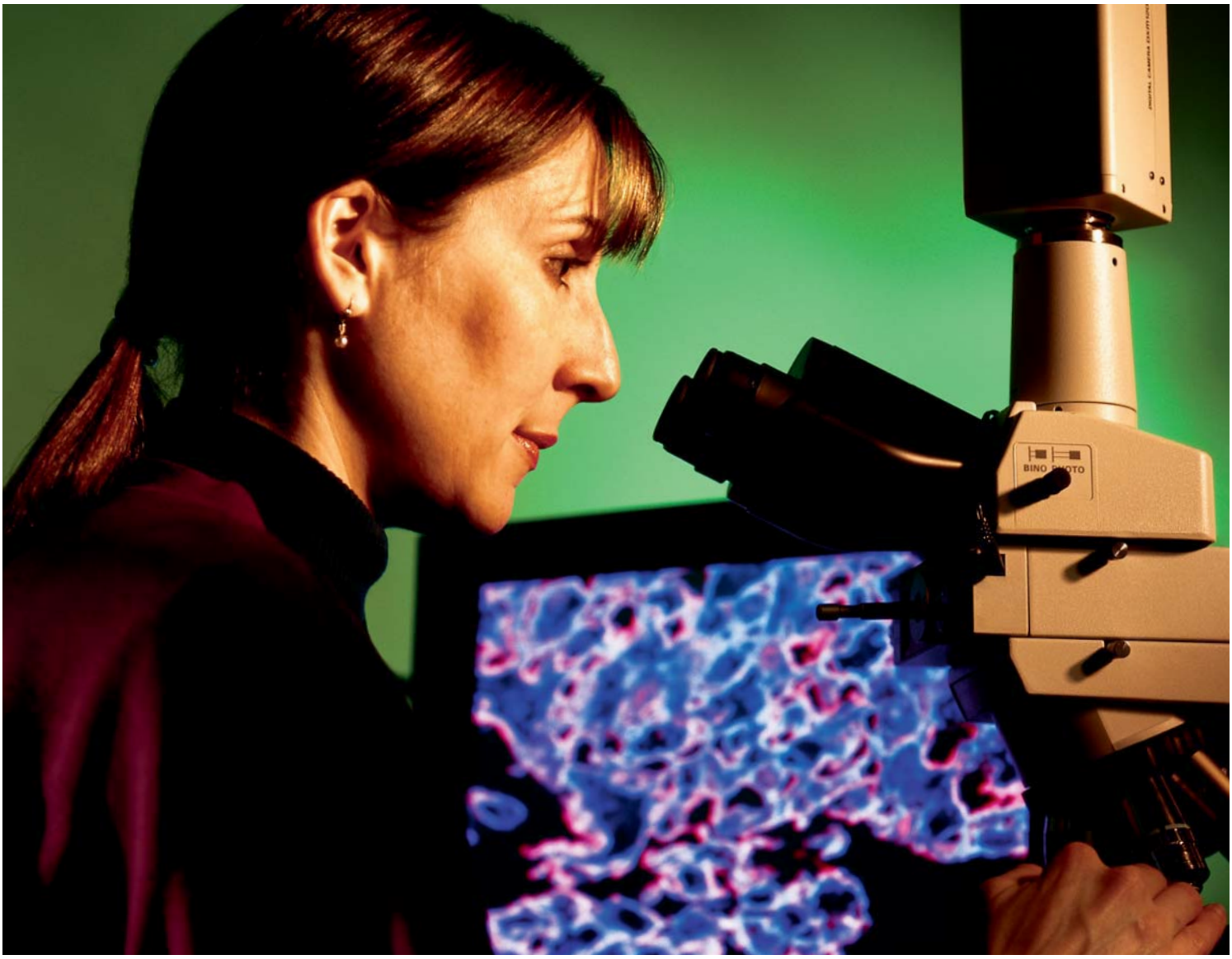
Infectious Disease

Throughout its 16-year history, MedImmune has demonstrated its leadership in the discovery and development of novel vaccines and antibodies against various infectious diseases — particularly respiratory infections affecting young children.

In 1996, MedImmune launched a new kind of product in the fight against pediatric respiratory disease: an antibody named RespiGam that provided protection to severely premature infants against a virus called respiratory syncytial virus (RSV). While it was the first of its kind and effective in reducing infant hospitalizations, there remained ample room for improvement. Scientists at MedImmune immediately undertook this challenge and by harnessing technological advances in antibody development, they created a better molecule that was safer, easier to administer, and more effective than RespiGam.

The result of this effort was Synagis, MedImmune's premier pediatric product, which remains the first and only monoclonal antibody approved for an infectious disease. Since its launch, Synagis has helped protect more than 500,000 premature infants against RSV disease. In 2003, MedImmune achieved another advance in this arena when the U.S. Food and Drug Administration (FDA) and the European regulatory authority (EMEA) expanded the label for Synagis to include certain children born with a birth defect called congenital heart disease (CHD).

FDA-APPROVED IN 2003 AS THE FIRST INTRANASAL VACCINE IN THE U.S., FLUMIST ALSO REPRESENTS THE FIRST ADVANCE IN FLU VACCINATION IN MORE THAN 50 YEARS. DATA FROM STUDIES CONDUCTED WITH THE SECOND-GENERATION OF THIS VACCINE INDICATE IT MAY BE SUPERIOR TO THE TRADITIONAL FLU SHOT IN REDUCING CULTURE-CONFIRMED INFLUENZA IN CHILDREN.



"I LOVE THE IMMEDIACY OF MY WORK," SAYS LAURA RICHMAN, A PATHOLOGIST IN MEDIMMUNE'S GAITHERSBURG FACILITY. RICHMAN VALIDATES THE SCIENTIFIC RESULTS OF STUDIES CONDUCTED WITH DEVELOPMENT-STAGE PRODUCTS, SUCH AS NUMAX AND MEDIMMUNE'S ANTI-IL-9 ANTIBODIES — BOTH OF WHICH MAY HELP PREVENT AND/OR TREAT RESPIRATORY DISEASE IN CHILDREN.

While Synagis has proven to be one of the preeminent biotechnology products, we continue to make improvements. In 2003, we completed the development work on a new liquid formulation of Synagis, which if approved by the FDA, will make it easier for pediatricians to administer. We also advanced the third generation anti-RSV product, Numax, initiating clinical testing in 2003. In preclinical studies, Numax was shown to be between 50 and 100 times more potent than Synagis in reducing RSV virus in the lung and nasal passages, a trait that we believe will translate into further decreases in hospitalizations and reduced illness in these fragile infants.

On the vaccine front, MedImmune once again introduced a one-of-a-kind advance in new technology with the introduction of FluMist, the first intranasal vaccine approved in the United States. With its pain-free administration and live viral approach to vaccination, FluMist represents the first advance in flu vaccination in more than 50 years. Additional clinical trials are underway to collect supportive data for FluMist and its next generation, refrigerator-stable formulation (CAIV-T), to further expand its label to include all healthy individuals, particularly children.

MedImmune's future pipeline is also focused on developing promising new vaccines and antibodies targeting other respiratory infectious diseases. Combination vaccines to address the three most common causes of infant bronchitis and bronchiolitis — RSV, PIV-3, and hMPV — are in development. Further, antibodies against hMPV, a newly described virus, may one day offer protection to children against this viral agent just as Synagis does against RSV.

Oncology

The complexities of the family of diseases known as "cancer" — in which our own once-healthy cells turn against us and grow uncontrollably — are still poorly understood. We at MedImmune are ever hopeful that by continuing to study the biochemistry of cancer, we may one day develop products that can extend and improve the lives of cancer patients.

Through our 1999 acquisition of a small pharmaceutical company called U.S. Bioscience and the addition of oncology-focused scientists and business professionals, MedImmune Oncology was created. It is through this subsidiary that our attentions are focused on broadening the use of our first oncology product, Ethyol, and bringing the next product to market to help stem cancer's tide.

Ethyol is used by patients who have non-small cell lung, ovarian, or head and neck cancer. It is a unique product that helps to minimize certain unwanted toxic side effects caused by radiotherapy or chemotherapy. The side effects can be permanent and debilitating, substantially diminishing the patient's quality of life. For example, head and neck cancer patients undergoing radiation therapy often end up with a painful and chronic severe dry mouth that causes difficulty eating and speaking because their salivary glands have been damaged by the radiation. Ethyol works by helping to protect the salivary glands from the radiation, reducing or eliminating the severity of the resulting dry mouth.

ETHYOL IS USED TO HELP REDUCE PAINFUL SIDE EFFECTS OF CERTAIN CANCER TREATMENTS. FUTURE DEVELOPMENT MAY HELP DOCTORS MORE AGGRESSIVELY TREAT CERTAIN FORMS OF PARTICULARLY DEADLY CANCERS.

JIM PERSON IS ONE OF MEDIMMUNE'S DEDICATED ONCOLOGY SALES SPECIALISTS. "AS A MAN WHO ENJOYS LIFE'S SIMPLE PLEASURES," SAYS JIM, "IT'S IMPORTANT FOR ME TO KNOW THAT BY REDUCING THE TOXICITIES OF RADIATION AND CHEMOTHERAPY, ETHYOL CAN HELP MANY CANCER PATIENTS TO LEAD A MORE NORMAL LIFE."

As we have learned more about how the body is affected by Ethyol, we have begun pursuing additional areas where the product may also be effective in reducing the unwanted complications of cancer therapies. For instance, in 2003, we began studying the ability of Ethyol to protect the mucosal lining of the throat from radiation used to treat lung cancer, as well as its ability to help patients with acute myelogenous leukemia endure high doses of chemotherapy for their particularly deadly disease.

Over the last couple of years, MedImmune's oncology pipeline has expanded to be one of the broadest and most promising in the biotechnology industry. Our scientists are studying the means by which solid tumors grow and spread as we develop Vitaxin, a monoclonal antibody targeting $\alpha_v\beta_3$, an integrin expressed on a number of cell types, including newly forming blood vessels and certain tumors, such as melanoma and prostate. Phase 2 studies of Vitaxin are now underway to determine whether the drug may block the growth of some tumors by acting directly on the tumor itself and by cutting off the supply of blood to the tumor, thereby preventing its spread.

Other programs underway at MedImmune are focused on developing vaccines and antibodies that could one day be used to treat or prevent a wide array of cancers, including breast, prostate, melanoma, cervical and certain types of lymphomas and leukemias.

Cancer is a worldwide health concern, but through research like that being conducted at MedImmune, there remains hope for better treatment options in the future.

Immunology

Severe diseases of the immune system, including rheumatoid arthritis, psoriasis and asthma, impact the lives of millions of people worldwide. Advances in science by MedImmune researchers have brought treatment options for many immunological diseases closer to becoming a reality.

MedImmune's introduction to products for use in immunological diseases came in 1991 with the launch of its first marketed product, CytoGam. Although this product worked to prevent a viral infection in solid organ transplant patients, it provided the company an understanding of the need for support of patients suffering through disorders or weaknesses in their immune systems.

Since then, we have shifted our scientific focus towards developing monoclonal antibodies against specific targets within the immune system to directly reduce the destructive effects of disease. The current pipeline of opportunities is promising, and may one day impact the lives of many people burdened by immunological disorders.

During 2003, we initiated Phase 2 clinical studies with Vitaxin in patients suffering from rheumatoid arthritis and psoriasis. The protein targeted by Vitaxin is found on many cells associated with immune diseases, including those involved in the cells that enable bone degradation to occur in rheumatoid arthritis and the formation of new blood vessels that promote psoriasis. If successfully developed, Vitaxin may one day be an important option for patients living with these incapacitating diseases.

CYTOGAM MARKED OUR COMMERCIAL ENTREE INTO UNDERSTANDING THE MEDICAL NEEDS OF PATIENTS WITH IMMUNE DISORDERS. IT PROVIDES THE IMMUNE SYSTEM WITH AN INCREASED ABILITY TO PREVENT CYTOMEGALOVIRUS, WHICH CONTRIBUTES SIGNIFICANTLY TO MORBIDITY AND MORTALITY IN ORGAN TRANSPLANT PATIENTS.

THROUGH ITS COMMITMENT TO SCIENTIFIC EXCELLENCE, MEDIMMUNE MAY ONE DAY OFFER NEW SOLUTIONS FOR MANAGING THE DEBILITATING EFFECTS OF IMMUNE DISEASES, SUCH AS RHEUMATOID ARTHRITIS, WHICH AFFECTS MORE THAN 2.1 MILLION AMERICANS ACCORDING TO THE ARTHRITIS FOUNDATION.

Advances in our early pipeline may offer new hope for treatment to patients with other immune system disorders as well. Throughout the last two years, MedImmune has worked to develop an anti-IL-9 antibody, which may eventually provide a novel means of controlling asthma, an immunologically mediated disease affecting an estimated 17 million Americans.

Further back in the pipeline is a promising candidate that targets a protein called HMGB-1 found in many acute and chronic inflammatory diseases. A successful antibody targeting HMGB-1 may have applicability in many potentially life-altering diseases, including rheumatoid arthritis, hemorrhagic shock, and acute lung injury.

We continue to elevate our level of scientific research and medical knowledge in an effort to understand disease, and to offer a broad array of valuable treatment options. We believe we are at the forefront of an evolution in product development at MedImmune that will allow for a bright future of introducing products that prevent and treat a myriad of immunological disorders. It is on this belief that our business is built. At MedImmune, good science is good business.

Dear Shareholders:

2003 was a year of challenge, growth and productivity for our organization as we pursued our passion for scientific discovery with a long-term goal of improving human health.

DAVID M. MOTT
Chief Executive Officer, President and Vice Chairman

Excellent performance was achieved throughout most areas of operations at MedImmune in 2003. However, the launch of FluMist, our new influenza vaccine, was disappointing. This was, in retrospect, due to a multiplicity of reasons, which we will discuss later in this letter. MedImmune must do better as we continue to develop this product and if successful, we believe that it can be an important part of our revenue growth in the future.

DELIVERING RESULTS FOR MEDIMMUNE SHAREHOLDERS IS CRUCIAL TO OUR MISSION

Our commitment to scientific discovery is not possible without the strong financial position that MedImmune has achieved. In 2003, we continued to build on our long-term revenue growth, which has increased steadily over the past ten years. For the year, we surpassed $1 billion in revenues for the first time in company history, which helped drive our 2003 adjusted earnings up to $192 million.*

Product sales for 2003 totaled $993 million, a 25-percent increase over 2002, thanks primarily to continued strong performances by Synagis and Ethyol. Worldwide sales of Synagis, our flagship product, were $849 million, a 26-percent increase over 2002. Sales of Ethyol, our first oncology product, exceeded $100 million in 2003.

By the end of 2003, we had strengthened our overall financial position, with cash and marketable securities up 34 percent to nearly $2 billion, primarily reflecting positive cash flow from the company's ongoing business operations and the issuance of $500 million of convertible senior notes due 2023. In addition, our assets grew 28 percent to $2.8 billion. We intend to continue to use our assets wisely, growing our business and increasing shareholder value.

BUILDING FOR THE FUTURE

As mentioned previously, the single biggest event affecting MedImmune in 2003 was the FDA marketing approval of FluMist in June and its launch in the U.S. in September. The company's hopes were high as it entered the 2003/2004 influenza season with FluMist. This new technology won awards for its scientific innovation from *Popular Science, Time* and *CNN*. Moreover, the first commercial manufacturing campaign was a success, with more than four million doses of the vaccine delivered to our co-promotion partner, Wyeth. However, actual sales of FluMist were disappointing due to the vaccine's limited label, the product's high price, misperceptions surrounding the safety of a live, attenuated virus vaccine, and distribution challenges associated with a frozen vaccine.

As you would anticipate, we have performed an exhaustive analysis of all factors affecting the launch this year and have concluded that FluMist has a promising future — but it will require further investment in clinical research. We must expand the label to broader age populations and gain approval of the refrigerator-stable formulation (CAIV-T) now in Phase 3 development. These efforts are now underway. Data made available in early 2004 from two large Phase 3 studies with CAIV-T indicate the vaccine may be substantially superior to the traditional flu shot in reducing culture-confirmed influenza in infants and young children and appears to be just as safe. Should additional studies confirm these findings, and be accepted by the FDA, we believe the FluMist franchise will be a commercial success in the future.

In addition to the development of our flu vaccine technology, we continued to invest in Synagis and our RSV franchise. In September 2003, we achieved label expansion in the U.S. and Europe to include children with congenital heart disease. In early 2004, we also submitted our application to the FDA for the liquid formulation of Synagis, which, if

**See Management's Discussion and Analysis for the reconciliation of MedImmune's results reported in accordance with GAAP to adjusted results.*

approved, could substantially improve the ease of administration of the product. On the preclinical front, we filed an investigational new drug application (IND) with the FDA for our next-generation anti-RSV antibody, Numax.

At MedImmune Oncology, we focused our efforts on expanding the label for Ethyol and advancing other product candidates. Toward these goals, we initiated new clinical trials with Ethyol in patients with non-small cell lung cancer and acute myelogenous leukemia, a particularly deadly and difficult-to-treat disease. Encouraging data on our HPV vaccine to prevent cervical cancer were presented in April 2003 and again early in 2004 by our partner, GlaxoSmithKline, which will hopefully lead to the initiation of Phase 3 trials in 2004. For Vitaxin, we initiated two Phase 2 studies involving patients with prostate cancer and malignant melanoma, the most serious form of skin cancer. In the preclinical arena, we added MT-103, a B-cell lymphoma product candidate; identified that siplizumab, an anti-CD2 antibody, may have application in patients suffering from T-cell lymphoma; and we established that EphA2 antibodies might be able to inhibit tumor growth.

Because the immune system plays such an important role in controlling the effects of both infectious diseases and cancer, our strength in immunologic research is a core part of our business. For medical conditions that arise purely from alterations or malfunctions of the natural immune system, MedImmune researchers are committed to developing new solutions that might help improve the lives of millions of patients suffering from such conditions as rheumatoid arthritis and psoriasis. In this research area in 2003, we initiated new clinical studies with Vitaxin, filed an IND for our lead anti-asthma monoclonal antibody targeting IL-9, and began preclinical testing with antibodies targeting HMGB-1, a protein that may play an important role in a number of severe inflammatory diseases.

CORE VALUES

Since our inception in 1988, MedImmune has made a positive impact on hundreds of thousands of lives. Our reputation for honesty and integrity is one of our most prized assets. We have earned this reputation by adhering to the highest standards of business conduct and corporate governance, and believe this is key to our ability to generate value for our shareholders and secure the confidence of our customers and employees. We are committed to maintaining our record of strong corporate governance and will continue to seek to improve upon our solid foundation in scientific and business excellence.

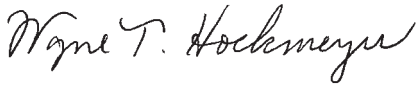
Our recent move to a new, state-of-the-art R&D facility and headquarters in Maryland is a clear sign of our ongoing commitment to excellence in research and our vision for the future of the company. Bringing our scientific and business operations together in Gaithersburg — in a building designed to place our research functions at its core — allows us to improve our collaborative efforts and enhance our research and development potential while working with the strongest product pipeline in company history.

As we reflect back on what was a challenging 2003, we once again thank MedImmune's 1,800 employees for their dedication, perseverance and outstanding work. Each of us upholds the company's corporate values every day as we continue to emphasize scientific and ethical excellence in all that we do: developing new treatment solutions for patients, providing new medical options for physicians and increased value for our shareholders.

The year 2004 promises to be another year of challenge and opportunity. We face it with confidence and determination: scientifically and medically driven — patient, employee and shareholder focused.

Thank you for your support.

David M. Mott
Chief Executive Officer, President and Vice Chairman



Wayne T. Hockmeyer, Ph.D.
Chairman of the Board;
President, MedImmune Ventures, Inc.

