EXHIBIT P
Chiron Reports 2004 First-Quarter Pro-Forma Results of 22 Cents Per Share

24 Percent Increase in Pro-Forma Revenues Over First Quarter 2003

EMERYVILLE, Calif., April 21 /PRNewswire-FirstCall/ -- Chiron Corporation (Nasdaq: CHIR) today reported pro-forma income from continuing operations of $43 million, or $0.22 per share, for the first quarter of 2004, compared to $56 million, or $0.30 per share, for the first quarter of 2003. The decrease in earnings per share for the first quarter of 2004 as compared to the first quarter of 2003 was primarily due to two factors: the seasonal impact of the PowderJect acquisition and the decline in the Betaseron royalty rate. The impact of these factors was an approximate $0.10 decrease in pro-forma and GAAP earnings per share. For the quarter, foreign exchange rates, on a pro-forma basis, resulted in a $0.01 decrease in earnings per share. On a GAAP basis, Chiron reported income from continuing operations of $27 million, or $0.14 per share, for the first quarter of 2004, compared to income from continuing operations of $81 million, or $0.32 per share, for the first quarter of 2003.

The PowderJect acquisition had a significant impact on earnings per share for the first quarter of 2004. Revenues of the primary product acquired with PowderJect, Fluvirin(R) influenza vaccine, are heavily seasonal and are recognized primarily in the second half of the year; however, costs associated with PowderJect are incurred throughout the year.

Because of this seasonality, Chiron expects that earnings per share for the second half of 2004, as a proportion of earnings per share for the year, will be substantially higher than they were for the second half of 2003. The company expects the range of pro-forma earnings per share in the second half of 2004 to be between 75 percent and 80 percent of total earnings per share for the year. (The company expects the range of GAAP earnings per share in the second half of 2004 to be between 80 percent and 85 percent of total earnings per share for the year.)

Chiron management uses pro-forma financial statements to gain an understanding of the company's operating performance on a comparative basis. Pro-forma results exclude special items relating to certain acquisitions and revenues, which may not be indicative of the company's trends or potential future performance. Please refer to the attached tables at the end of this document for more detail on these items and a reconciliation to GAAP financial statements. All references to per-share amounts are per diluted share.

"Chiron continues to execute its strategy and investment agenda and deliver solid financial returns," said Howard Pion, Chiron's president and chief executive officer. "We are progressing toward completion of our 20 milestones for growth as outlined at the beginning of the year, with expansion of our Blood Testing business into the Pacific Rim, continued investment in flu vaccine production and development, and development plans in our infectious disease and cancer franchises.

"As we build the foundation for future value with these business milestones, we are committed to delivering a strong financial performance. We look forward to an excellent year that, through sound execution, disciplined science and a steadfast commitment to improving human health, will bring value to shareholders and further contribute to the detection, prevention and treatment of diseases worldwide.

Overall Revenues

Total revenues were $380 million for the first quarter of 2004, compared to $307 million for the first quarter of 2003. Foreign exchange rates resulted in a five percent increase in total revenues. Net product sales were $281 million for the first quarter of 2004, compared to $219 million for the first quarter of 2003.

Blood Testing

Total Blood Testing revenues were $117 million for the first quarter of 2004, compared to $93 million for the first quarter of 2003. Blood Testing revenues primarily include revenues from the sales of products related to Chiron's Procleix(R) HIV-1/HCV Assay; revenues related to Chiron's joint business arrangement for Immunodiagnostics with Ortho-Clinical Diagnostics, Inc. (Ortho), a Johnson & Johnson company; and royalties paid by F. Hoffmann-La Roche (Roche) related to nucleic acid testing (NAT) blood screening. The gross profit margin on blood testing products was 43 percent for the first quarter of 2004, compared to 40 percent for the first quarter of 2003. The increase was primarily due to the amendment, effective January 1, 2004, to the worldwide blood screening collaboration agreement with Gen-Probe Incorporated in order to adopt permanent, fixed revenue shares for each party.

-- Sales related to the Procleix(R) System were $62 million for the first quarter of 2004, compared to sales of $42 million for the first quarter of 2003. The increase was primarily due to revenues from the investigation-only use of the Procleix(R) West Nile Virus Assay in the

United States, market share gains in the United States and continued penetration into several markets abroad.

- Revenues from Chiron's joint business arrangement with Ortho were $30 million for the first quarter of 2004, compared to $26 million for the first quarter of 2003. The increase was primarily due to increased profitability.
- Royalties paid by Roche related to NAT blood screening were $15 million for the first quarter of 2004, compared to $14 million for the first quarter of 2003.

Vaccines

Vaccines net product sales were $86 million for the first quarter of 2004, compared to $58 million for the first quarter of 2003. The gross profit margin on vaccines products was 33 percent for the first quarter of 2004, compared to 49 percent for the first quarter of 2003. The decrease was primarily due to the acquisition of PowderJect, as a portion of the facilities acquired was not active in flu vaccine production for a significant part of the first quarter. In addition, the product mix was heavily influenced by the shift of Encepur(TM) vaccine for tick-borne encephalitis sales to the fourth quarter of 2003 from the first quarter of 2004.