WAYNE T. HOCKMEYER, Ph.D.
Chairman of the Board; President, MedImmune Ventures, Inc.

MEDIMMUNE VALUES

Entrepreneurial

High integrity

Strong work ethic

Teamwork

Accountable

Apolitical and non-hierarchical

Collaborative

Inclusive and respectful

2003 Financial Highlights

(in millions except per share data)	2003	2002[1],[3]	2001[3]	2000[3]	1999[2],[3]
Consolidated Statements of Operations Data					
Total Revenues	**$1,054**	$ 853	$ 621	$ 542	$ 384
Gross Profit	**$ 703**	$ 589	$ 443	$ 370	$ 268
Net Earnings/(Loss) — GAAP	**$ 183**	$(1,098)	$ 149	$ 111	$ 93
Net Earnings — Adjusted*	**$ 192**	$ 107			
Per Share Data					
Diluted Earnings/(Loss) — GAAP	**$ 0.72**	$ (4.40)	$ 0.68	$ 0.50	$0.44
Diluted Earnings — Adjusted*	**$ 0.76**	$ 0.42			
Consolidated Balance Sheet Data					
Cash and Investments	**$1,900**	$ 1,423	$ 778	$ 526	$ 270
Total Assets	**$2,795**	$ 2,188	$1,237	$1,017	$ 657
Total Stockholders' Equity	**$1,699**	$ 1,677	$1,044	$ 844	$ 537

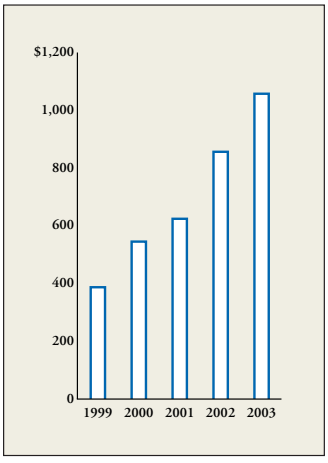
(1) Includes a charge for acquired-in-process research and development, in connection with the Company's acquisition of MedImmune Vaccines, Inc. (formerly Aviron) on January 10, 2002, and the results of operations of MedImmune Vaccines from the acquisition date.

(2) Includes deferred income tax benefit of $40,973.

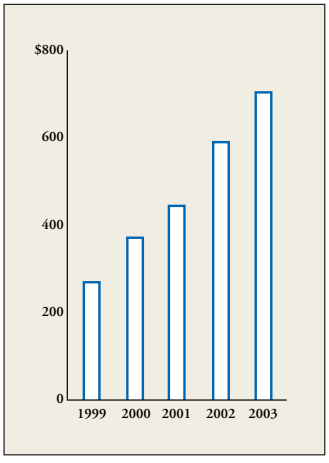
(3) Certain prior year amounts have been reclassified to conform to the current year presentation.

** See Management's Discussion and Analysis for the reconciliation of MedImmune's results reported in accordance with GAAP to adjusted results.*

TOTAL REVENUES
(in millions)



GROSS PROFITS
(in millions)



TOTAL ASSETS
(in millions)

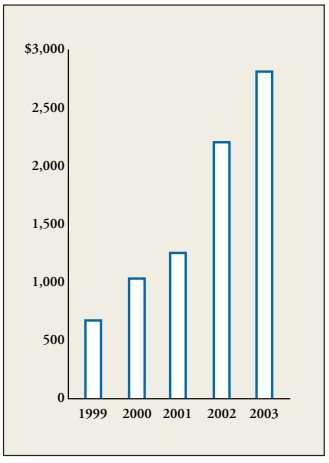


TABLE OF CONTENTS

Report of Management

The management of the Company is responsible for the preparation of the financial statements and related financial information included in this annual report. The statements were prepared in conformity with accounting principles generally accepted in the United States of America and, accordingly, include amounts that are based on informed estimates and judgments.

Management maintains a system of internal controls to provide reasonable assurance that assets are safeguarded and that transactions are properly authorized and accurately recorded. The concept of reasonable assurance is based on the recognition that there are inherent limitations in all systems of internal accounting control and that the costs of such systems should not exceed the benefits expected to be derived. The Company continually reviews and modifies these systems, where appropriate, to maintain such assurance. The system of internal controls includes careful selection, training and development of operating and financial personnel, well-defined organizational responsibilities and communication of Company policies and procedures throughout the organization.

The selection of the Company's independent auditors, PricewaterhouseCoopers LLP, has been approved by the Audit Committee of the Board of Directors and ratified by the Board of Directors and the shareholders. The Audit Committee of the Board of Directors, comprised solely of outside directors, meets periodically with the Company's independent accountants and management to review the financial statements and related information and to confirm that they are properly discharging their responsibilities. In addition, the independent auditors and the Company's legal counsel meet with the Audit Committee, without the presence of management, to discuss their findings and their observations on other relevant matters. Recommendations made by PricewaterhouseCoopers LLP are considered and appropriate action is taken to respond to these recommendations.

David M. Mott
Chief Executive Officer,
President and Vice Chairman

Lota S. Zoth
Vice President and Controller,
Acting Chief Financial Officer

Management's Discussion and Analysis
of Financial Condition and Results of Operations

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements regarding future events and our future results that are based on current expectations, estimates, forecasts, and the beliefs and assumptions of our management. Readers are cautioned that these forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Readers are referred to the "Forward-Looking Statements" and "Risk Factors" sections in Part I, Item 1 of this document.

INTRODUCTION

Since 1988, MedImmune has been focused on using biotechnology to produce innovative products to prevent or treat infectious disease, autoimmune disease and cancer. In January 2002, we acquired Aviron a California-based vaccines company (the "Acquisition") subsequently renamed MedImmune Vaccines, Inc. The operating results of MedImmune Vaccines, Inc. have been included in our consolidated operating results beginning January 10, 2002.

MedImmune currently actively markets four products, Synagis, Ethyol, CytoGam and FluMist and has a diverse pipeline of development-stage products. We are focused on developing important new products, particularly vaccines and antibodies that address significant medical needs in the areas of infectious diseases, immunology and oncology.

Aviron's leading product candidate at the time of the Acquisition was FluMist, the first U.S. vaccine delivered as a nasal mist. On June 17, 2003, the biologics license application for the commercial sale of FluMist was approved by the FDA. FluMist is indicated for active immunization for the prevention of disease caused by influenza A and B viruses in healthy people, 5 to 49 years of age. MedImmune manufactures FluMist and co-promotes FluMist with Wyeth.

OVERVIEW

The Company's financial condition strengthened from 2002 to 2003, with cash and marketable securities increasing from $1.4 billion to $1.9 billion. We improved our capital structure by issuing $500 million of 1% Convertible Senior Notes (the "1% Notes") on favorable terms. We used the proceeds from the 1% Notes to reinvest in our company through the repurchase of $229.8 million in common shares which are held in treasury and capital expansion of our research and development, manufacturing and administrative facilities. From an operating results perspective, our diluted earnings per share in 2003 were $0.72 compared to a net loss per share in 2002 of $4.40. Excluding the impact of the Acquisition, diluted earnings per share grew 81% from $0.42 in 2002 to $0.76 in 2003. We also surpassed the one billion dollar mark for revenues, which totaled $1.05 billion in 2003. While we were disappointed with the launch year results of the recently-approved FluMist product, the Company continued to show strong top-line and bottom-line year-over-year growth, and improved financial condition as of December 31, 2003.

As we look to the future, we intend to continue commercializing our core products and developing our pipeline, with the long-term goal of strong revenue and earnings growth. The disappointing launch of FluMist in 2003 caused us to reassess our expectations of near-term growth for FluMist. We have completed a reevaluation of the FluMist program, and we intend to continue to develop the product. We are refocusing on this development over the next two or three years, and we do not expect FluMist to be profitable before 2007. We have not yet made final decisions regarding price, forecast or structure of the Wyeth relationship for the 2004/2005 influenza season and beyond.

Other product development objectives include a target of three new INDs in each of 2004, 2005 and 2006. We anticipate that we will have four products in Phase 3 in 2005. Further, we anticipate having at least two new product introductions over the next five years.

We also have the following expectations for 2004:

Product sales — We believe that the growth rate of our product sales, while still at double-digit levels, will decelerate in 2004. Due to the significant contribution of Synagis, we believe our revenues and operating results will reflect for the foreseeable future the seasonality of that product's use to prevent RSV disease, which occurs primarily during the winter months. We do not expect FluMist sales in the 2004/2005 influenza season to exceed sales from the 2003/2004 influenza season.

Other revenues — We anticipate the level of other revenues to decrease in 2004 largely due to decreases in milestone payments associated with the approval and commercialization of FluMist. The level of contract revenues in future periods will depend primarily upon the extent to which we enter into other collaborative contractual arrangements, if any, and the extent to which we achieve certain milestones provided for in existing agreements. Future revenues from the sale of excess production capacity will vary depending upon the extent to which we enter into these types of arrangements, and are not expected to be significant for 2004 or thereafter.

Gross margin — We expect that gross margins may vary significantly from quarter to quarter, based on the product mix. We expect that our gross annual margin percentage for 2004 will be lower than 2003, largely the result of the low volume of FluMist revenues to cover the manufacturing costs of the product.

Research and development expense — We expect research and development expenses to increase significantly in 2004 compared to 2003. This is largely due to the initiation of four Phase 2 studies for Vitaxin, post-marketing commitments and additional trials associated with FluMist, and the continued progress of Numax and our other pipeline candidates.

In the event that MedImmune were to allow Wyeth to exit from the FluMist relationship in 2004, we would write off approximately $75 million of unamortized intangible assets and would likely incur additional operating expenses.

Over the next five years, we believe our financial position will strengthen, as we anticipate that our cash and marketable

securities, net of debt repayments, repurchases of common stock, capital expansion funding and research and development expenditures, will grow.

CRITICAL ACCOUNTING ESTIMATES

The preparation of consolidated financial statements requires us to make estimates and judgments with respect to the selection and application of accounting policies that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosures of contingent assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting estimates have the greatest impact on the preparation of our consolidated financial statements.

Revenue Recognition — We recognize revenue from product sales when there is persuasive evidence that an arrangement exists, delivery has occurred, the price is fixed or determinable, and collectibility is reasonably assured. During 2003, we shipped 4.1 million doses of FluMist to Wyeth and received payments totaling $51.9 million. Wyeth is contractually responsible for distributing the product to third parties. At the end of the influenza season, Wyeth's actual net sales for the season are used to calculate the final transfer price per dose and the amount of product royalties due to MedImmune. Actual net sales consists of any amounts actually received by Wyeth for the sale of FluMist less agreed-upon amounts paid or credited by Wyeth related to the sale of the product such as for returns, promotional discounts, rebates, taxes and freight. Prior to the calculation of actual net sales, our ability to recognize revenue is dependent upon our ability to estimate the sales volume for the season and the expected impact of the reduction to sales. As of December 31, 2003, we concluded that the variables associated with the product transfer price were not determinable, largely due to low sales volume and the lack of returns history and comparable rebate redemption rates for rebates for this new product. As a result, we have not recognized the revenue associated with the 4.1 million doses shipped to Wyeth during 2003. We believe the transfer price for the 2003/2004 flu season will be determinable when actual net sales are calculated in 2004, at which time we will record the associated product sales and cost of goods sold.

We receive royalties from licensees, which are based on third-party sales of licensed products or technologies. Royalties are recorded as earned in accordance with the contract terms when third-party results can be reliably measured and collectibility is reasonably assured. We receive royalties from Wyeth based on its sales of FluMist under our worldwide collaborative agreements, as amended. We have not recorded any royalty revenue from Wyeth as of December 31, 2003. The same variables discussed above that affect actual net sales for Wyeth also impact the product royalties that Wyeth is required to remit to us. When the variables are determinable in 2004, we expect to record the product royalties as other revenue.

Revenue from certain guaranteed payments where we continue involvement through a development collaboration or an obligation to supply product is recognized ratably over the development or supply period.

We may record deferred revenues related to milestone payments and other up front payments. Deferred revenue for manufacturing obligations is recognized as product is delivered. Deferred revenue associated with performance milestones is recognized based upon the achievement of the milestones, as defined in the respective agreements, as long as the milestones are substantive and at risk. Revenue under research and development cost reimbursement contracts is recognized as the related costs are incurred.

Inventory — We capitalize inventory costs associated with marketed products and certain products prior to regulatory approval and product launch, based on management's judgment of probable future commercial use and net realizable value. We could be required to expense previously capitalized costs related to pre-approval or pre-launch inventory upon a change in such judgment, due to a denial or delay of approval by regulatory bodies, a delay in commercialization, or other potential factors. Conversely, our gross margins may be favorably impacted if some or all of the related production costs were expensed prior to the product being available for commercial sale.

We are required to state our inventory at lower of cost or market. In assessing the ultimate realization of inventories, we are required to make judgments as to multiple factors affecting our inventories and compare these with current or committed inventory levels. In the highly regulated industry in which we operate, raw materials, work-in-process and finished goods inventories have expiration dates that must be factored into our judgments about the recoverability of inventory costs. Additionally, if a product's pricing is such that we may not fully recover the cost of inventory, we must consider that in our judgments as well.

FluMist inventories have required a significant amount of judgment since the Acquisition in January 2002. One reason is that the finished FluMist product has a shelf life of nine months. Most of the inventory components for FluMist have expiration dates that range from nine to 24 months. The annual FluMist production cycle begins in October of the year prior to the influenza season in which the product will be consumed. For example, the production cycle for the 2002/2003 season began in October 2001. All production costs for the 2002/2003 season were fully reserved as we assessed the probability of approval by the FDA in time to commercialize the product for the 2002/2003 season was remote. During 2003, we disposed of $18.7 million of fully reserved inventory related to the 2002/2003 flu season.

Beginning in October 2002, production costs incurred for the 2003/2004 season were partially reserved based on management's assessment of the probability of approval and net realizable value. Approval was received from the FDA on June 17, 2003. At that time, approximately one-half of the annual production costs for the 2003/2004 season had already been fully reserved, $22.3 million in Q4 2002 and $19.6 million in Q1 2003. The production cycle for the 2003/2004 season ended in mid-October 2003.

The production cycle for the 2004/2005 season began in mid-October 2003. For all inventory components on hand as of December 31, 2003, we reviewed the following assumptions to determine the amount of any necessary reserves: the expected sales volume; the expected price to be received for the product; potential changes in the influenza strains recommended by the Centers for Disease Control and Prevention for each season's vaccine; and anticipated changes in the manufacturing process.

During the fourth quarter of 2003, we determined that additional reserves of approximately $37.5 million were required to reflect total FluMist inventories at estimated realizable value. These reserves are comprised of the following: raw materials and work-in-process components — $13.3 million; 2003/2004 finished goods inventory — $13.3 million; and 2004/2005 finished goods inventory — $10.9 million.

The table below summarizes the activity within the components of FluMist inventories:

	Gross Inventory	Reserves	Net Inventory
FluMist Details			
As of December 31, 2002	$ 62.5	$(47.5)	$15.0
Q1 production, net	19.6	(19.6)	—
Q1 disposals	(3.1)	3.1	—
Q2 production, net	20.7	—	20.7
Q2 disposals	(13.1)	13.1	—
Q3 production, net	18.8	0.1	18.9
Q3 disposals	(2.5)	2.5	—
Q4 production, net	20.7	(17.7)	3.0
Q4 disposals	(1.5)	0.5	(1.0)
Q4 valuation adjustments	—	(20.3)	(20.3)
December 31, 2003	$122.1	$(85.8)	$36.3

For our other products, we periodically assess our inventory balances to determine whether net realizable value is below recorded cost. Factors we consider include expected sales volume, production capacity and expiration dates. No significant inventory adjustments were recorded for the other products.

Sales Allowances and Other Sales Related Estimates

Reductions to Gross Product Sales — The Company records allowances for discounts, returns, chargebacks and rebates due to government purchasers as reductions to gross product sales. The timing of actual returns, chargebacks and discounts taken, and rebates paid to government purchasers can lag the sale of the product by several periods and varies by state. As such, a significant amount of judgment is required when estimating the impact of sales allowances on gross sales for a reporting period. Our starting point for estimating each of these is our historical experience by product, updated for changes in facts and circumstances as appropriate. Because of the seasonal nature of our largest product, Synagis, our sales discounts, returns, chargebacks and rebates fluctuate throughout the year. If our historical trends are not indicative of the future, or our actual sales are materially different from projected amounts, or if our assessments prove to be materially different than actual occurrence, our results could be affected.

We estimate the amount of rebates due to government purchasers quarterly based on historical experience, along with updates, and based on our best estimate of the proportion of sales that will be subject to this reimbursement, largely comprised of Medicaid payments to state governments. During the first quarter of 2003, we lowered our estimate of rebates due to government purchasers to reflect favorable historical experience and a change in our estimate of the proportion of the sales that are subject to reimbursement. As we reviewed our estimates in the second and third quarters of 2003, there were no new significant facts or circumstances that indicated a need for further adjustment. During the fourth quarter of 2003, we became aware of recent efforts by several states to collect rebates for product administered in certain settings for which reimbursement was not sought in the past. After analyzing the situation, we determined that the new facts and circumstances warranted an increase in our estimate of rebates due to government purchasers. As such, we recorded additional reserves for rebates due to government purchasers of approximately $13.7 million during the fourth quarter of 2003. In addition, we increased our estimate of the proportion of current sales that will be subject to reimbursement, given the change in circumstance.

For the years ended December 31, 2003, 2002, and 2001, allowances for discounts, returns, chargebacks and rebates due to government purchasers resulted in a net reduction to gross product sales of approximately 9% each year. Reserves for discounts, returns, chargebacks and rebates that were accrued and not yet paid as of December 31, 2003 and 2002 were $51.4 million and $35.9 million, respectively. Reserves for discounts, returns, and chargebacks are netted against trade receivables and reserves for government reimbursements are included in accrued expenses in the accompanying balance sheets.

Selling, General and Administrative Expenses — We estimate our co-promotion expense and sales commissions by applying an estimated rate that is based upon an estimate of projected sales for the season to our actual sales for the period. We decreased co-promotion expense by $2.0 million in 2003 and increased co-promotion expense by $2.1 million in 2002, resulting from the final reconciliation of net sales for the 2002/2003 and 2001/2002 contract years.

We estimate the level of bad debts as a percentage of gross trade accounts receivable balances outstanding at the end of the period, based upon our assessment of the concentration of credit risk, the financial condition and environment of our customers, and the level of credit insurance we obtain on our customers' balances. Because of the seasonal nature of our largest product, Synagis, our accounts receivable balances fluctuate significantly. Accordingly, our allowance for doubtful accounts also fluctuates. Our accounts receivable balances tend to be highest at the end of December and March, while the September balances are somewhat lower as our selling season is just beginning, and the June balances are negligible, reflecting the close-out of the prior season. For the year ended December 31, 2003, we recorded a $3.8 million reduction in bad debt expense, largely based on our current assessment of the factors above. For all periods presented, we have reclassified bad debt expense as selling, general and administrative expense in our Consolidated Statements of Operations.

Income Taxes — We record a valuation allowance to reduce our deferred tax assets to the amount that is anticipated to be realized. We consider future taxable income and ongoing tax planning strategies in assessing the need for the valuation allowance. Should we determine that we were able to realize more than the recorded amounts of net deferred tax assets in the future, our net income would increase in the period such

determination was made. Likewise, should we determine that we would not be able to realize all or part of the net deferred tax asset in the future, our net income would decrease in the period such determination was made. A tax reserve is recorded when the Company cannot assert that it is probable that a tax position claimed on a return will be sustained upon challenge by the tax authority. Any change in the balance of a tax reserve during the year is treated as an adjustment to current year tax expense.

Intangible Assets — We have recorded and valued significant intangible assets that we acquired as a result of the Acquisition. We engaged independent valuation experts who reviewed our critical assumptions and assisted us in determining a value for the identifiable intangibles. Of the $129.4 million of acquired intangible assets, $90.0 million was assigned to the worldwide collaborative agreement with Wyeth for the development, manufacture, distribution, marketing, promotion, and sale of FluMist. The Company estimated the fair value of the Wyeth agreement using the sum of the probability-adjusted scenarios under the income approach. In applying this method, the Company relied on revenue assumptions, profitability assumptions and anticipated approval dates. The remaining $39.0 million was assigned to a contract manufacturing agreement with Evans Vaccines Limited. The Company estimated the fair value of the Evans agreement using the cost approach, which is based on the theory that a prudent investor would pay no more for an asset than the amount for which the asset could be replaced. In its analysis, the Company reduced replacement cost for such factors as physical deterioration and functional or economic obsolescence. We review intangible assets for impairment annually or when an event that could result in an impairment occurs. As of December 31, 2003, we have not identified any impairment of the intangible assets, of which $96.7 million remain unamortized.

During 2003, we reduced goodwill recorded in the Acquisition by $2.4 million, reflecting additional deferred tax assets for adjustments relating to pre-acquisition items.

RESULTS OF OPERATIONS

To present our results in the same manner as we view the performance of the business and the resulting underlying trends, we have presented certain expense categories with and without certain Acquisition-related amounts, including: the acquired in-process research and development charge; amortization of intangible assets, compensation expense associated with the assumption and vesting of unvested stock options, retention and severance payments; and the amortization of the premium on convertible subordinated notes. Inclusion of such Acquisition related expenses is consistent with generally acceptable accounting principles. Where we exclude such expenses, we use the term "adjusted."

COMPARISON OF 2003 TO 2002

REVENUES — PRODUCT SALES

(In Millions)	2003	2002	Growth
Synagis	**$849.3**	$671.7	26%
Ethyol	**100.2**	81.2	23%
FluMist	**—**	—	—
Other Products	**43.1**	38.0	13%
	$992.6	$790.9	25%

Product sales grew 25% in 2003 to $992.6 million as compared to $790.9 million in 2002, primarily due to increased sales of Synagis. Of the overall increase in product sales, approximately 16 points of the 25 percentage points were due to an increase in domestic sales volumes, while price increases, net of increases in sales allowances contributed five points to sales growth. The remaining four points of growth are due to an increase in our international sales.

Synagis — Synagis accounted for approximately 86% and 85% of our 2003 and 2002 product sales, respectively. We achieved a 21% increase in domestic Synagis sales to $777.1 million in 2003, up from $641.3 million in 2002. This growth was largely due to increased sales volume in the United States, which resulted in a 16% increase in domestic units sold. Also aiding growth was a price increase that took effect in June 2003, partially offset by an increase in sales allowances, which are accounted for as a reduction of product sales. Our reported international sales of Synagis to AI, our exclusive distributor of Synagis outside of the United States, more than doubled to $72.2 million in 2003 compared to $30.4 million in 2002, driven primarily by a more than two-fold increase in unit volumes over 2002 levels. The increase in unit volume was offset by an decrease in the realized per unit sales price recognized upon delivery of product to AI under the terms of our international distribution agreement. We record Synagis international product sales based on AI's sales price to customers, as defined in the agreement.

Ethyol — Ethyol accounted for approximately 10% of our product sales in both 2003 and 2002. Domestic Ethyol sales increased 25% to $94.4 million in 2003, up from $75.5 million in 2002. This 25% increase is the result of a 15% increase in domestic units sold in 2003 compared to 2002 and a price increase which occurred in August 2003. Our 2003 international sales of Ethyol to our distribution partner, Schering, were consistent with 2002 sales of $5.7 million. We record Ethyol international product sales based on a percentage of Schering's end-user sales, as defined in our agreement.

FluMist — During 2003, we shipped 4.1 million doses of FluMist to Wyeth and received payments totaling $51.9 million. Wyeth is contractually responsible for distributing the product to third parties. At the end of the influenza season, actual net sales for the season will be used to calculate the final transfer price per dose and the amount of product royalties due to MedImmune. Actual net sales consists of any amounts actually received by Wyeth for the sale of FluMist less agreed-upon amounts paid or credited by Wyeth related to the sale of the product such as for returns, promotional discounts, rebates, sales taxes and freight. Prior to the calculation of actual net sales, our ability to recognize revenue is dependent upon our ability to estimate the sales volume for the season and the expected impact of the reduction to sales. As of December 31, 2003, we concluded that the variables associated with the product transfer price were not determinable, largely due to low sales volume and the lack of returns history and comparable redemption rates for rebates for this new product. As a result, we have not recognized the revenue associated with the 4.1 million doses shipped to Wyeth during 2003. We believe the transfer price will be determinable when actual net sales are calculated in 2004, at which time we will record the associated product sales and cost of goods sold.

Other Products — Sales of other products in 2003, which include sales of CytoGam, NeuTrexin, RespiGam, and by-products that result from the CytoGam manufacturing process, increased $5.1 million, or 13% compared to last year. The increase was largely due to a 10% increase in our sales of CytoGam.

Revenues — Other Revenues

Other revenues for 2003 remained consistent with 2002 at $61.8 million. Other revenues in 2003 are largely comprised of contractual payments received from Wyeth under our collaborative agreement for FluMist. The payments, which amounted to $45.9 million, related to milestone payments, supply goal payments, and funding for clinical development and marketing programs. We also received $7.5 million in 2003 from AI for achieving a milestone related to international sales levels of Synagis and we recorded $3.1 million in revenue under other collaborative agreements. Other revenues in 2002 are comprised largely of $32.7 million in payments from Wyeth for compensation of 2002 FluMist manufacturing costs and funding for clinical development and marketing programs. In 2002, we also received $17.2 million from the sale of excess production capacity to a third party and $8.7 million in revenue recorded under other collaborative agreements.

We have accounted for major collaborative agreements entered into before January 1, 2002 using the contingency-adjusted performance model and have deferred a portion of the up front and milestone payments received. Based on current estimates, we expect to record the remaining revenues from our collaboration with Schering-Plough Corporation of $0.8 million ratably over 2004 and 2005.

Cost of Sales

(In Millions)	2003		2002		
Historical	Acquisition-Related Adjustments	Adjusted	Historical	Acquisition-Related Adjustments	Adjusted
$289.8	**$(2.7)**	**$287.1**	$201.8	—	$201.8

Cost of sales for 2003 increased 44% to $289.8 million from $201.8 million for 2002. Excluding Acquisition-related adjustments in both periods, cost of sales for 2003 increased 42% to $287.1 million from $201.8 million in 2002, mainly due to increases in product sales volumes and inventory valuation adjustments for FluMist of $37.5 million. Gross margins on product sales for 2003 were 71%, down three percentage points from last year, largely due to the valuation adjustments for FluMist inventory. Partially offsetting this decrease were lower costs for CytoGam, and a favorable impact of a value-added tax refund for transfers of Synagis manufactured in Europe.

Research and Development Expenses

(In Millions)	2003		2002		
Historical	Acquisition-Related Adjustments	Adjusted	Historical	Acquisition-Related Adjustments	Adjusted
$156.3	**$(2.6)**	**$153.7**	$147.9	$(9.3)	$138.6

Research and development expenses of $156.3 million in 2003 increased 6% from $147.9 million in 2002. Excluding Acquisition-related adjustments in both periods, research and development expenses for 2003 were $153.7 million, up 11% over 2002. The increase is due largely to payments made in 2003 associated with gaining access to new data and technologies including a $10.0 million payment to Critical Therapeutics, Inc. as part of a new collaboration to co-develop biologic products to treat severe inflammatory diseases. Additionally in 2003, the Company initiated four Phase 2 studies for Vitaxin and agreed to pay $10.0 million for data from the completed international Phase 3 studies for a liquid formulation of the live, attenuated influenza virus vaccine. This data may have the potential to accelerate the evolution of MedImmune's long-range plans for its intranasally delivered flu vaccine program in the United States.

In 2002, the Company completed several late-stage clinical trials, including Phase 2 clinical trials with siplizumab, and the Phase 3 Synagis clinical trial in congenital heart disease patients that led to approval of an expanded indication by the FDA in September 2003.

During 2003, we incurred significant costs related to the development of various products and product candidates. A summary of our more significant research and development efforts is as follows:

Product Candidates	Description	Stage of Development
Vitaxin	Melanoma, Prostate Cancer, Rheumatoid Arthritis, Psoriasis	Phase 2
CAIV-T (liquid FluMist)	A liquid, refrigerator-stable version of FluMist	Phase 3
FluMist-Frozen	Intranasally delivered virus vaccine to prevent influenza infection	Phase 4 and label expansion
Ethyol	Subcutaneous administration in NSCLC patients-reduction of esophagitis and pneumonitis	Phase 2
Numax	Third-generation anti-RSV antibody	Phase 1

Additionally, we have multiple programs in preclinical development.

Selling, General, and Administrative Expenses

(In Millions)	2003		2002		
Historical	Acquisition-Related Adjustments	Adjusted	Historical	Acquisition-Related Adjustments	Adjusted
$340.9	**$(8.2)**	**$332.7**	$299.6	$(11.9)	$287.7

Selling, general and administrative ("SG&A") expenses increased 14% to $340.9 million in 2003 compared to $299.6 million for the 2002 period. Excluding Acquisition-related amounts relating to retention payments, stock option acceleration and stock compensation for unvested stock options assumed and amortization of intangibles, SG&A expenses were $332.7 million, up 16% over 2002. The increase is largely attributable to increased co-promotion expense, reflective of the increase in Synagis sales. As a percentage of product sales, adjusted SG&A expense decreased to 34% of product sales in the 2003 period from 36% in the 2002 period, due to product sales growing at a faster rate than expenses.

Other Operating Expenses

(In Millions)	2003		2002		
Historical	Acquisition-Related Adjustments	Adjusted	Historical	Acquisition-Related Adjustments	Adjusted
$26.1	**$(3.1)**	**$23.0**	$100.0	$(20.8)	$79.2

Other operating expenses, which reflect manufacturing start-up costs and other manufacturing-related costs, were $26.1 million in 2003 compared to $100.0 million in 2002. Adjusted other operating expenses were $23.0 million for 2003, compared to $79.2 million in 2002. The decrease is principally due to the shift in the costs of FluMist manufacturing that are capitalized in inventory beginning in the second quarter of 2003, but were expensed as other operating costs in the prior year. Additionally, 2002 other operating expenses include impairment charges of $12.9 million relating to the write-off of certain plasma manufacturing assets, as the Company outsourced its production of CytoGam during 2002.

In-Process Research and Development
We incurred charges of $1,179.3 million in the first quarter of 2002 for the write-off of purchased in-process research and development in conjunction with the Acquisition. The write-off represented the fair value of purchased in-process technologies at the acquisition date, calculated as the sum of probability-adjusted commercial scenarios. This method was based upon management's estimates of the probability of FDA approval and commercial success for FluMist.

Interest Income and Expense
We earned interest income of $56.9 million for 2003, compared to $49.4 million in 2002, reflecting higher cash balances available for investment, partially offset by a decrease in interest rates, which lowered the overall portfolio yield. Interest expense for 2003, net of amounts capitalized, was $10.3 million, up from $9.1 million for 2002. Excluding the Acquisition-related amounts of $2.4 million in 2003 and $1.8 million in 2002 for the amortization of premium on the 5¼% Convertible Subordinated Notes ("the 5¼% Notes"), adjusted interest expense increased to $7.9 million in 2003 from $7.3 million in 2002, due to interest expense generated by the 1% Notes issued in July 2003.

Gain (Loss) on Investment Activities
We incurred a gain on investment activities of $3.4 million for 2003, compared to a loss of $14.1 million for 2002. The 2003 gain consisted of gains on the sale of our publicly traded equity investments, net of declines in fair value of other investments that were judged to be other than temporary. Investment losses in 2002 consisted primarily of impairment charges on investments related to declines in fair value that were judged to be other than temporary.

Income Taxes
We recorded income tax expense of $108.0 million for the year ended December 31, 2003, based on an effective tax rate of 37.1%. Excluding items not deductible for tax purposes, principally the write-off of purchased in-process research and development, the resulting effective tax rate for 2002 was 37.2%.

Net Earnings/(Loss)

(In Millions)	2003		2002		
Historical	Acquisition-Related Adjustments	Adjusted	Historical	Acquisition-Related Adjustments	Adjusted
$183.2	**$9.2**	**$192.4**	$(1,098.0)	$1,204.6	$106.6

Net earnings for 2003 were $183.2 million, or $0.73 per share basic and $0.72 per share diluted, compared to a net loss for 2002 of $1.1 billion or $4.40 per share. Excluding the after-tax impact of the Acquisition-related amounts totaling $9.2 million in 2003 and $1.2 billion in 2002, adjusted net earnings were $192.4 million in 2003, or $0.77 basic and $0.76 diluted earnings per share and $106.6 million, or $0.43 basic and $0.42 diluted per share in 2002.

Shares used in computing basic and diluted earnings per share in 2003 on a historical basis were 250.1 and 253.8, respectively. Shares used in computing net loss per share on a historical basis for 2002 were 249.6 million. On an adjusted basis, shares used in computing basic and diluted earnings per share in 2003 were 250.1 and 253.8, respectively, while shares used in computing basic and diluted earnings (loss) per share for 2002 were 249.6 million and 252.7 million, respectively.

We do not believe inflation had a material effect on our financial statements.

2002 COMPARED TO 2001

REVENUES — PRODUCT SALES

(In Millions)	2002	2001	Growth
Synagis	$671.7	$518.0	30%
Ethyol	81.2	20.5	296%
Other Products	38.0	43.0	(12%)
	$790.9	$581.5	36%

Product sales grew 36% to $790.9 million, compared to $581.5 million in 2001, primarily due to increased sales of Synagis and the impact of reacquiring the domestic marketing rights to Ethyol from ALZA as of October 1, 2001.

Synagis — Synagis accounted for approximately 85% and 89%, respectively, of our 2002 and 2001 product sales. We achieved a 33% increase in domestic Synagis sales to $641.3 million in 2002,

up from $481.3 million in 2001. This growth was largely due to increased demand in the United States, and resulted in a 30% increase in domestic units sold. Also aiding growth was a 3.5% price increase that took effect in June 2002, partially offset by an increase in sales allowances, which were accounted for as a reduction to product sales. Our reported international sales of Synagis decreased 17% to $30.4 million in 2002 compared to $36.7 million in 2001, due to a 40% decrease in units sold to AI, our exclusive distributor of Synagis outside of the United States. We believe that the decrease was due to reductions in the inventory stocking levels of AI, rather than reduced product demand by end users. The decrease in unit volume was offset by an increase in the per unit sales price recognized upon delivery of product to AI under the terms of our international distribution agreement. Based on information received from AI, we believe that end-user sales have increased over the 2001 year. We recorded Synagis international product sales based on AI's sales price to customers, as defined in the agreement.

Ethyol — Ethyol accounted for approximately 10% and 4% of our product sales in 2002 and 2001, respectively. On October 1, 2001 we reacquired domestic marketing rights to Ethyol from ALZA and have since recorded all revenues from domestic sales of Ethyol to wholesalers and distributors. As part of this agreement, no third quarter 2001 supply sales were made to ALZA, and we purchased ALZA's remaining Ethyol inventory at their original purchase price, which was recorded as a reduction to product sales. Beginning April 1, 2002, we pay ALZA a declining royalty through 2011 based on net sales of Ethyol in the United States. Domestic Ethyol sales were $75.5 million in 2002, as compared to $14.4 million in 2001. The increase was primarily attributable to a three-fold increase in domestic units sold in 2002 versus the 2001 year, which included nine months of revenues generated under our product supply agreement with ALZA and three months of sales to wholesalers and distributors. Further, two domestic price increases occurred during 2002, including a 9% increase in April 2002 and a 6% increase in September 2002. In addition, 2001 included net returns of $2.3 million, relating to our assumption of Ethyol marketing rights. Prior to October 1, 2001, we recorded Ethyol domestic product sales based on ALZA's net unit selling price as defined in the agreement. Our international sales of Ethyol to our distribution partner, Schering, were $5.6 million for 2002, down 7% from the prior year sales of $6.0 million.

Other Products — Sales of other products in 2002, which included sales of CytoGam, NeuTrexin, RespiGam, and by-products that resulted from the CytoGam manufacturing process, decreased $5.0 million, or 12% compared to 2001. The decrease was due to marginal declines in all of our other product lines.

Revenues — Other Revenues

Other revenues increased 58% to $61.8 million for 2002 compared to $39.2 million in 2001. The increase was largely attributable to $25 million received from Wyeth, our marketing partner for FluMist, for compensation of 2002 FluMist manufacturing costs under amendments to the collaborative agreements. An increase of $9.7 million in revenues from the sale of excess production capacity to a third party and $7.7 million in funding for FluMist clinical development and sales and marketing activities from Wyeth also contributed to the growth over 2001. Partially offsetting these increases was a decrease of $15.5 million in revenue recorded under collaborative agreements, including a $2.7 million decrease in clinical funding received for our HPV vaccine candidate as we were nearing completion of Phase 1 and 2 clinical trials and our preparation of clinical material.

Cost of Sales

Cost of sales for 2002 increased 46% to $201.8 million from $138.7 million in 2001, due to the increase in sales volumes and additional royalties owed for Synagis, partially offset by manufacturing cost reductions following implementation of an improved manufacturing process at the FMC which enhanced the yields for Synagis. As a result, gross margins for 2002 were down two percentage points to 74% from 76% for the year ended December 31, 2001.

Research and Development Expenses

Research and development expenses of $147.9 million in 2002 increased 78% from $83.0 million in 2001. Excluding Acquisition-related amounts of $9.4 million in 2002 for retention payments, stock option acceleration and stock compensation expense for unvested options assumed, adjusted research and development expenses were $138.6 million, up 67% over 2001. This increase was largely due to the on-going activities of MedImmune Vaccines and payments of approximately $19.0 million to gain access to various technologies and intellectual property to advance our pipeline. The increases were offset by decreases in clinical trial expenses, as several of our clinical trials were either completed, cancelled or delayed during 2002. During 2002, we completed several important clinical trials, including a successful Phase 3 trial for Synagis in children with congenital heart disease and three Phase 2 trials for siplizumab.

During 2002, we completed the preliminary analysis of three Phase 2 trials for siplizumab involving almost 700 psoriasis patients. While the drug appeared to be generally well tolerated and some patients exhibited an improvement in their psoriatic disease, an anti-antibody response (also known as immunogenicity) was observed in the laboratory tests of over 50 percent of the patients. This anti-antibody response did not appear to cause any clinical complications. We also completed two Phase 2 trials of our E. coli urinary tract infection vaccine, and have determined that there was not a sufficient level of efficacy in prevention of urinary tract infections to proceed with additional trials. Our ongoing clinical program also included several product candidates in various phases of evaluation, including a Phase 1 trial in adults using a liquid formulation of Synagis and certain trials for FluMist. Additionally, we had multiple programs in preclinical development.

Selling, General, and Administrative Expenses

Selling, general and administrative ("SG&A") expenses increased 52% to $299.6 million in 2002 compared to $196.8 million for the 2001 period. Excluding Acquisition-related amounts of $11.9 million in expense in 2002 relating to retention payments, stock option acceleration and stock compensation for unvested stock

options assumed and amortization of intangibles, adjusted SG&A expenses were $287.5 million, up 46% over 2001. As a percentage of product sales, adjusted SG&A expense increased to 36% of product sales in the 2002 period from 34% in the 2001 period. The increase in this ratio was largely reflective of the impact of the Acquisition and the inclusion of MedImmune Vaccines' ongoing expenses. Additionally, we incurred increased co-promotion expense directly related to the growth in domestic sales of Synagis, higher salaries and sales commissions, as well as increased Synagis marketing expense. SG&A expenses for 2002 also included a $5.0 million charge associated with the settlement of a contractual dispute in August 2002 regarding an agreement with the Massachusetts Biologic Laboratories of the University of Massachusetts ("MBL") to transfer certain technology relating to the Company's monoclonal antibody manufacturing operations. The comparison to 2001 was favorably impacted as $13.4 million of expenses related to our accelerated acquisition of Ethyol marketing rights from ALZA was included in SG&A for 2001.

Other Operating Expenses

Other operating expenses, which reflected manufacturing start-up costs and other manufacturing related costs, increased to $100.0 million in 2002 from $9.6 million in 2001. Excluding Acquisition-related amounts of $20.8 million in expense in 2002 relating to stock compensation for unvested stock options assumed and amortization of intangibles, adjusted other operating expenses were $79.2 million. The increase over 2001 was primarily related to $56.9 million of pre-production costs and inventory reserves for FluMist. The majority of the cost incurred for FluMist was associated with preparing for the aborted 2002 commercial launch. Additionally, we incurred a $12.9 million charge for the write-off of CytoGam manufacturing equipment as the Company had outsourced CytoGam production activities as of November 2002. Also included in other operating expense for both periods was excess capacity costs associated with the plasma production section of the FMC.

In-Process Research and Development

We incurred charges of $1,179.3 million for the year ended December 31, 2002 for the write-off of purchased in-process research and development in conjunction with the Acquisition. The write-off represented the fair value of purchased in-process technologies at the acquisition date, calculated utilizing the sum of the probability-adjusted scenarios under the income approach using a discount rate of 18.7%, and certain in-process research and development projects, primarily FluMist. We do not believe that there would be any alternative future use for the in-process technologies that were written off.

FluMist is a live, attenuated vaccine delivered via a nasal mist for the prevention of influenza. It is a frozen vaccine requiring freezer storage. A liquid influenza vaccine is currently being developed by our partner Wyeth. While there are other flu vaccines currently marketed by other companies, FluMist is, to our knowledge, the only live virus vaccine administered as a nasal mist.

The valuation of the acquired in-process research and development was based upon certain estimates and assumptions by management. The valuation was based upon management's estimates of the probability of FDA approval and commercial success for FluMist. Management's projections were based on assumptions, which may or may not remain valid for the relevant period, including the estimated impact of four "key" factors: price per dose; dose volume; launch date; and the potential failure of the frozen or liquid formulations of the influenza vaccine.

Interest Income and Expense

We earned interest income of $49.4 million for 2002, compared to $36.5 million in 2001, reflecting higher cash balances available for investment, largely due to the Acquisition, partially offset by a decrease in interest rates, which lowered the overall portfolio yield. Interest expense for 2002, net of amounts capitalized, was $9.1 million, up $8.5 million over 2001. Excluding the Acquisition-related amount of $1.8 million for the amortization of premium on the 5¼% Notes, adjusted interest expense was $10.9 million. The increase over 2001 was due to the related interest expense assumed in the Acquisition.

Loss on Investment Activities

We incurred $14.1 million in losses on investment activities for 2002. The losses consisted primarily of impairment charges of $4.5 million on our publicly traded equity investments and $9.5 million on our minority interest investments related to declines in fair value that were judged to be other than temporary.

Income Taxes

We recorded income tax expense of $48.2 million for the year ended December 31, 2002. Excluding items not deductible for tax purposes, principally the write-off of purchased in-process research and development, the resulting effective tax rate was 37.2%. This was compared to tax expense of $79.5 million recorded for the year ended December 31, 2001, based on an effective tax rate of 34.8%. The higher effective tax rate for 2002 versus 2001 is due to lower credits estimated to be available for research and development activities, including credits earned for orphan drug status of certain research and development activities.

Net loss

Net loss for the year ended December 31, 2002 was $1.1 billion, or $4.40 per share compared to net earnings for the year ended December 31, 2001 of $149.0 million or $0.70 basic and $0.68 diluted earnings per share. Excluding the after-tax impact of the Acquisition-related amounts totaling $1.2 billion, adjusted net earnings for 2002 were $106.6 million, or $0.42 adjusted earnings per diluted share.

Shares used in computing net loss per share in 2002 were 249.6 million. Shares used in computing basic and diluted earnings per share for 2001 were 213.4 million and 220.1 million, respectively. The increase in share count primarily reflects the 34.0 million additional shares issued in conjunction with the Acquisition.

We do not believe inflation had a material effect on our financial statements.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

The Company's capital requirements have been funded from operations, cash and investments on hand, and issuance of common stock and convertible debt. Cash and marketable securities increased 34% to $1.9 billion at December 31, 2003 from $1.4 billion at December 31, 2002. This increase is largely due to cash received from the issuance of $500 million in 1% Notes due in July 2023 as well as cash generated from operations. Working capital increased 49% to $712.0 million at December 31, 2003 from $476.8 million at December 31, 2002, primarily due to cash received from the issuance of the 1% Notes.

Operating Activities — Net cash provided by operating activities increased to $357.7 million in the year ended December 31, 2003 as compared to $263.5 million in the comparable 2002 period, primarily as the result of net earnings for the period and the utilization of deferred tax assets to offset our current tax liability. Also affecting cash generated from operating activities were increases in accounts receivable and inventories, partially offset by an increase in accrued co-promotion expense for Synagis.

Investing Activities — Cash used for investing activities during 2003 was $238.3 million, as compared to $347.0 million in 2002. Cash used for investing activities in 2003 included net additions to our investment portfolio of $95.0 million and $112.9 in capital expenditures, primarily for land purchases and construction of the first phase of our new corporate headquarters in Gaithersburg, Maryland, and for the continued expansion of our manufacturing facilities in Pennsylvania, and Speke, the United Kingdom. We also invested $30.4 million in preferred equity securities and convertible bonds through our venture capital subsidiary.

Financing Activities — Financing activities generated $266.2 million in cash for 2003, as compared to $42.0 million in 2002. Approximately $44.4 million was received upon the issuance of common stock relating primarily to the exercise of employee stock options in 2003, as compared to $46.7 million received in 2002, reflecting increased option exercises by employees subsequent to the Acquisition in 2002.

In July 2003, the Company completed the issuance of $500 million of 1% Notes due 2023. Net proceeds to the Company were $489.4 million, net of expenses, underwriters' discounts and commissions. At the time of issuance, we stated our intent to use a portion of the proceeds from the 1% Notes to repurchase shares of our common stock under the stock repurchase program, and for general corporate purposes, which may include the retirement of existing debt obligations, possible acquisitions or other external growth opportunities. As of December 31, 2003, we have repurchased and retired $32.4 million principal amount of the 5¼% notes at a cost of $33.1 million. A gain of $0.5 million was recorded in accordance with the transactions, representing the acceleration of the premium recorded on these notes in accordance with the Acquisition.

In July 2003, our Board of Directors authorized the repurchase, over a two-year period, of up to $500 million of the Company's common stock in the open market or in privately negotiated transactions, pursuant to terms management deems appropriate and at such times it may designate. Under the stock repurchase program, we repurchased 6.2 million shares of our common stock at a total cost of $229.8 million, or an average cost of $36.83 per share through December 31, 2003. The Company also entered into a 10b5-1 trading plan to repurchase shares in the open market during those periods each quarter when trading in our common stock is restricted under our insider trading policy. Of the shares repurchased, approximately 0.7 million shares were purchased under the 10b5-1 trading plan. As of February 29, 2004, we had not purchased any additional shares since October 7, 2003, but intend to resume repurchasing during 2004. The Company will hold repurchased shares as treasury shares and intends to use them for general corporate purposes, including but not limited to acquisition-related transactions and for issuance upon exercise of outstanding stock options.

We expect to make capital expenditures in the range of $100-125 million during 2004 for projects such as continued construction of our corporate headquarters in Gaithersburg, Maryland and FluMist manufacturing facilities in Speke, the United Kingdom, construction of a new pilot plant in Gaithersburg, Maryland, and land purchases relating to future expansion phases of our headquarters facility. The Company anticipates these projects will be funded from cash generated from operations and investments on hand. We expect to take occupancy of the first phase of our headquarters facility, a complex of approximately 220,000 square feet, in March 2004. The majority of our existing space in Gaithersburg is leased through 2006, a portion of which will be offered for sublease. There can be no guarantee that we will be successful in subleasing the space.

The Company's 5¼% Notes are redeemable beginning in February 2004. The Company intends to redeem the entire remaining amount of the issue at approximately 103% of its principal amount in the first quarter of 2004. The redemption is expected to be financed from cash and investments on hand.

Contractual Obligations and Commitments — The following table summarizes our contractual obligations and commitments that will require significant cash outlays in the future:

Contractual Obligations	Total	2004	2005	2006	2007	2008	Beyond
Long-term debt[1]	$675.7	$ 0.9	$ 1.0	$ 1.0	$ 1.3	$168.1	$503.4[2]
Facilities leases	54.3	8.8	6.5	4.5	2.8	2.5	29.2
Purchase obligations	136.1	59.2	20.4	11.5	7.5	7.5	30.0
Evans liability	26.8	3.9	22.9	—	—	—	—
Total contractual obligations	$892.9	$72.8	$50.8	$17.0	$11.6	$178.1	$562.6
Other Commercial Commitments							
Standby letters of credit	$ 2.2	$ 2.2	$ —	$ —	$ —	$ —	$ —
Obligations under Collaborative Agreements[3]	16.6	7.5	2.3	1.9	1.1	0.8	3.0
Total other commercial commitments	$ 18.8	$ 9.7	$ 2.3	$ 1.9	$ 1.1	$ 0.8	$ 3.0

[1] *The 2008 amount includes the aggregate principal amount of the 5¼% Notes. They are recorded at a premium on the balance sheet, which represents their fair value at the time of the Acquisition. These notes are due in 2008; however, in February 2004 the Board of Directors approved their redemption, which is expected to be completed by March 31, 2004.*

[2] *The 1% Notes can be put to MedImmune by the holders for cash in 2006.*

[3] *We participate in a number of research and development collaborations to develop and market certain technologies and products. The amounts indicated as obligations under collaborative agreements represent committed funding obligations to our collaborative partners under our various development programs. The amounts do not include any milestone payments or royalty payments related to these collaborations since the amount, timing, and likelihood of the payments is unknown as they are dependent on the occurrence of future events that may or may not occur.*

Financial Statements and Supplementary Data

Consolidated Balance Sheets

(In Thousands)	2003	2002
Assets:		
Cash and cash equivalents	**$ 515,502**	$ 130,056
Marketable securities	**272,765**	396,882
Trade receivables, net	**161,229**	113,774
Inventory, net	**91,703**	59,963
Deferred tax assets	**29,322**	25,735
Other current assets	**32,233**	17,023
Total Current Assets	**1,102,754**	743,433
Marketable securities	**1,111,882**	896,118
Property and equipment, net	**273,597**	183,992
Deferred tax assets, net	**151,280**	222,038
Intangible assets, net	**96,694**	113,275
Goodwill	**13,614**	15,970
Other assets	**44,849**	13,463
Total Assets	**$2,794,670**	$2,188,289
Liabilities and Shareholders' Equity:		
Accounts payable	**$ 22,116**	$ 19,773
Accrued expenses	**218,035**	157,359
Product royalties payable	**81,808**	74,048
Advances from Wyeth	**51,910**	—
Deferred revenue	**813**	6,789
Other current liabilities	**16,033**	8,684
Total Current Liabilities	**390,715**	266,653
Long-term debt	**681,223**	217,554
Obligations to Evans	**21,627**	24,755
Other liabilities	**1,887**	2,093
Total Liabilities	**1,095,452**	511,055
Commitments and Contingencies		
Shareholders' Equity:		
Preferred stock, $.01 par value; authorized 5,525 shares; none issued or outstanding	**—**	—
Common stock, $.01 par value; authorized 420,000 shares; outstanding 248,036 at December 31, 2003 and 251,262 at December 31, 2002	**2,543**	2,513
Paid-in capital	**2,673,059**	2,613,075
Deferred compensation	**(1,379)**	(6,823)
Accumulated deficit	**(772,936)**	(956,140)
Accumulated other comprehensive income	**27,733**	24,609
	1,929,020	1,677,234
Less: Treasury stock at cost; 6,239 shares as of December 31, 2003 and no shares at December 31, 2002	**(229,802)**	—
Total Shareholders' Equity	**1,699,218**	1,677,234
Total Liabilities and Shareholders' Equity	**$2,794,670**	$2,188,289

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Operations

(In Thousands, Except Per Share Data)	For the year ended December 31, 2003	2002	2001
Revenues			
Product sales	**$ 992,554**	$ 790,906	$581,514
Other revenue	**61,780**	61,778	39,150
Total revenues	**1,054,334**	852,684	620,664
Costs and Expenses			
Cost of sales	**289,756**	201,841	138,707
Research and development	**156,318**	147,942	82,985
Selling, general, and administrative	**340,902**	299,562	196,826
Other operating expenses	**26,138**	100,029	9,606
Acquired in-process research and development	**—**	1,179,321	—
Total expenses	**813,114**	1,928,695	428,124
Operating income (loss)	**241,220**	(1,076,011)	192,540
Interest income	**56,854**	49,355	36,516
Interest expense	**(10,335)**	(9,110)	(590)
Gain (loss) on investment activities	**3,438**	(14,074)	—
Earnings (loss) before income taxes	**291,177**	(1,049,840)	228,466
Provision for income taxes	**107,973**	48,175	79,506
Net earnings (loss)	**$ 183,204**	$(1,098,015)	$148,960
Basic earnings (loss) per share	**$ 0.73**	$(4.40)	$0.70
Shares used in calculation of basic earnings (loss) per share	**250,144**	249,625	213,378
Diluted earnings (loss) per share	**$ 0.72**	$ (4.40)	$ 0.68
Shares used in calculation of diluted earnings (loss) per share	**253,817**	249,625	220,101

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Cash Flows

(In Thousands)	For the year ended December 31, 2003	2002	2001
Cash Flows From Operating Activities			
Net earnings (loss)	**$ 183,204**	$(1,098,015)	$ 148,960
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Acquired in-process research and development	**—**	1,179,321	—
Deferred taxes	**86,978**	50,806	76,398
Deferred revenue	**(5,976)**	(7,050)	(21,430)
Depreciation and amortization	**37,662**	36,820	9,124
Advances from Wyeth	**51,910**	—	—
Amortization of premium (discount) on marketable securities	**14,821**	9,752	(2,024)
Amortization of deferred compensation	**4,046**	19,228	—
Amortization of bond premium	**(3,130)**	(1,819)	—
(Gain) loss on investment activities	**(3,438)**	14,074	—
Impairment of long-lived assets	**—**	14,058	—
Increase in sales allowances	**10,877**	17,427	9,599
Losses on writedowns of inventory	**58,965**	44,671	2,910
Change in restructuring liability for cash employee termination costs	**(661)**	(5,142)	—
Other	**3,693**	796	(138)
Increase (decrease) in cash due to changes in assets and liabilities:			
Trade receivables	**(36,743)**	3,944	(2,866)
Inventory	**(86,590)**	(43,959)	(6,559)
Other assets	**(14,507)**	(2,220)	2,697
Accounts payable and accrued expenses	**45,321**	4,627	25,451
Product royalties payable	**7,760**	26,328	7,166
Other liabilities	**3,469**	(105)	1,627
Net cash provided by operating activities	**357,661**	263,542	250,915
Cash Flows From Investing Activities			
Investments in securities available for sale	**(659,914)**	(1,008,936)	(842,589)
Maturities of securities available for sale	**345,611**	467,254	312,954
Proceeds from sales of securities available for sale	**219,305**	137,393	371,230
Net cash acquired in acquisition of Aviron	**—**	146,853	—
Capital expenditures, net of capitalized interest	**(112,940)**	(80,871)	(18,258)
Investments in strategic alliances	**(30,405)**	(8,735)	(11,499)
Net cash used in investing activities	**(238,343)**	(347,042)	(188,162)
Cash Flows From Financing Activities			
Proceeds from issuance of common stock	**44,409**	46,664	24,339
Share repurchases	**(229,802)**	—	—
Proceeds of 1% Notes, net of issuance costs	**489,361**	—	—
Debt prepayments	**(33,124)**	—	—
Repayments on long-term obligations	**(4,694)**	(4,639)	(742)
Net cash provided by financing activities	**266,150**	42,025	23,597
Effect of exchange rate changes on cash	**(22)**	276	(69)
Net increase (decrease) in cash and cash equivalents	**385,446**	(41,199)	86,281
Cash and cash equivalents at beginning of year	**130,056**	171,255	84,974
Cash and cash equivalents at end of year	**$ 515,502**	$ 130,056	$ 171,255
Supplemental cash flow data:			
Cash paid during the year for interest	**$ 13,701**	$ 11,013	$ 559
Cash paid (received) during the year for income tax payments (refunds)	**$ 32,740**	$ (2,320)	$ 505

Supplemental schedule of noncash investing and financing activities:
During January 2002, the Company acquired 100% of the outstanding capital stock of Aviron through an exchange offer and merger transaction. The Company exchanged approximately 34.0 million of its common shares for all of the outstanding shares of Aviron common stock and assumed Aviron's outstanding options and warrants, for which approximately 7.0 million additional shares of the Company's common stock are issuable. The estimated fair value of the net assets acquired was $1,635.1 million, and included $1,179.3 million of acquired research and development assets that were charged to current period results at the date of acquisition and $211.4 million of 5¼% notes due in 2008.

The accompanying notes are an integral part of these financial statements

Consolidated Statements of Shareholders' Equity

(In Thousands)	Common Stock at $.01 par Shares	Amount	Paid-in Capital	Deferred Compen-sation	Accumu-lated Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Shares	Amount	Total
Balance, December 31, 2000	211,348	$2,113	$ 842,815	$ —	$ (7,085)	$ 5,739	—	$ —	$ 843,582
Net earnings	—	—	—	—	148,960	—	—	—	148,960
Change in foreign currency translation adjustment	—	—	—	—	—	(216)	—	—	(216)
Unrealized gain on investments, net of tax	—	—	—	—	—	3,071	—	—	3,071
Unrealized gain on hedged inventory purchases, net of tax	—	—	—	—	—	32	—	—	32
Comprehensive income							—	—	151,847
Common stock options exercised	3,092	31	22,818	—	—	—	—	—	22,849
Issuance of common stock under the employee stock purchase plan	44	1	1,489	—	—	—	—	—	1,490
Tax benefit associated with the exercise of stock options	—	—	24,505	—	—	—	—	—	24,505
Balance, December 31, 2001	214,484	2,145	891,627	—	141,875	8,626	—	—	1,044,273
Net loss	—	—	—	—	(1,098,015)	—	—	—	(1,098,015)
Change in foreign currency translation adjustment	—	—	—	—	—	778	—	—	778
Unrealized gain on investments, net of tax	—	—	—	—	—	15,079	—	—	15,079
Unrealized gain on hedged inventory purchases, net of tax	—	—	—	—	—	126	—	—	126
Comprehensive loss							—	—	(1,082,032)
Common stock options exercised	2,663	27	42,673	—	—	—	—	—	42,700
Issuance of common stock under the employee stock purchase plan	163	2	3,962	—	—	—	—	—	3,964
Tax benefit associated with the exercise of stock options	—	—	14,804	—	—	—	—	—	14,804
Shares issued related to the acquisition of Aviron	33,952	339	1,664,412	(39,454)	—	—	—	—	1,625,297
Amortization of deferred compensation for the vesting of stock options	—	—	—	19,228	—	—	—	—	19,228
Reversal of deferred compensation for cancellation of stock options	—	—	(4,403)	4,403	—	—	—	—	—
Decrease in restructuring liability for amortization of deferred compensation for the vesting of stock options	—	—	—	9,000	—	—	—	—	9,000
Balance, December 31, 2002	251,262	2,513	2,613,075	(6,823)	(956,140)	24,609	—	—	1,677,234
Net earnings	—	—	—	—	183,204	—	—	—	183,204
Change in foreign currency translation adjustment	—	—	—	—	—	1,651	—	—	1,651
Unrealized gain on investments, net of tax	—	—	—	—	—	3,713	—	—	3,713
Unrealized loss on cash flow hedges, net of tax	—	—	—	—	—	(2,240)	—	—	(2,240)
Comprehensive income	—	—	—	—	—	—	—	—	186,328
Common stock options exercised	2,807	28	39,866	—	—	—	—	—	39,894
Issuance of common stock under the employee stock purchase plan	206	2	4,781	—	—	—	—	—	4,783
Repurchases of common stock	—	—	—	—	—	—	(6,239)	(229,802)	(229,802)
Tax benefit associated with the exercise of stock options	—	—	16,023	—	—	—	—	—	16,023
Amortization of deferred compensation for the vesting of stock options	—	—	—	4,758	—	—	—	—	4,758
Reversal of deferred compensation for cancellation of stock options	—	—	(686)	686	—	—	—	—	—
Balance, December 31, 2003	254,275	$2,543	$2,673,059	$(1,379)	$ (772,936)	$27,733	(6,239)	$(229,802)	$1,699,218

The accompanying notes are an integral part of these financial statements.

Notes to Consolidated Financial Statements

1. ORGANIZATION

MedImmune, Inc., a Delaware corporation (together with its subsidiaries, the "Company"), is a biotechnology company headquartered in Gaithersburg, Maryland. During January 2002, the Company completed its acquisition of Aviron, subsequently renamed MedImmune Vaccines, Inc., a biopharmaceutical company headquartered in Mountain View, California, through an exchange offer and merger transaction (the "Acquisition"). The Acquisition was accounted for as a purchase, and the results of operations of MedImmune Vaccines are included in the results of the Company effective January 10, 2002 (see Note 3).

The Company currently actively markets four products, Synagis, Ethyol, CytoGam, and FluMist, and maintains a diverse research and development pipeline. The Company is focused on developing vaccines and antibodies that address significant medical needs in the areas of infectious diseases, immunology and oncology.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting policies applied in the preparation of these financial statements are as follows:

Basis of Presentation — The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Seasonality — The Company's largest revenue-generating product, Synagis, is used to prevent RSV disease in high-risk infants. RSV is most prevalent in the winter months in the northern hemisphere. Because of the seasonal nature of RSV, limited sales, if any, of Synagis are expected during the second and third quarters of any calendar year, causing results to vary significantly from quarter to quarter. Sales of Synagis comprised approximately 86%, 85% and 89% of total product sales for the years ended December 31, 2003, 2002, and 2001, respectively.

FluMist is a nasally delivered live attenuated vaccine used to prevent influenza, which is most prevalent in the fall and winter months. The majority of FluMist sales are expected to occur between October and January because of the seasonal nature of influenza, causing results to vary significantly from quarter to quarter.

Cash, Cash Equivalents and Marketable Securities — The Company considers all highly liquid instruments purchased with a maturity of three months or less at date of purchase to be cash equivalents. Investments in marketable securities consist principally of debt securities of U.S. corporations, including commercial paper and notes, debt securities of international banks, and U.S. Government and Agency notes and bonds. Investments with maturities of three to 12 months from the balance sheet date are considered current assets, while those with maturities in excess of one year are considered non-current assets. The securities are held for an unspecified period of time and may be sold to meet liquidity needs and therefore are classified as available-for-sale. Accordingly, the Company records these investments at fair value, with unrealized gains and losses on investments reported, net of tax, as a component of other comprehensive income.

Substantially all of the Company's cash and cash equivalents, and short-term and long-term investments, are held in custody by three major U.S. financial institutions. The majority of the Company's cash equivalents consist of U.S. Government Federal Agency Securities, short-term marketable securities, and overnight repurchase agreements. Deposits held with banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and, therefore, bear minimal risk. The Company's short-term and long-term investments generally consist of marketable securities with investment grade credit ratings and deposits with major banks. The Company's investment guidelines are intended to limit the amount of investment exposure as to issuer, maturity, and investment type. Maturities generally range from one month to seven years. The fair values of these investments are sensitive to changes in interest rates and the credit-worthiness of the security issuers. Further, interest income earned on variable rate debt securities is exposed to changes in the general level of interest rates.

Minority Interest Investments — The Company's wholly-owned venture capital subsidiary, MedImmune Ventures, Inc., manages the Company's current portfolio of minority interest investments and endeavors to make additional investments in public or private biotechnology companies, primarily in areas of strategic interest to the Company. The investments are maintained on the cost or equity method of accounting, according to the facts and circumstances of the individual investment. Under either method, the investments are subject to adjustment for other-than-temporary impairments. Additionally, for investments carried on the equity method, the Company's proportionate share of the investee's gains or losses is recorded on a quarterly basis. Minority interest investments in publicly traded companies are categorized as available-for-sale securities. Due to the highly volatile share prices of these investments, the investments are subject to unrealized holding gains or losses.

During 2003, the Company determined the decline in fair value of one investment was other than temporary, based on the financial condition and near-term prospects of the investee company. During 2002, the Company determined that the declines in fair value below the basis of certain of its minority interest investments were other than temporary, based primarily on the duration and magnitude of the declines in fair value, largely due to the downward movement in the capital markets, as well as the financial condition and near-term prospects of the investee companies. For the years ended December 31, 2003 and December 31, 2002, the Company recorded impairment losses of $1.7 million and $14.0 million, respectively, to write-down the cost basis of its minority interest investments to estimated fair value.

Fair Value of Financial Instruments — The carrying amount of financial instruments, including cash and cash equivalents, trade receivables, contracts receivable, other current assets, accounts payable, and accrued expenses, approximate fair value as of December 31, 2003 and 2002 due to the short maturities of these instruments.

Concentration of Credit Risk — The Company sells its products primarily to a limited number of pharmaceutical wholesalers and distributors without requiring collateral. The Company periodically assesses the financial strength of these customers and establishes allowances for anticipated losses when necessary. The Company also minimizes its credit risk from these customers by purchasing insurance coverage for certain customers. As of December 31, 2003, trade accounts receivable included four customers that each accounted for 27%, 16%, 15% and 12%, of net trade accounts receivable, respectively. As of December 31, 2002, trade accounts receivable included three customers that each accounted for 22%, 21% and 19% of net trade accounts receivable, respectively.

Inventory — Inventories are stated at the lower of cost or market, and consist of currently marketed products and may include certain product candidates awaiting regulatory approval. Cost is determined using the first-in, first-out method. With respect to inventory for product candidates, the Company considers the probability that revenues will be obtained from the future sale of the related inventory together with the status of the product candidate within the regulatory approval process. Currently, the Company does not have any inventory for product candidates. The Company records an inventory reserve for estimated obsolescence, excess or unmarketable inventory in an amount equal to the difference between the cost of inventory and its estimated realizable value based upon assumptions about future demand and market conditions.

Product Sales — The Company recognizes revenue on product sales when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable, and collectibility is probable. These criteria are generally met upon receipt of the product by customers. As more fully explained in the "Critical Accounting Estimates" section of Management's Discussion and Analysis, no FluMist transfer price or royalty revenue was recognized in 2003, as the Company determined the amounts were not fixed or determinable.

In certain of the Company's international distribution agreements, the compensation received by the Company from its partner is variable based, in part, on the end-user sales price. When all of the other revenue criteria have been met, the Company recognizes revenue to the extent that the customer has an obligation to pay, the customer has limited or no control over the end-user sales price and, accordingly, any subsequent adjustments to the recorded revenue are not expected to be significant. Subsequent adjustments to recorded revenue that result from variances between amounts previously invoiced and the total sales price received are recorded as an adjustment to product sales in the quarter in which they become known.

Product sales are recorded net of allowances for estimated chargebacks, returns, discounts, and government rebates. Both in the United States and elsewhere, sales of pharmaceutical products depend on the availability of reimbursement to the consumer from third-party payers, such as government and private insurance plans. The Company estimates the portion of its sales that will be covered by government insurance and records allowances at a level that management believes is sufficient to cover estimated requirements for reimbursements. Allowances for discounts, returns, chargebacks, and bad debts, which are netted against accounts receivable, totaled $12.8 million and $18.1 million at December 31, 2003 and 2002, respectively. Allowances for government reimbursements were $42.4 million and $26.2 million as of December 31, 2003 and 2002, respectively, and are included in accrued expenses in the accompanying balance sheets.

Other Revenues

Contract Revenues — In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101 ("SAB 101"). SAB 101 summarizes certain of the SEC's views in applying accounting principles generally accepted in the United States of America to certain revenue transactions in financial statements. The Company implemented SAB 101 as of January 1, 2000, which affected amounts previously recognized as revenue relating to up front payments or milestone payments received by the Company in years prior to 2000 under arrangements for which performance obligations related to the up front or milestone payments had been met, but for which the Company is contractually obligated to perform additional research and development activities or other activities in future periods.

For contracts executed prior to January 1, 2002, contract revenues are recognized during each period in accordance with the contingency-adjusted performance model. Revenue from non-refundable up front license fees, milestones, or other payments where we continue involvement through a development collaboration is recognized on a straight-line basis over the development period, unless there are specific output measures that indicate a different basis is more appropriate.

In connection with the Company's adoption of SAB 101 using the contingency-adjusted performance model, a portion of the up front and milestone payments received under collaborative agreements with Abbott, ALZA, GSK, and Schering were deferred and are being recognized over the period of fulfillment of the contractual obligations. As of December 31, 2003 and December 31, 2002, the remaining balance of deferred revenue with respect to amounts received under these agreements was $0.8 million and $3.9 million, respectively.

For new contracts executed or acquired after January 1, 2002, the Company changed its accounting method for contract revenues to use the milestone payment method when all milestones to be received under contractual arrangements are determined to be substantive, at-risk and the culmination of an earnings process. Substantive milestones are payments that are conditioned upon an event requiring substantive effort, when the amount of the milestone is reasonable relative to the time, effort and risk involved in achieving the milestone and when the milestones are reasonable relative to each other and the amount of any up front payment. If all of these criteria are not met, then the Company will use the contingency-adjusted performance model. The

change in accounting principle was made to more closely reflect the essence of the Company's contractual obligations with collaborative partners. Also, the new method is prevalent in the industry in which the Company operates. The effect on net loss and net loss per share for the year ended December 31, 2002 (the year of adoption) is not material.

Miscellaneous Revenues — Other revenues include licensing fees, grant income, royalty income, corporate funding, and reimbursement of expenses under research and other collaborative agreements. These revenues are recognized on the earlier of when the payments are received or when collection is assured and only when no further performance obligations exist.

Royalty Expense — Product royalty expense is recognized as a cost of sales concurrently with the recognition of product revenue, net of allowances for estimated chargebacks, returns, discounts, and government rebates, based on a contractually stipulated royalty percentage. Any adjustments to royalty expense that result from variances between estimated and actual net sales are recorded as an adjustment to expense in the quarter they become known.

Research and Development Expenses

Licensing Fees — In the normal course of business, the Company enters into collaborative research and development and in-licensing agreements to acquire access to technology. These collaborative agreements usually require the Company to pay up front fees and milestone payments, some of which are significant. All up front payments are expensed as incurred. The agreements may also require that the Company provide funding to its partners for research programs. These costs are expensed as incurred.

Other — The Company accrues estimated costs for clinical and preclinical studies performed by contract research organizations or by internal staff based on the total of the costs incurred through the balance sheet date. The Company monitors the progress of the trials and their related activities to the extent possible, and adjusts the accruals accordingly.

Selling, General and Administrative Expenses

Co-promotion Expenses — Co-promotion expense in connection with the Company's agreement with AI to co-promote Synagis in the U.S. is recognized as general and administrative expense concurrently with the recognition of product revenue, net of allowances for estimated chargebacks, returns, discounts, and government rebates, and is calculated based on a contractually stipulated co-promotion percentage. Any adjustments to co-promotion expense that result from variances between estimated and actual net sales are recorded as an adjustment to expense in the quarter they become known.

Bad debt expense — The Company estimates the level of bad debts as a percentage of gross trade accounts receivable balances outstanding at the end of the period, based upon our assessment of the concentration of credit risk, the financial condition and environment of our customers, and the level of credit insurance obtained on customer balances. Because of the seasonal nature of our largest product, Synagis, our accounts receivable balances fluctuate significantly. Accordingly, the allowance for doubtful accounts also fluctuates. For all periods presented, bad debt expense has been reclassified as selling, general and administrative expense in the Consolidated Statements of Operations.

Advertising Expense — The Company expenses production costs of advertising as incurred. Advertising costs for television time and space in publications are deferred until the first advertisement occurs. Advertising expense for the years ended December 31, 2003, 2002 and 2001 was $8.1 million, $7.4 million, and $7.0 million, respectively.

Property and Equipment — Property and equipment are stated at cost. Interest cost incurred during the period of construction of plant and equipment is capitalized until the asset is placed in service, after FDA licensure of the facility is obtained. Depreciation and amortization expense commence when the asset is placed in service for its intended purpose. Depreciation and amortization is computed using the straight-line method based upon the following estimated useful lives:

	Years
Building and improvements	15 – 30
Manufacturing, laboratory, and facility equipment	5 – 15
Office furniture, computers and equipment	3 – 7

Amortization of leasehold improvements is computed on the straight-line method based on the shorter of the estimated useful life of the improvement or the term of the lease. Depreciation and amortization expense for the years ended December 31, 2003, 2002, and 2001 was $24.0 million, $20.7 million, and $9.1 million, respectively. Upon the disposition of assets, the costs and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the statements of operations. Repairs and maintenance costs are expensed as incurred and were $6.8 million, $7.0 million, and $3.3 million for the years ended December 31, 2003, 2002, and 2001, respectively.

The Company evaluates the recoverability of the carrying value of property and equipment. The Company considers historical performance and anticipated future results in its evaluation of the potential impairment. Accordingly, when the indicators of impairment are present, the Company evaluates the carrying value of these assets in relation to the operating performance of the business and future undiscounted cash flows expected to result from the use of these assets. Impairment losses are recognized when the sum of the expected future cash flows are less than the assets' carrying value.

Intangible Assets — Intangible assets are stated at amortized cost. The Company reviews its intangible assets for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Intangible assets at December 31 are comprised of the following:

(In Millions)	2003	2002
Worldwide collaborative agreement with Wyeth	**$ 90.0**	$ 90.0
Contract manufacturing agreement with Evans	**39.0**	39.0
Other intangible assets	**0.4**	0.4
	129.4	129.4
Less accumulated amortization	**(32.7)**	(16.1)
	$ 96.7	$113.3

Amortization of intangible assets is computed on the straight-line method based on the estimated useful lives of the assets. Amortization expense for the years ended December 31, 2003 and 2002 was $13.7 million and $16.1 million, respectively. No amortization expense was incurred in 2001. The estimated aggregate amortization for each of the next five years is as follows: 2004, $16.4 million; 2005, $16.4 million; 2006, $12.0 million; 2007, $7.7 million; and 2008, $7.7 million.

Goodwill — Goodwill represents the excess of the Company's cost to acquire MedImmune Vaccines over the net of the amounts assigned to assets acquired and liabilities assumed. Goodwill is not amortized, but is evaluated for impairment annually or whenever events or changes in circumstances suggest that the carrying amount may not be recoverable. During 2003, the Company reduced goodwill recorded in the acquisition by $2.4 million, reflecting additional deferred tax assets for adjustments relating to pre-acquisition items.

Derivative Instruments — The Company is obligated to make certain payments to foreign suppliers in local currency. To hedge the effect of fluctuating foreign currencies in its financial statements, the Company may enter into foreign forward exchange contracts. Gains or losses associated with the forward contracts are computed as the difference between the foreign currency contract amount at the spot rate on the balance sheet date and the forward rate on the contract date.

All derivative instruments are recorded on the balance sheet at fair value. Changes in fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and if so, depending on the type of hedge transaction. For foreign currency cash-flow hedge transactions in which the Company is hedging the variability of cash flows related to inventory purchases, changes in the fair value of the derivative instruments are reported in other comprehensive income. The gains and losses on these derivatives that are reported in other comprehensive income are reclassified as earnings or losses in the periods in which the related inventory is sold. The ineffective portion, if any, of all hedges or gains or losses on cash-flow hedges related to inventory transactions that subsequently become not probable of occurring are recognized in the current period. In accordance with the transition provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", the Company recorded a net-of-tax cumulative-effect-type gain of $0.3 million in accumulated other comprehensive income as of January 1, 2001 to recognize at fair value all derivatives, which are designated as foreign currency cash-flow hedging instruments.

As of December 31, 2002, the Company had outstanding forward Euro contracts for the purchase of 1.1 million Euros, all expiring within one year, with a fair value of $0.3 million. As of December 31, 2003 and December 31, 2001, the Company had no outstanding forward contracts. During the year ended December 31, 2002, net unrealized gains on forward exchange contracts, net of tax, of $0.6 million, were reclassified as earnings during the year as the related inventory was sold. During the year ended December 31, 2002, the Company reclassified a gain of $0.2 million to current period earnings for hedge ineffectiveness related to forward exchange contracts, respectively.

The Company intends to liquidate its holdings in certain equity securities in its portfolio, over a period of approximately one year. To hedge the risk of market fluctuations, the Company has entered into equity derivative contracts which have been designated as cash flow hedges. As of December 31, 2003, the unrealized gain on the marketable equity securities related to this hedge was $13.2 million while the fair value of the derivative contracts was a liability of $3.5 million, resulting in a net unrealized gain on the hedging transaction.

Income Taxes — Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized and are reversed at such time that realization is believed to be more likely than not. Future reversals of valuation allowance on MedImmune Vaccine's acquired deferred tax assets will first be applied against goodwill and other intangibles before recognition of a benefit in the consolidated statement of operations. Income tax expense is the tax payable for the period and the change during the period in deferred tax assets and liabilities, exclusive of amounts related to the exercise of stock options which benefit is recognized directly as an increase in shareholders' equity.

Earnings Per Share — Basic earnings per share is computed based on the weighted average number of common shares outstanding during the period. Diluted earnings per share is computed based on the weighted average shares outstanding adjusted for all dilutive potential common shares. The dilutive impact, if any, of common stock equivalents outstanding during the period, including outstanding stock options and warrants, is measured by the treasury stock method. The dilutive impact, if any, of the Company's 5¼% Notes is measured using the if-converted method. The 1% Notes are considered contingent convertible securities, meaning they are eligible for conversion to common stock only if certain requirements are met, and were excluded from the diluted earnings per share calculations for all periods presented. Potential common shares are not included in the computation of diluted earnings per share if they are antidilutive.

Comprehensive Income — Comprehensive income is comprised of net earnings and other comprehensive income, which includes certain changes in equity that are excluded from net earnings. Other comprehensive income includes certain changes in equity that are excluded from net earnings or loss, such as translation adjustments, unrealized holding gains and losses on available-for-sale marketable securities, and unrealized gains and losses on hedging instruments.

Stock-based Compensation — Compensation costs attributable to stock option and similar plans are recognized based on any excess of the quoted market price of the stock on the date of

grant over the amount the employee is required to pay to acquire the stock, in accordance with the intrinsic-value method under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Such amount, if any, is accrued over the related vesting period, as appropriate.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" ("SFAS 148"). SFAS 148 amends SFAS No. 123, "Accounting for Stock-Based Compensation ("SFAS 123")," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The alternative methods of transition and additional disclosure requirements of SFAS 148 were effective January 1, 2003.

The following table illustrates the effect on net earnings and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation (in millions, except per share data):

	2003	2002	2001
Net earnings (loss), as reported	**$183.2**	$(1,098.0)	$149.0
Add: stock-based employee compensation expense included in historical results for the vesting of stock options assumed in conjunction with the Acquisition, calculated in accordance with FIN 44, Accounting for Certain Transactions Involving Stock Compensation-an Interpretation of APB 25, net of related tax effect	**2.5**	12.1	—
Deduct: stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effect	**(87.5)**	(96.3)	(82.0)
Pro forma net earnings (loss)	**$ 98.2**	$(1,182.2)	$ 67.0
Basic earnings (loss) per share, as reported	**$ 0.73**	$ (4.40)	$ 0.70
Basic earnings (loss) per share, pro forma	**$ 0.39**	$ (4.74)	$ 0.31
Diluted earnings (loss) per share, as reported	**$ 0.72**	$ (4.40)	$ 0.68
Diluted earnings (loss) per share, pro forma	**$ 0.39**	$ (4.74)	$ 0.31

The pro forma expense related to the stock options is recognized over the vesting period, generally five years. The fair value of each option grant was estimated using the Black-Scholes option pricing model with the following weighted average assumptions for each year:

	2003	2002	2001
Risk-free interest rate	**3.27%**	4.16%	4.72%
Expected life of options — years	**5**	6	6
Expected stock price volatility	**51%**	53%	69%
Expected dividend yield	**N/A**	N/A	N/A

To better estimate the future expected stock price volatility, during 2002 the Company changed its method of calculating historical volatility from using daily stock price observations to using monthly observations over the expected life of the options.

The weighted average fair value of options granted during 2003, 2002, and 2001 was $16.55, $20.56, and $25.23, respectively.

Defined Contribution Plans — The Company sponsors a defined contribution plan under Section 401(k) of the Internal Revenue Code covering substantially all full-time U.S. employees. Employee contributions are voluntary and are determined on an individual basis subject to the maximum allowable under federal tax regulations. Participants are always fully vested in their contributions. The Company also makes employer contributions, which primarily vest pro ratably over three years of service. During 2003, 2002, and 2001, the Company contributed approximately $2.4 million, $1.9 million, and $1.1 million, respectively, in cash to the plan. The Company also sponsors various defined contribution savings plans covering its full-time non-U.S. employees.

Reclassification — Certain prior year amounts have been reclassified to conform to the current presentation.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the financial statement date and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Standards — In 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities, an interpretation of Accounting Research Bulletin No. 51." FIN No. 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. In accordance with the adoption provisions of FIN No. 46, during 2003 the Company adopted the provisions as they relate to the Company's contractual relationships with variable interest entities established subsequent to January 31, 2003, with an immaterial impact to the Company's consolidated financial position, results of operations and cash flows. The effective date for applying the provisions of FIN No.

46 for interests held by public entities in variable interest entities created before February 1, 2003 has been deferred to periods ending after March 14, 2004. The Company believes the impact of applying the consolidation provisions of FIN No. 46 relative to its investments in variable interest entities established prior to February 1, 2003 will be immaterial to its consolidated financial position, results of operations and cash flows.

3. ACQUISITION

On January 10, 2002, the Company completed the Acquisition through an exchange offer and merger transaction. Through the Acquisition, the Company obtained a new product, FluMist, which is a nasally delivered, live, attenuated virus vaccine. The Acquisition was accounted for as a purchase and, accordingly, the results of MedImmune Vaccines' operations have been included with the Company's operations since January 10, 2002.

Under the terms of the Acquisition, the Company exchanged approximately 34.0 million of its common shares for 100% of the outstanding common stock of Aviron. Additionally, the Company assumed outstanding options and warrants for which approximately 7.0 million shares of the Company's common stock are issuable. Originally, the holders of Aviron's Notes could have converted the 5¼% Notes into a total of approximately 3.4 million shares of the Company's common stock, based on a conversion price of $58.14 per share. During 2003, the Company retired approximately $32.4 million of the 5¼% Notes. As of December 31, 2003 the 5¼% Notes may be converted into approximately 2.9 million shares of the Company's common stock, based on a conversion price of $58.14. The Company has notified the holders of the 5¼% Notes of its intention to redeem as of March 31, 2004.

The Company's aggregate purchase consideration was approximately $1.6 billion, as follows (in millions):

Common stock	$1,497.3
Assumption of Aviron's options and warrants, less intrinsic value of unvested portion	128.0
Transaction costs	9.8
	$1,635.1

The value of common shares issued was $44.10 per share, based on the closing market price of the Company's common stock on November 30, 2001, the last business day prior to the signing of the merger agreement. The fair value of options and warrants assumed in the transaction was estimated using the Black-Scholes option pricing model.

The following table summarizes the final estimated fair values (in millions) of the assets acquired and liabilities assumed in accordance with the acquisition.

Assets:	
Cash and marketable securities	$ 417.5
Other current assets	24.9
Other assets	45.8
Deferred tax assets	130.0
Intangible assets	129.4
In-process research and development	1,179.3
Goodwill	13.6
Total assets	$1,940.5
Liabilities:	
Current liabilities	$ 49.2
Restructuring liability	15.8
Long-term debt	211.4
Long-term obligations	28.5
Other liabilities	0.5
Total liabilities	305.4
Net assets acquired	$1,635.1

Intangible Assets — Of the $129.4 million of acquired intangible assets, $90.0 million was assigned to MedImmune Vaccines' worldwide collaborative agreement with Wyeth for the development, manufacture, distribution, marketing, promotion, and sale of FluMist, which is subject to amortization over its estimated useful life of approximately 11 years. The Company estimated the fair value of the Wyeth agreement using the sum of the probability-adjusted scenarios under the income approach. In applying this method, the Company relied on revenue assumptions, profitability assumptions and anticipated approval dates. The remaining $39.0 million was assigned to MedImmune Vaccines' contract manufacturing agreement with Evans Vaccines Limited, which is subject to amortization over its estimated useful life of approximately four years. The Company estimated the fair value of the Evans agreement using the cost approach, which is based on the theory that a prudent investor would pay no more for an asset than the amount for which the asset could be replaced. In its analysis, the Company reduced replacement cost for such factors as physical deterioration and functional or economic obsolescence.

In-Process Research and Development — Approximately $1,179.3 million of the purchase price was allocated to acquired research and development assets that were written off at the date of acquisition as a separate component of the Company's results of operations. The amount represents the fair value of purchased in-process technology for projects, principally FluMist, which, as of the date of the acquisition, had not yet reached technological feasibility and had no alternative future use.

Goodwill — Approximately $16.0 million in goodwill was recognized in the allocation of the purchase price, none of which is expected to be deductible for tax purposes. In December 2003, the Company further reduced goodwill and increased deferred tax assets by $2.4 million to reflect an adjustment relating to pre-acquisition items. In 2002, the Company recorded net purchase price adjustments of $1.3 million; net reversals to the restructuring liability of $0.2 million (discussed below); a net increase of $3.7 million and a net reduction of $0.9 million to the fair values assigned to certain depreciable assets and certain liabilities, respectively, based on a final assessment of their net realizable value; and a net decrease in the fair value assigned to net deferred tax assets of $6.4 million resulting from the revisions to the purchase price allocation; which in the aggregate resulted in an increase to goodwill of $0.3 million. The Company performed its annual impairment analysis during the fourth quarter of 2003, and determined that the goodwill was not impaired.

Restructuring Liability — Included in the final allocation of acquisition cost was a restructuring liability of $15.8 million for estimated costs associated with the Company's restructuring plan. The restructuring plan was originally formulated and announced to employees in December 2001, to consolidate and restructure certain functions, including the involuntary termination of eight executives and 52 other employees of MedImmune Vaccines from various functions and levels.

During 2003, the Company incurred $0.7 million of restructuring charges, resulting in a $0.3 million reserve balance at December 31, 2003. At December 31, 2002, the remaining restructuring reserve, which consisted of other facility-related costs, was $1.0 million.

Transaction Costs — Included in the final allocation of acquisition costs were transaction costs of $9.8 million, which primarily consist of investment banking, accounting and legal fees incurred by the Company.

Pro Forma Data — The following unaudited pro forma condensed combined supplemental data present the revenues, net earnings and earnings per share of the combined entity as though the business combination had been completed as of January 1, 2002 and 2001, respectively. This data gives effect to actual operating results prior to the acquisition, adjusted to include the pro forma effect of amortization of intangibles, deferred stock compensation costs, the elimination of the non-recurring charge for acquired in-process research and development, the tax effects to the pro forma adjustments and the recognition of the tax benefits arising from Aviron's net loss for the 2001 period. This data is not necessarily an indication of the results that would have been achieved had the transaction been consummated as of the dates indicated or that may be achieved in the future (in millions, except per share data).

	Year Ended December 31, 2002	2001
Revenues	$852.7	$637.7
Net earnings	$ 81.3[1]	$ 56.5
Diluted earnings per share	$ 0.32[1]	$ 0.22

[1] *Excludes a non-recurring charge of $1,179.3 million for acquired in-process research and development.*

4. SEGMENT, GEOGRAPHIC AND PRODUCT INFORMATION

The Company's operations are considered one operating segment as the Company's chief operating decision makers review the profit and loss of the Company on an aggregate basis and manage the operations of the Company as a single operating segment.

The Company sells its products primarily to a limited number of pharmaceutical wholesalers and distributors. Effective for the 2003/2004 RSV season, the Company reduced the number of U.S. specialty distributors in its Synagis network from over 100 in the 2002/2003 season to about a dozen specialty distributors. In addition, the Company reduced the number of Synagis wholesalers and home health care agencies it will use. The changes were made to achieve a higher level of service to patients through contractual requirements for the members of the Synagis network to provide the downstream service related to Synagis. The Company believes the selection criteria used in this process should also mitigate any risks associated with a higher concentration of credit among fewer creditors. Customers individually accounting for at least ten percent of the Company's product sales during the past three years are as follows:

	2003	2002	2001
Amerisource — Bergen Corp.	**29%**	27%	26%
Cardinal Health, Inc.	**18%**	17%	18%
McKesson HBOC, Inc.	**12%**	13%	13%
Caremark Rx, Inc.	**10%**	11%	12%
Total % of product sales	**69%**	68%	69%

The Company has contractual agreements with AI, for distribution of Synagis outside of the United States and with affiliates of Schering for international distribution of Ethyol. The Company also relies on a limited number of distributor agents/affiliates to sell CytoGam and NeuTrexin internationally. The breakdown of product sales by geographic region is as follows (in millions):

	2003	2002	2001
United States	**$ 911.3**	$752.9	$533.5
All other	**81.3**	38.0	48.0
Total product sales	**992.6**	790.9	581.5
Other revenue, primarily U.S.	**61.7**	61.8	39.2
Total revenues	**$1,054.3**	$852.7	$620.7

The breakdown of long-lived assets by geographic region is as follows (in millions):

	2003	2002	2001
United States	**$222.5**	$161.0	$92.5
All other	**51.1**	23.0	2.9
Total long-lived assets	**$273.6**	$184.0	$95.4

Other revenue of $61.7 million, $61.8 million, and $39.2 million in 2003, 2002, and 2001, respectively, consists mainly of United States distribution, licensing, milestone revenues, corporate funding, and contract manufacturing revenues.

5. MARKETABLE SECURITIES

Investments in marketable securities are comprised of the following:

(In Millions)	Principal Amount	Cost/Amortized Cost	Fair Value at Balance Sheet Date	Gross Unrealized Gains	Gross Unrealized Losses
December 31, 2003:					
Equity Securities	$ 2.5	$ 2.5	$ 15.7	$13.2	$ —
U.S. Government and Agencies	102.9	106.9	109.1	2.2	—
Corporate Debt Securities	1,134.2	1,187.3	1,214.5	30.8	(3.6)
Foreign Bank Debt Securities	41.3	43.0	45.3	2.3	—
Total	$1,280.9	$1,339.7	$1,384.6	$48.5	$(3.6)
December 31, 2002:					
Equity Securities	$ —	$ 1.9	$ 1.9	$ —	$ —
U.S. Government and Agencies	245.9	251.0	254.2	3.2	—
Corporate Debt Securities	900.4	935.4	967.9	32.9	(0.3)
Foreign Bank Debt Securities	64.6	66.3	69.0	2.6	—
Total	$1,210.9	$1,254.6	$1,293.0	$38.7	$(0.3)

The amortized cost and fair market value of investments at December 31, 2003 and 2002, by contractual maturities are:

	2003		2002	
(In Millions)	Cost/ Amortized Cost	Fair Value	Cost/ Amortized Cost	Fair Value
Equity Securities	**$ 2.5**	**$ 15.7**	$ 1.9	$ 1.9
Due in one year or less	**253.7**	**257.0**	393.4	395.0
Due after one year through two years	**164.6**	**171.7**	252.6	259.6
Due after two years through five years	**761.2**	**780.2**	496.3	521.9
Due after five years through seven years	**157.7**	**160.0**	110.4	114.6
Total	**$1,339.7**	**$1,384.6**	$1,254.6	$1,293.0

Gross gains recognized on sales of securities in 2003, 2002 and 2001 were $5.9 million, $0.9 million and $2.1 million, respectively, as determined by specific identification. Gross losses recognized on sales of securities were immaterial during 2003, 2002 and 2001, as determined by specific identification.

During 2002, the Company determined that the declines in fair value below the cost basis of certain investments were other than temporary, based primarily on the duration and magnitude of the declines in fair value as well as the financial condition and near-term prospects of the investee companies. For the year ended December 31, 2002, the Company recorded realized losses of $4.5 million to write-down the cost basis of the investments to fair value. The Company recorded no such losses in 2003.

6. INVENTORY

Inventory, net of valuation reserves, at December 31, is comprised of the following:

(In Millions)	2003	2002
Raw materials	**$11.6**	$30.4
Work in process	**39.3**	19.4
Finished goods	**40.8**	10.2
	$91.7	$60.0

During 2003, the Company recorded $37.5 million of valuation reserves in cost of goods sold to reflect total FluMist inventories at net realizable value.

7. PROPERTY AND EQUIPMENT

Property and equipment, stated at cost at December 31, is comprised of the following:

(In Millions)	2003	2002
Land and land improvements	**$ 27.9**	$ 15.7
Buildings and building improvements	**55.2**	52.6
Leasehold improvements	**36.2**	33.9
Laboratory, manufacturing and facilities equipment	**57.0**	50.1
Office furniture, computers, and equipment	**40.4**	28.5
Construction in progress	**135.6**	56.7
	352.3	237.5
Less accumulated depreciation and amortization	**(78.7)**	(53.5)
	$273.6	$184.0

As of December 31, 2003, construction in progress includes $62.7 million of engineering and construction costs and other professional fees related to the first phase of the headquarters and research and development facility, which will feature a complex totaling approximately 220,000 square feet. In addition, construction in progress includes $70.0 million of engineering, construction and equipment costs related to the Company's manufacturing facilities in Pennsylvania and Speke, the United Kingdom. As of December 31, 2002, construction in progress primarily included costs associated with the headquarters and research and development facility, and the projects in Pennsylvania and the United Kingdom. Additionally, there were costs associated with the expansion of the cell culture production area in the FMC, which was placed in service during 2002. The Company expects to take occupancy of the new headquarters and research and development facility in the first quarter of 2004. The second phase of construction, which is for the Pilot Lab Facility, commenced in September 2003 at a total estimated cost of $82 million. The Company expects the second phase of the project to be complete in the fourth quarter of 2005.

In connection with the Acquisition, the Company acquired property, plant and equipment valued at approximately $42.5 million, comprised primarily of leasehold improvements, lab, manufacturing and office equipment, and partially-constructed manufacturing facilities.

Effective November 2002, the Company outsourced the process of converting human plasma to the critical intermediate used in CytoGam production to a third party manufacturer. Prior to that date, the process was performed at the Company's Frederick Manufacturing Facility. Accordingly, the Company recorded a $12.9 million impairment charge, recorded in other operating expenses, during the fourth quarter of 2002 for the write-off of certain plasma manufacturing assets.

Interest costs capitalized in connection with the Company's construction activities totaled $2.9 million and $0.9 million in 2003 and 2002, respectively. Interest costs capitalized during 2001 were not material.

8. ACCRUED EXPENSES

Accrued expenses at December 31, are comprised of the following:

(In Millions)	2003	2002
Co-promotion expenses	**$ 73.0**	$ 60.1
Rebates due to government purchasers	**42.4**	26.2
Research and development expense	**27.5**	16.1
Sales and marketing costs	**19.2**	17.2
Construction costs	**13.1**	3.5
Bonuses	**9.8**	11.0
Other	**33.0**	23.3
	$218.0	$157.4

9. FACILITIES LEASES

The Company leases warehouse, laboratory and administrative space under numerous operating leases. Under the leases, the Company is obligated to pay a basic monthly rent, which will increase each lease year. The leases also require the Company to pay for utilities and its proportionate share of taxes, assessments, insurance and maintenance costs. Rent expense for the years ended December 31, 2003, 2002, and 2001 was $9.3 million, $9.0 million, and $2.2 million, respectively.

The Company's future minimum lease payments under operating leases are as follows:

(In Millions)	Year Ending December 31,
2004	$ 8.8
2005	6.5
2006	4.5
2007	2.8
2008	2.5
Thereafter	29.2
	$54.3

The Company expects to take occupancy of the first phase of our headquarters and research and development facility, a complex of approximately 220,000 square feet, in March 2004. The majority of the existing space in Gaithersburg is leased through 2006, a portion of which will be offered for sublease. There can be no guarantee that the Company will be successful in subleasing the space.

10. LONG-TERM DEBT

Long-term debt at December 31, is comprised of the following:

(In Millions)	2003	2002
1% Convertible Senior Notes, due 2023	**$500.0**	$ —
5¼% Convertible Subordinated Notes, due 2008	**174.1**	209.6
4% notes due to Maryland Department of Business and Economic Development, due 2016	**5.1**	5.4
7.53% note due to Maryland Industrial Development Finance Authority, due 2007 (collectively with the 4% notes referred to as the "Maryland Notes")	**2.6**	3.1
Note due to Cooperative Rabobank, B.A., due 2009, variable interest rate	**0.3**	0.3
	682.1	218.4
Less current portion included in other current liabilities	**(0.9)**	(0.8)
	$681.2	$217.6

Maturities of the Company's long-term debt, which do not include the premium on the 5¼ notes, for the next five years are as follows: 2004, $0.9 million; 2005, $1.0 million; 2006, $1.0 million; 2007, $1.3 million; and 2008, $168.1 million.

1% Convertible Senior Notes — During July 2003, the Company issued $500 million aggregate principal amount of convertible senior notes due 2023 in a private placement. These notes bear interest at 1% per annum payable semi-annually in arrears on January 15 and July 15 of each year. Beginning July 2006, the Company will pay contingent interest on these notes during a six-month interest period if the average trading price of these notes is above a specified level. Under certain circumstances, these notes will be convertible into the Company's common stock at an initial conversion price of approximately $68.18 per share. On or after July 15, 2006, the Company may at its option redeem all or a portion of these notes for cash at a redemption price equal to 100% of the principal amount of the 1% Notes to be redeemed, plus any accrued and unpaid interest; contingent interest, if any; and liquidated damages, if any. In addition, on each of July 15, 2006, July 15, 2009, July 15, 2013, and July 15, 2019, holders may require the Company to purchase all or a portion of their 1% Notes for cash at 100% of the principal amount of the 1% Notes to be purchased, plus any accrued and unpaid interest; contingent interest, if any; and liquidated damages, if any. The estimated fair value of the 1% Notes as of December 31, 2003 was $475.0 million, based on quoted market prices.

Convertible Subordinated Notes — Following the Acquisition, MedImmune Vaccines remained obligated for its outstanding indebtedness, which included $200.0 million aggregate principal amount of the 5¼% Notes. Approximately $211.4 million of the acquisition cost was allocated to the 5¼% Notes, which represented the fair value as of the acquisition date, based on quoted market prices. During 2003, the Company retired approximately $32.4 million principal amount of the 5¼% Notes for approximately $33.1 million. The retirement resulted in a net ordinary gain of $0.5 million reflecting the accelerated amortization of premium. The outstanding 5¼% Notes are convertible into an aggregate of 2.9 million shares of the Company's common stock, based on a conversion price of $58.14, at any time on or before February 1, 2008. The Company may redeem the 5¼% Notes beginning in February 2004, at redemption prices declining from 103% of their principal amount in 2004 to 100% in 2008, plus accrued interest. Interest is payable semi-annually in arrears in cash on February 1 and August 1 each year. The Company elected on February 25, 2004 to redeem the entire remaining amount of the issue at approximately 103% of its principal amount in the first quarter of 2004. The estimated fair value of the 5¼% Notes as of December 31, 2003 and December 31, 2002 was $173.4 million and $198.2 million, respectively, based on quoted market prices.

Collateralized Loans — The Maryland Notes are collateralized by the land, buildings and building fixtures of the FMC. The agreements include a provision for early retirement of the notes by the Company. Pursuant to the terms of the agreements, the Company is required to meet certain financial and non-financial covenants including maintaining minimum cash balances and net worth ratios. The Company maintains a $0.4 million compensating balance related to the Maryland Notes, which is included in other assets.

The mortgage loan with Cooperative Rabobank B.A. is held by Company's subsidiary, USB Pharma B.V., and is collateralized by the land and buildings of its manufacturing facility in Nijmegen, the Netherlands and guaranteed by the Company. Proceeds from the loan were used to partially fund the purchase of additional equipment for the facility. The mortgage loan, for which principal payments began in March 1995, has a 15-year term and bears interest at a quarterly variable rate. The interest rate as of December 31, 2003 and December 31, 2002 was 5.05% and 5.85%, respectively. The estimated fair values of the Company's collateralized loans at December 31, 2003 and 2002, respectively, based on quoted market prices or discounted cash flows using currently available borrowing rates, were $8.4 million and $9.3 million compared to the carrying values of $8.0 million and $8.8 million.

11. SHAREHOLDERS' EQUITY

Pursuant to the terms of the Stockholder Rights Plan adopted by the Company's Board of Directors, common stock purchase rights ("Rights") were distributed as a dividend at the rate of one Right for each share of common stock of the Company held by stockholders of record as of the close of business on July 21, 1997. The Rights will be exercisable only if a person or group acquires beneficial ownership of 20 percent or more of the Company's common stock or commences a tender or exchange offer upon consummation of which such a person or group would beneficially own 20% or more of the Company's stock. The Rights will expire on July 9, 2007.

In May 2003, the Company's shareholders approved an amendment to the Company's Restated Certificate of Incorporation to increase the authorized number of shares of common stock from 320 million to 420 million.

In July 2003, our Board of Directors authorized the repurchase, over a two-year period, of up to $500 million of the Company's common stock on the open market or in privately negotiated transactions, pursuant to terms management deems appropriate and at such times it may designate. Under the stock repurchase program, we repurchased 6.2 million shares of our common stock at a total cost of $229.8 million, or an average cost of $36.83 per share through December 31, 2003. The Company also entered into a 10b5-1 trading plan to repurchase shares in the open market during those periods each quarter when trading in our common stock is restricted under our insider trading policy. Of the shares repurchased, approximately 0.7 million shares were purchased under the 10b5-1 trading plan. As of February 29, 2004, we had not purchased any additional shares since October 7, 2003. The Company will hold repurchased shares as treasury shares and intends to use them for general corporate purposes, including but not limited to acquisition-related transactions and for issuance upon exercise of outstanding stock options.

12. EARNINGS PER SHARE

The following is a reconciliation of the denominators of the diluted EPS computation for the years ended December 31, 2003, 2002, and 2001. There are no reconciling items to the numerator for the EPS computation for the periods reported.

(In Millions)	2003	2002	2001
Weighted average shares outstanding	**250.1**	249.6	213.4
Effect of dilutive securities:			
Stock options and warrants	**3.7**	—	6.7
Denominator for diluted EPS	**253.8**	249.6	220.1

The Company incurred a net loss for the year ended December 31, 2002 and, accordingly, did not assume exercise or conversion of potential common shares for the year, as follows, because to do so would have been antidilutive:

(In Millions)	
Stock options, at prices ranging from $0.47 to $83.25	28.6
Warrants, at $9.30 per share	0.4
Notes, at a conversion price of $58.14	3.4
Total potential common shares	32.4

If option exercise prices are greater than the average market price of the Company's common stock for the period presented, the effect of including such options in the earnings per share calculation is anti-dilutive. As a result, options to purchase 14.8 million shares of the Company's common stock with exercise prices ranging from $32.38 to $83.25 per share were outstanding during 2003, but were excluded from the computation of diluted earnings per share. Additionally, options to purchase 6.6 million shares of the Company's common stock with exercise prices ranging from $40.50 to $83.25 were outstanding during 2001, but were excluded from the computation of diluted earnings per share. The 1% Notes are considered contingent convertible securities, meaning they are eligible for conversion to common stock only if certain requirements are met, and were excluded from the diluted earnings per share calculations for all periods presented. The 1% Notes represent 7.3 million potential shares of common stock issuable upon conversion.

13. COMMON STOCK EQUIVALENTS

The Company currently grants stock options under certain of the following stock option plans. At the Company's annual meeting in May 2003, the Company's shareholders approved the establishment of the 2003 Non-Employee Directors Stock Option Plan, and reserved 800,000 shares of common stock for issuance thereunder. In addition, the Company's shareholders voted to increase the maximum number of shares of common stock reserved for issuance under the 1999 Plan from 25,250,000 to 31,250,000 shares.

Plan	Description	Shares Authorized *(in millions)*
Old Plan	Provides option incentives to employees, consultants and advisors of the Company	1.5
1991 Plan	Provides option incentives to employees, consultants and advisors of the Company	33.0
1993 Non-Employee Directors Plan	Provides option incentives to non-employee directors	1.5
1999 Plan	Provides option incentives to employees, consultants and advisors of the Company	31.3
2003 Non-Employee Directors Plan	Provides option incentives to non-employee directors	0.8

The following compensation plans, for which no future grants will be made, were acquired by the Company in 1999 in connection with its acquisition of MedImmune Oncology.

Plan	Description	Shares Authorized *(in millions)*
Non-Executive Stock Option Plan	Provided option incentives to employees who are not officers or directors of MedImmune Oncology, consultants and advisors of the Company	1.0
1996 Non-Employee Directors Stock Option Plan	Provided option incentives to elected non-employee directors of MedImmune Oncology	—

In addition, the following compensation plans, for which no future grants will be made, were acquired by the Company in 2002 in connection with its acquisition of MedImmune Vaccines.

Plan	Description	Shares Authorized *(in millions)*
1996 Equity Incentive Plan ("1996 Plan")	Provides for the grant of incentive and nonstatutory stock options to employees and consultants of MedImmune Vaccines	4.7
1999 Non-Officer Equity Incentive Plan ("1999 Plan")	Provides for the grant of nonstatutory stock options, stock bonuses, rights to purchase restricted stock, and stock appreciation rights to consultants and employees who are not officers or directors of MedImmune Vaccines	4.2

Options under all plans normally vest over a three to five year period and have a maximum term of 10 years. The Company has reserved a total of 11.5 million shares of common stock for issuance under these plans as of December 31, 2003.

Related stock option activity, is as follows (shares in millions):

	1991 and 1999 Plans		Non-Employee Directors Plans		MedImmune Oncology Plans		MedImmune Vaccines Plans	
	Shares	Price per share[1]	Shares	Price per share[1]	Shares	Price per share[1]	Shares	Price per share[1]
Balance Dec. 31, 2000	20.4	$28.15	0.6	$24.23	0.2	$25.52	—	$ —
Granted	4.7	38.14	0.2	47.20	—	—	—	—
Exercised	(3.0)	7.15	(0.1)	12.51	(0.2)	20.70	—	—
Canceled	(1.9)	43.87	—	—	—	—	—	—
Balance Dec. 31, 2001	20.2	32.17	0.7	29.22	0.0	—	—	—
Acquisition	—	—	—	—	—	—	6.5	27.25
Granted	5.9	36.74	0.2	28.90	—	—	—	—
Exercised	(0.8)	6.75	—	—	—	—	(1.8)	20.28
Canceled	(1.2)	44.97	—	—	—	—	(1.1)	36.06
Balance Dec. 31, 2002	24.1	33.45	0.9	29.53	0.0	—	3.6	$28.17
Granted	5.4	30.18	0.2	35.87	—	—	—	—
Exercised	(2.0)	11.61	(0.1)	2.02	—	—	(0.5)	21.30
Canceled	(1.4)	41.33	—	—	—	—	(0.5)	33.86
Balance Dec 31, 2003	26.1	$34.00	1.0	$30.52	0.0	$ —	2.6	$29.82

[1] *Price per share is the weighted average exercise price.*

Additional information related to the plans as of December 31, 2003 is as follows (shares in millions):

	Options Outstanding			Options Exercisable	
Range of exercise prices	Options outstanding	Wtd Avg remaining contractual life (yrs)	Wtd Avg Ex. Price	Options Exercisable	Wtd Avg Ex. Price
$0.01– $10.00	3.0	3.1	$ 5.06	3.0	$ 5.06
$10.01– $20.00	3.4	5.3	$17.16	3.1	$17.02
$20.01– $30.00	7.9	7.9	$27.47	3.1	$26.22
$30.01– $40.00	6.1	7.0	$36.51	3.4	$37.23
$40.01– $50.00	4.6	7.5	$42.38	2.3	$42.67
$50.01– $60.00	0.6	6.4	$56.54	0.4	$56.57
$60.01– $70.00	3.7	6.0	$60.94	2.7	$60.89
$70.01– $80.00	0.4	6.5	$72.27	0.3	$72.33
	29.7	6.6	$33.51	18.3	$31.70

In June 2001, the Company introduced an employee stock purchase plan ("ESPP") under which 3.0 million shares of common stock were reserved for issuance. Eligible employees may purchase a limited number of shares of the Company's common stock at 85% of the market value at plan-defined dates. Employees purchased 206,176 shares, 163,345 shares, and 43,976 shares for $4.8 million, $4.0 million, and $1.5 million during 2003, 2002, and 2001 respectively, under the plan.

In connection with the Acquisition, the Company assumed outstanding warrants to purchase common stock, which are as follows as of December 31, 2003:

Shares (in 000's)	Exercise Price	Expiration
365.5	$9.30	February 2007
53.8	$9.30	March 2008
419.3		

Under an agreement assumed in the Acquisition, the Company is also obligated to issue a warrant to purchase 5,147 shares of common stock at an exercise price of $55.13.

14. INCOME TAXES

The components of the provision for income taxes are as follows:

(In Millions)	Year ended December 31, 2003	2002	2001
Current:			
Federal	**$ 33.0**	$ (1.9)	$ 3.3
State	**7.4**	—	—
Foreign	**0.2**	0.1	0.3
Total current expense (benefit)	**40.6**	(1.8)	3.6
Deferred:			
Federal	**83.1**	48.7	71.1
State	**(15.7)**	1.3	4.8
Foreign	**—**	—	—
Total deferred expense	**67.4**	50.0	75.9
Total tax expense	**$108.0**	$48.2	$79.5

Deferred income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities at December 31, are as follows:

(In Millions)	2003	2002
Deferred tax assets:		
Net operating loss carryforwards	**$135.7**	$194.7
U.S. general business credit carryforwards	**34.7**	46.8
Accrued expenses not currently deductible	**29.0**	28.6
Property and equipment	**13.2**	13.3
Accounts receivable allowances and reserves	**26.7**	13.0
Deferred compensation	**6.8**	7.0
Deferred revenue	**8.4**	1.5
Prepaid and long term debt	**4.3**	5.4
California capitalized research expenses	**2.4**	4.1
Other	**5.1**	9.9
Total deferred tax assets	**266.3**	324.3
Deferred tax liabilities:		
Unrealized gains on investments	**(15.0)**	(13.5)
Acquired intangibles	**(27.8)**	(30.7)
Total deferred tax liabilities	**(42.8)**	(44.2)
Valuation allowance	**(42.9)**	(32.3)
Net deferred tax assets	**$180.6**	$247.8

The provision (benefit) for income taxes varies from the income taxes provided based on the federal statutory rate (35%) as follows:

	Year ended December 31, 2003	2002	2001
Tax at U.S. federal statutory rate	**35.0%**	(35.0%)	35.0%
State taxes, net of federal benefit	**(0.2)**	0.3	0.7
Change in valuation allowance	**3.7**	0.2	—
Nondeductible in-process R&D	**—**	39.3	—
U.S. general business credits	**(0.8)**	(0.4)	(2.1)
Effect of foreign operations	**—**	0.1	—
Change in state statutory rate	**—**	—	1.1
Other	**(0.6)**	0.1	0.1
Total	**37.1%**	4.6%	34.8%

At December 31, 2003 the Company had consolidated net operating loss carryforwards for U.S. income tax purposes of approximately $300 million expiring between 2010 and 2021. The Company also has U.S. general business credit carryforwards comprised of federal research and experimentation and orphan drug credit carryforwards of approximately $48 million at December 31, 2003 expiring through 2023. Included in the 2003 current tax expense is a benefit of $16.7 million related to the exercise of employee stock options, which was recorded directly to paid-in-capital. The timing and manner in which the Company will utilize the net operating loss and general business credit carryforwards in any year, or in total, will be limited by provisions of the Internal Revenue Code Sections 382 and 383, regarding changes in ownership of the Company.

Deferred taxes are not provided for the earnings of the Company's foreign subsidiaries, as those earnings are considered permanently reinvested in the operations of the foreign subsidiaries and the Company intends to continue to reinvest its undistributed international earnings to expand its international operations. It is not practicable to estimate the amount of additional tax that might be payable on the foreign earnings should they become subject to U.S. tax. Additionally, at December 31, 2003, the Company had foreign net operating loss carryforwards of $30.7 million for U.K. income tax purposes. The Company has provided a full valuation allowance against foreign net operating losses since realization of these tax benefits cannot be reasonably assured.

The change in the valuation allowance was a net increase of $10.7 million and $17.8 million in 2003 and 2002, respectively. The changes in 2003 are primarily comprised of adjustments for the Company's state net operating losses. The changes in 2002 relate primarily to acquired losses and tax credits from the Company's subsidiary, MedImmune Vaccines. The portion of the valuation allowance for which subsequently recognized tax benefits will be applied to reduce goodwill was $15.6 million at December 31, 2002. During 2003, certain adjustments were made to the deferred tax asset that arose on the acquisition of Aviron, resulting in adjustments to goodwill.

Because management is uncertain of the realization of the tax benefit associated with a portion of the deferred tax assets attributable to the state net operating losses, foreign net operating losses, and the general business credits which were generated by the Company's subsidiary, MedImmune Oncology (formerly U.S. Bioscience, Inc.) prior to its acquisition by the Company, a full valuation allowance remains for these deferred tax assets at December 31, 2003 and 2002.

15. COLLABORATIVE ARRANGEMENTS

Abbott Laboratories — The Company has entered into a co-promotion agreement with the Ross Product division of Abbott Laboratories for promotion of Synagis in the U.S. and a distribution agreement with Abbott International to distribute Synagis outside of the United States. Under the terms of the co-promotion agreement, the Company is required to pay Abbott an increasing percentage of net domestic sales based on achieving certain sales thresholds over the annual contract year. Under the terms of the distribution agreement, the Company manufactures and sells Synagis to Abbott International at a price based on end-user sales. During 2001, the Company revised its estimate of the total cost to fulfill its obligations under the agreement, and recorded the cumulative effect of this change in estimate, which resulted in the recognition of additional revenues of $3.6 million during the year ended December 31, 2001. The Company recognized $7.5 million in revenues during 2003 for the achievement of certain sales goals, and could receive an additional $7.5 million in sales goal payments under the agreement.

ALZA Corporation — In October 2001, the Company reacquired the domestic marketing rights to Ethyol from ALZA Corporation, and recorded termination fees of $13.4 million to selling, general and administrative expense. Beginning October 1, 2001, the Company records all revenues from domestic sales of Ethyol, and beginning April 1, 2002, the Company pays ALZA a declining royalty for nine years, based on sales of Ethyol in the United States.

Evans Vaccines Limited — The Company manufactures key components of FluMist, specifically the bulk monovalents and diluent, at a facility in Speke, the United Kingdom, pursuant to a sublease arrangement with Evans Vaccines Limited, a division of Chiron. The manufacturing areas on the existing site are subleased through June 2006. In connection with the agreements, the Company made an initial payment of $15.0 million and additional payments of $3.9 million each in September 2001, 2002 and 2003. The Company is obligated to make two additional annual payments of $3.9 million in September 2004 and September 2005, which are included in other current liabilities and Obligations to Evans in the accompanying consolidated balance sheet as of December 31, 2003. The Company is also obligated to make additional payments of $19 million, less accrued interest, which will be paid over the term of the agreement based on net sales of FluMist, with the unpaid balance, if any, due January 2006.

GlaxoSmithKline (GSK) — The Company and GSK are developing a vaccine against human papillomavirus ("HPV") to prevent cervical cancer under a strategic alliance. Under the terms of the agreement, the companies will collaborate on research and development activities. The Company conducted Phase 1 and Phase 2 clinical trials and manufactures clinical material for the studies. GSK is responsible for the final development of the product, as well as regulatory, manufacturing, and marketing activities. In exchange for exclusive worldwide rights to the Company's HPV technology, GSK agreed to provide the Company with an up front payment of $15 million, research funding of $23 million through 2002, potential developmental and sales milestones which together could total up to $48 million in the future, as well as royalties on any product sales and an equity investment of $5 million. Research funding of $0.5 million, $0.2 million and $2.8 million associated with the agreement has been included in other revenues for the years ended December 31, 2003, 2002, and 2001, respectively.

In 2000, the Company granted a worldwide, exclusive license to its *Streptococcus pneumoniae* vaccine technology to GSK in exchange for an up front payment of $10 million and future milestones totaling more than $20 million, plus royalties on any product sales. Under the terms of the agreement, GSK is responsible for all clinical development, manufacturing and sales and marketing activities for the S. pneumoniae vaccine.

The Company has rights to a vaccine against certain subunits of Epstein-Barr virus ("EBV"), a herpesvirus that is the leading cause of infectious mononucleosis. The vaccine is being developed by GSK under a worldwide collaborative agreement, excluding North Korea and South Korea. Under the agreement, the Company could receive future milestone payments, and royalties from GSK based on any net product sales.

Schering-Plough Corporation — The Company has entered into a collaboration arrangement with affiliates of Schering-Plough Corporation (Schering), for distribution of Ethyol in countries comprising the European Union, the European Free Trade Association and other countries outside of the U.S. Schering's exclusive rights to market the product continued through December 31, 2003, and the Company may co-promote Ethyol with Schering for two years, through December 31, 2005. Thereafter, the Company will reacquire sole marketing rights, subject to an obligation to pay Schering a royalty based on a percentage of net sales, if any, from the European territories for a period of three years.

The Company also entered into licensing agreements for Ethyol and NeuTrexin with affiliates of Schering for several territories outside the United States. The licensees are required to pay the Company compensation based on their net sales of the products, and the Company sells the products to the licensees at an agreed upon price.

Wyeth — The Company has entered into a set of complex collaboration agreements with Wyeth related to intranasally delivered live, attenuated influenza virus vaccine products. FluMist is the subject of the collaborative arrangement with Wyeth. FluMist is manufactured by the Company, distributed in the U.S. exclusively by Wyeth, and co-promoted in the U.S. by the Company and Wyeth. Outside of the U.S., Wyeth has exclusive worldwide rights to FluMist worldwide, excluding Australia, New Zealand, North Korea, South Korea, and some South Pacific countries. The parties amended the agreements in September 2003, including modifications to the formula used to calculate the product transfer payments from Wyeth to the Company, and adjustments to the optional term extension and related payment provisions in the U.S. and international territories.

Wyeth holds the marketing rights in the United States for eleven years from the first commercial sale of FluMist. Outside the United States (with the exclusions noted above), Wyeth holds the marketing rights for an initial term of eight years from the first international commercial sale of FluMist. Under the terms of the agreement with Wyeth, the two companies are to collaborate on the regulatory, clinical and marketing programs for FluMist within the United States.

Under the terms of the agreement, Wyeth distributes FluMist and records all product sales. The Company is paid in the form of product transfer payments and royalties, which are higher in the United States than internationally. The Company shipped approximately 4.1 million doses of FluMist to Wyeth during 2003, but did not recognize any sales-related revenue in 2003 due to the lack of certainty associated with returns and discounts in the vaccine's launch season. The Company incurs expenses to manufacture, supply and co-promote FluMist. There is potential for the manufacturing cost incurred by the Company to exceed transfer payments received from Wyeth. Wyeth reimburses the Company for a portion of the product's clinical development and sales and marketing expenses, and anticipates spending up to $100 million over the first three years for commercialization of FluMist in the United States. During 2003, the Company received $8.4 million in reimbursements from Wyeth for marketing expenses, which is included in other revenues.

As a part of the collaboration, the Company is to receive certain payments related to the achievement of key milestones and events for FluMist. During 2003, the Company received $37.5 million for FDA approval in the United States, for achieving the supply goal in the first season, and for achieving ACIP guideline recommendations. In December 2002, the Company received $25.0 million from Wyeth as compensation for manufacturing costs incurred in preparing for the then-expected 2002 FluMist launch. Under the agreements, as amended, potential future milestones and related payments to the Company from Wyeth include: $15 million for advisory

body recommendations and expanded label claims; an additional $12.5 million in supply goal payments; up to $17.5 million for FDA approval of use in multiple target populations; $10 million for the submission of a license application in Europe; $27.5 million for FDA approval of a liquid formulation of FluMist; and up to $50 million upon licensure in international regions. Additionally, Wyeth is committed to provide the Company with up to $20 million in financing, contingent upon regulatory approval of FluMist. The total potential future value for the license fees, milestones, financing support and term extension options that the Company could receive from Wyeth could range from approximately $153 million to $190 million.

In general, the Company and Wyeth share responsibility for clinical development of intranasally delivered live, attenuated influenza virus vaccine products. A liquid, refrigerator-stable version of the trivalent, live, attenuated, cold-adapted influenza virus vaccine, CAIV-T, is being developed under the collaborative agreement with Wyeth. CAIV-T may have the potential to replace FluMist (a frozen vaccine) since frozen vaccines pose distribution and commercial challenges. Wyeth has been conducting late-stage clinical trials with CAIV-T and has begun collecting and evaluating that data. In connection with the 2003 amendments, the Company agreed to pay $10 million to Wyeth for the purchase and use of clinical trial data from Wyeth's international CAIV-T trials.

Other Agreements — The Company has entered into research, development and license agreements with various federal and academic laboratories and other institutions to further develop its products and technology and to perform clinical trials. Under these agreements, the Company is obligated to provide funding and milestone payments of approximately $7.2 million in 2004, and $16.3 million in the aggregate upon the occurrence of certain events in the future, such as the granting by the FDA of a license for product marketing in the United States. In exchange for the licensing rights for commercial development of proprietary technology, the Company has agreed to pay royalties on sales using such licensed technologies.

16. COMMITMENTS AND CONTINGENCIES

Manufacturing, Supply and Purchase Agreements — The Company has entered into manufacturing, supply and purchase agreements to provide production capability for CytoGam and RespiGam, and to provide a supply of human plasma for production of both products. The Company has an agreement with BioLife Plasma Services and is committed to purchase $7.7 million of source plasma in 2004. No assurance can be given that an adequate supply of plasma will be available from the Company's suppliers. Prior to November 2002, human plasma for CytoGam was converted to an intermediate (Fraction II+III paste) at the FMC. Effective November 2002, the Company contracted Precision Pharma Services to manufacture all of the Company's Fraction II+III paste. The Company paid Precision Pharma Services $2.4 million in 2003. The intermediate material is then supplied to the manufacturer of the bulk product, MBL. The Company paid MBL $8.1 million in 2003. Pursuant to the agreements with MBL, the Company paid $3.2 million in 2002, and $6.8 million in 2001 for production and process development. The Company has a commercial agreement with MBL for planned production of CytoGam through June 2006 for $14.0 million, subject to production level adjustments. Because RespiGam has been replaced in the marketplace by the Company's second generation product, Synagis, the manufacture of RespiGam has been discontinued as of the end of 2003. If MBL, which holds the sole product and establishment licenses from the FDA for the manufacture of CytoGam is unable to satisfy the Company's requirements for CytoGam on a timely basis or is prevented for any reason from manufacturing CytoGam, the Company may be unable to secure an alternative manufacturer without undue and materially adverse operational disruption and increased cost.

In December 1997, the Company entered into an agreement with BI, to provide supplemental manufacturing of the Company's second generation RSV product, Synagis. The Company has a firm commitment for $6.5 million in 2004 with BI for the filling, finishing and packaging of Synagis product manufactured at the FMC. The Company paid $18.1 million in 2003, $6.7 million in 2002, and $14.3 million in 2001 related to production and scale-up of production as part of an additional agreement. The Company has firm commitments with BI for planned production through 2012 for approximately $92.1 million. Should the manufacturer be unable to supply Synagis to the Company for any reason, there can be no assurance that the Company will be able to secure an alternate manufacturer in a timely basis or without increased cost.

In August 1998, the Company signed a worldwide multi-year supply agreement with Becton Dickinson for the supply of its AccuSpray non-invasive nasal spray delivery system for administration of FluMist. The Company has firm commitments with Becton Dickinson for future purchases of sprayers of $3.8 million in both 2004 and 2005.

In August 2000, the Company entered into a production agreement with Packaging Coordinators, Inc. ("PCI"), to perform secondary production (i.e., assembly, labeling and packaging) of FluMist. As part of this agreement, the Company is obligated to pay PCI annual non-refundable minimum payments for each contract year, if the price for units invoiced to the Company during a production year totals less than the minimum payment. Payments of $1.1 million were made for each of the years 2002 and 2001. The Company amended its agreement with Cardinal Health 406, Inc., formerly known as PCI, in December 2003. Future minimum payments totaling $4.2 million are committed through December 31, 2006. Should the actual level of future production exceed the contract minimum, then actual payments will be correspondingly higher.

The Company has issued irrevocable standby letters of credit to guarantee performance under certain agreements related to

the construction project for the Company's new headquarters and research and development facility. The undiscounted maximum potential amount of future payments that the Company could be required to make under such guarantees, in the aggregate, is approximately $2.2 million.

17. LEGAL PROCEEDINGS

In October 2000, Celltech Chiroscience Limited ("Celltech") commenced a legal proceeding against the Company in the U.K. in which it alleged that the Company failed to pay royalties with respect to its sales of Synagis as required by a license agreement dated January 19, 1998. Under the agreement, the Company obtained from Celltech a worldwide license to make, use and/or sell product under a patent (and related applications) pertaining to humanized antibodies. In the proceeding, Celltech sought payment of a 2% royalty based on net sales of Synagis sold or manufactured in the United States, with interest, and certain costs, including attorney's fees. In October 2002, the UK Court ruled in the Company's favor and dismissed Celltech's case. That dismissal was upheld on appeal in July 2003. Celltech sought appellate review by the House of Lords, and that request was denied in January 2004, bringing an end to this particular litigation.

In September 2002, Celltech commenced a second legal proceeding against the Company in the U.K. Celltech seeks payment of a 2% royalty based on net sales of Synagis sold or manufactured in Germany, with interest and certain costs, including attorney fees. The Company filed answering papers in December 2002 denying that it owes the royalties that Celltech seeks through its second proceeding. This matter is schedule for trial before the UK High Court of Justice in March 2004. To date, the Company has not made the royalty payments that were the subject of its September 2002 lawsuit.

The Company has become aware that a new United States patent was issued on October 14, 2003 in the name of Celltech Therapeutics Limited, which the Company understands is an affiliated entity of Celltech (the "Adair Patent"). If the manufacture or sale of Synagis or any of the Company's other products is ultimately found to be covered by any valid claim of this new patent and/or any other Celltech patent that is the subject of the license agreement with Celltech, the Company's total royalty obligation would equal 2% of the net sales of the products that are so covered. To date, the Company has not made any royalty payments to Celltech under the license agreement with Celltech. In January 2004, the Company filed a declaratory judgment action in the United States District Court for the District of Columbia concerning the Adair patent and alleging patent invalidity and non-infringement with regard to Synagis.

In April 2002, the Company filed a suit against Centocor, Inc. ("Centocor") in the United States District Court for the District of Maryland. That action was amended in January 2003 to add the Trustees of Columbia University in the City of New York ("Columbia") and the Board of Trustees of the Leland Stanford University ("Stanford") as the owners of the patent. The Company currently pays Centocor a royalty for sales of Synagis made or sold in the United States pursuant to a patent Sublicense Agreement between the parties (the "Sublicense Agreement"). In the litigation, the Company seeks a declaratory judgment that it has no obligation to continue paying royalties to Centocor on the basis that the patent is invalid, unenforceable and does not cover Synagis. Additionally, the Company seeks an injunction preventing Centocor from enforcing this patent. This matter is ongoing and no trial date is scheduled.

In January 2003, a lawsuit was filed by the County of Suffolk, New York ("Suffolk") in the United States District Court, Eastern District of New York, naming the Company along with approximately 25 other pharmaceutical and biotechnology companies as defendants. In August 2003, the County of Westchester, New York ("Westchester") filed and served a similar suit against the Company and approximately 25 other pharmaceutical and biotechnology defendants. Likewise, in September 2003, the County of Rockland, New York ("Rockland") also filed and served a similar suit against the Company and approximately 25 other pharmaceutical and biotechnology defendants. Suffolk, Westchester and Rockland allege that the defendants manipulated the "average wholesale price" ("AWP") causing the Counties to pay artificially inflated prices for covered drugs. In addition, the Counties argue that the defendants (including the Company) did not accurately report the "best price" under the Medicaid program. The plaintiffs seek declaratory and injunctive relief, disgorgement of profits, treble and punitive damages suffered as a result of defendants' alleged unlawful practices related prescription medication paid for by Medicaid. All three of these cases have been consolidated (for pre-trial purposes) and transferred to the United States Court for the District of Massachusetts in Re: Pharmaceutical Industry Average Wholesale Price Litigation (AWP Multidistrict Litigation). A Motion to dismiss the complaint against the Company relative to the County of Suffolk has been argued before the Court and a decision is pending.

In April 2003, the Company filed a suit against Genentech, Inc. ("Genentech"), Celltech R&D Ltd. and City of Hope National Medical Center ("City of Hope") in the United States District Court for the Central District of California. The Company currently pays Genentech a royalty for sales of Synagis made or sold in the United States pursuant to a patent license agreement between the parties covering United States Patent No. 6,331,415B1 (the "Cabilly Patent"). In the complaint, the Company alleges that the Cabilly Patent was obtained as a result of a collusive agreement between Genentech and Celltech that violates federal and California antitrust laws as well as California's unfair business practices act. Additionally, the Company alleges that the Cabilly Patent is invalid and unenforceable under federal patent law and is not infringed. The Company thus seeks a declaration that it owes no royalty payments under existing licensing agreements with Genentech. In December 2003, the court granted motions filed by Celltech

and Genentech to dismiss the federal and California antitrust claims and claims under California's unfair business practices act. Discovery is proceeding relative to the allegations in the suit that the Cabilly patent is invalid and unenforceable under federal patent law and is not infringed by Synagis.

The Company is also involved in other legal proceedings arising in the ordinary course of its business. After consultation with its legal counsel, the Company believes that it has meritorious defenses to the claims against it referred to above and is determined to defend its position vigorously. While it is impossible to predict with certainty the eventual outcome of these proceedings, the Company believes they are unlikely to have a material adverse effect on its financial position but might have a material adverse effect on its results of operations for a particular period. There can be no assurance that the Company will be successful in any of the litigation it has initiated. In its ordinary course of business, the Company has provided indemnification to various parties for certain product liability claims and claims that the Company's products were not manufactured in accordance with applicable federal standards. While the Company is not aware of any current claims under these provisions, there can be no assurance that such claims will not arise in the future or that the effect of such claims will not be material to the Company.

Report of Independent Auditors

To the Board of Directors and Shareholders of MedImmune, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, of cash flows and of shareholders' equity present fairly, in all material respects, the financial position of MedImmune, Inc. and its subsidiaries at December 31, 2003 and December 31, 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the financial statements, the Company changed its method of revenue recognition for contract revenues, effective January 1, 2002.

PricewaterhouseCoopers LLP

McLean, Virginia
February 13, 2004, except for Note 10
as to which the date is February 25, 2004

Corporate Information

CORPORATE HEADQUARTERS
One MedImmune Way
Gaithersburg, MD 20878
Tel.: (301) 398-0000
Fax: (301) 398-9000
Web site: www.medimmune.com

COUNSEL
Dewey Ballantine LLP
New York, NY

INDEPENDENT AUDITORS
PricewaterhouseCoopers LLP
McLean, VA

ANNUAL SHAREHOLDERS' MEETING
The next annual meeting of the shareholders will be held on May 20, 2004 10:00 a.m. at the Gaithersburg Marriott, 9751 Washingtonian Boulevard, Gaithersburg, MD 20878 (301) 590-0044.

SEC FORM 10-K AND REQUESTS FOR INFORMATION
A copy of the Company's annual report to the Securities and Exchange Commission on Form 10-K is available without charge upon written request to:

INVESTOR RELATIONS
MedImmune, Inc.
One MedImmune Way
Gaithersburg, MD 20878
or
IR@MedImmune.com

TRANSFER AGENT AND REGISTRAR
American Stock Transfer & Trust Company
40 Wall Street, 46th Floor
New York, NY 10005
(718) 921-8200

COMMON STOCK PRICES
MedImmune's stock trades on The Nasdaq Stock Market under the symbol MEDI. At December 31, 2003, there were 248,035,945 shares of common stock outstanding held by approximately 150,000 stockholders. The following table shows the range of high and low prices and year-end closing prices for the common stock for the two most recent fiscal years.

	2003		2002	
	HIGH	LOW	HIGH	LOW
First Quarter	**$34.60**	**$26.80**	$48.35	$37.30
Second Quarter	**42.09**	**31.52**	41.05	24.80
Third Quarter	**40.88**	**31.69**	30.43	20.37
Fourth Quarter	**35.00**	**22.79**	29.24	20.45
Year End Close	**$25.38**		$27.17	

FORWARD-LOOKING STATEMENTS
The statements in this annual report that are not descriptions of historical facts may be forward-looking statements. Those statements involve substantial risks and uncertainties. You can identify those statements by the fact that they contain words such as "anticipate," "believe," "estimate," "expect," "intend," "project" or other terms of similar meaning. Those statements reflect management's current beliefs, but are based on numerous assumptions, which MedImmune cannot control and that may not develop as MedImmune expects. Consequently, actual results may differ materially from those projected in the forward-looking statements. Among the factors that could cause actual results to differ materially are the risks, uncertainties and other matters discussed under "Risk Factors" and elsewhere in this report. MedImmune cautions that RSV disease and influenza occur primarily during the winter months; MedImmune believes its operating results will reflect that seasonality for the foreseeable future. MedImmune is also developing several products for potential future marketing. There can be no assurance that such development efforts will succeed, that such products will receive required regulatory clearance or that, even if such regulatory clearance were received, such products would ultimately achieve commercial success. Unless otherwise indicated, the information in this annual report is as of December 31, 2003. This annual report will not be updated as a result of new information or future events.

Officers and Directors

DIRECTORS

WAYNE T. HOCKMEYER, Ph.D.[6]
Chairman of the Board;
President, MedImmune Ventures, Inc.

DAVID M. MOTT[4][6]
Chief Executive Officer, President and Vice Chairman, MedImmune, Inc.

DAVID BALTIMORE, Ph.D.[5]
President, California Institute of Technology

M. JAMES BARRETT, Ph.D.[1][2][5][6]
Chairman, Sensors for Medicine and Science, Inc.; General Partner, New Enterprise Associates

MELVIN D. BOOTH,[5]
Former President and Chief Operating Officer, MedImmune, Inc.

JAMES H. CAVANAUGH, Ph.D.[2][3][6]
General Partner, HealthCare Ventures LLC

THE HON. BARBARA HACKMAN FRANKLIN [1][2][3][4]
President and Chief Executive Officer, Barbara Franklin Enterprises

GORDON S. MACKLIN
[1][2][3][4][6]
Corporate Financial Advisor

ELIZABETH H. S. WYATT[1][5]
Former Vice President, Corporate Licensing, Merck & Co.

[1] *Member of the Audit Committee*

[2] *Member of the Compensation and Stock Committee*

[3] *Member of the Corporate Governance and Nominating Committee*

[4] *Member of the Investment Committee*

[5] *Member of the Compliance Committee*

[6] *Member of the Executive Committee*

MANAGEMENT

DAVID M. MOTT
Chief Executive Officer, President and Vice Chairman

JAMES F. YOUNG, Ph.D.
President, Research and Development

ARMANDO ANIDO, R.PH.
Senior Vice President, Commercial Operations

EDWARD J. ARCURI, Ph.D.
Senior Vice President, Manufacturing Operations

EDWARD M. CONNOR, JR., M.D.
Senior Vice President, Clinical Development, Chief Medical Officer

GAIL FOLENA-WASSERMAN, Ph.D.
Senior Vice President, Development

BERNARDUS N.M. MACHIELSE, DRS.
Senior Vice President, Quality

WILLIAM C. BERTRAND JR., J.D.
Vice President, General Counsel and Corporate Compliance Officer

JOAN A. BRANDT, Ph.D.
Vice President, Corporate Quality Control

DAVID A. CARLIN, Ph.D.
Vice President, Clinical Development

MICHAEL J. COWAN
Vice President, Corporate Quality Assurance

CHRISTINE A. DINGIVAN, M.D.
Vice President, Clinical Development

JEFFREY S. HACKMAN
Vice President, Marketing

LUZ HAMMERSHAIMB, M.D.
Vice President, Clinical Development

LUC HERMANS
Vice President and Site Director, Manufacturing, UK

CHARLES F. KATZER
Vice President and Site Director, Manufacturing, PA

PETER A. KIENER, D.PHIL.
Vice President, Research

PAMELA J. LUPIEN
Vice President, Human Resources

EDWARD T. MATHERS
Vice President, Corporate Development

PAUL M. MENDELMAN, M.D.
Vice President, Clinical Development

PETER A. PATRIARCA, M.D.
Vice President, Regulatory Affairs

TIMOTHY R. PEARSON
Vice President, Treasurer and Secretary

JAMES M. PLUDA, M.D.
Vice President, Clinical Development

DAVID W. ROBINSON
Vice President, Sales and Marketing, Oncology

R. MICHAEL SMULLEN
Vice President, Sales

FRANKLIN H. TOP, JR., M.D.
Medical Director

ERIC I. TSAO, Ph.D.
Vice President, Process and Manufacturing Sciences

RANDALL M. TURNER
Vice President, Engineering and Facilities

LORI A. WEIMAN
Vice President, Corporate Communications

RONALD L. WILDER, M.D. Ph.D.
Vice President, Clinical Development

CAROLINE N. YORK
Vice President, Government Affairs and Reimbursement

PETER C. YOUNG
Vice President, Information Technology

LOTA S. ZOTH
Vice President and Controller, Acting Chief Financial Officer

Design: www.vivodesign.com

MedImmune, Inc.

ONE MEDIMMUNE WAY

GAITHERSBURG, MD 20878

TEL (301) 398-0000

FAX (301) 398-9000

WWW.MEDIMMUNE.COM