- Sales of flu vaccines were $8 million for the first quarter of 2004, compared to $4 million for the first quarter of 2003. The increase was primarily due to additional sales of Fluvirin(R) influenza vaccine, the flu vaccine that Chiron acquired with PowderJect, to the U.S. Centers for Disease Control and Prevention.
- Sales of Menjugate(R) conjugate vaccine against meningococcal C disease were $5 million for the first quarter of 2004, compared to $8 million for the first quarter of 2003, with the decrease primarily due to the timing of outbreaks and vaccination programs in various geographies.
- Sales of Chiron's travel vaccines were $23 million for the first quarter of 2004, compared to $26 million for the first quarter of 2003. Travel vaccines include Encepur(TM) vaccine for tick-borne encephalitis, Arilvax(TM) vaccine for yellow fever, Dukoral(TM) vaccine for cholera, and RabAvert(R) vaccine for rabies. The decrease was primarily due to timing of sales of Encepur, as a portion of sales shifted to the fourth quarter of 2003 from the first quarter of 2004, and was partially offset by sales of Arilvax and Dukoral, which Chiron acquired with PowderJect.
- Sales of Chiron's pediatric and other vaccines products were $50 million for the first quarter of 2004, compared to $30 million for the first quarter of 2003, with the increase primarily due to tender sales of pediatric vaccines, particularly polio vaccines, and increased sales following the PowderJect acquisition.

BioPharmaceuticals

The BioPharmaceuticals division reported net product sales and Betaferon(R) interferon beta-1b royalties of $140 million for the first quarter of 2004, compared to $116 million for the first quarter of 2003. The gross profit margin on biopharmaceutical products was 76 percent for the first quarter of 2004, compared to 79 percent for the first quarter of 2003. The decrease was primarily due to a combination of a decline in the royalty rate related to the sale of Betaseron that took effect in the fourth quarter of 2003, pursuant to Chiron's agreement with Schering, and increased costs associated with the new pre-filled diluent syringe for Betaseron(R) interferon beta-1b.

- TOBI(R) tobramycin solution for inhalation sales were $53 million for the first quarter of 2004, compared to $41 million for the first quarter of 2003, with the increase primarily due to increased patient demand, price increases, the benefit of foreign exchange rates and wholesaler ordering patterns.
- Proleukin(R) (aldesleukin) interleukin-2 sales were $32 million for the first quarter of 2004, compared to $26 million for the first quarter of 2003, with the increase primarily due to price increases and wholesaler ordering patterns.
- Sales of Betaseron(R) interferon beta-1b for injection, marketed in Europe as Betaferon(R), to Berlex, Inc., (and its parent company Schering AG) for marketing and resale were $30 million for the first quarter of 2004, compared to $29 million for the first quarter of 2003.
The sales pattern was essentially level because the contractual decline in the royalty rate related to the sale of Betaseron, pursuant to Chiron's agreement with Schering, and changes in ordering patterns were offset by increased patient demand, price increases, and the benefit of foreign exchange rates. Royalties from Schering AG's European sales of Betaferon were $14 million for the first quarter of 2004, compared to $14 million for the first quarter of 2003. The royalty pattern was essentially level because the decline in Betaferon royalties, pursuant to Chiron's agreement with Schering, was offset by increased patient demand, price increases, and the benefit of foreign exchange rates.

Pipeline and Products Update

Chiron has seen recent advances in franchises across all three of its business units and expects continued progress throughout 2004.

Blood Testing

Chiron expects to expand its leadership in blood testing through new assays, new geographies, greater market penetration and expansion into blood safety.

-- In February, Chiron announced the initiation of U.S. clinical trials of the Procleix(R) Ultrio(TM) Assay, for the simultaneous detection of HIV-1, hepatitis C virus (HCV) and hepatitis B virus (HBV) in donated blood, plasma, organs and tissue, on the Procleix TIGRIS(R) system, a key enabling technology for individual donor testing. Chiron, in collaboration with its partner Gen-Probe Incorporated, expects to complete the clinical trials for TIGRIS in the second half of 2004 and to file submissions to the U.S. Food and Drug Administration (FDA) for TIGRIS and the Procleix Ultrio Assay later in the year.

-- Chiron recently won a contract for the Procleix(R) HIV-1/HCV Assay with a major blood center in Korea, accounting for approximately a third of the nation's annual donations.

Vaccines

Chiron Vaccines development is focused on its meningococcal franchise and flu cell-culture technology.

-- Chiron is on track to initiate a Phase III trial this year for its flu cell-culture vaccine for European registration. The company also recently filed an investigational new drug application (IND) for flu cell-culture in the United States and has begun the dialogue with the FDA on development plans in the United States.

-- Chiron recently broke ground for the $100 million expansion of its Liverpool Fluvirin(R) influenza vaccine production facility, which will enable further increases in future production following the record increases experienced last year and additional increases projected for this year.

-- Chiron advanced its establishment of commercial operations for vaccines in the United States, appointing a head of the business and positioning it to support strategies for both the flu vaccine and meningococcal vaccines franchises.

-- In the development of vaccines for the five primary serogroups that cause meningococcal disease, Chiron recently began clinical trials for its broad-coverage meningococcal B vaccine.

BioPharmaceuticals: Infectious Disease

Chiron continues to build its portfolio of products to treat and prevent infectious disease. This franchise leverages a significant global commercial infrastructure.

-- Chiron is currently meeting with investigators for its Phase III trial for tifacogin in patients with severe community-acquired pneumonia and

plans to initiate the trial in May.
-- Chiron will meet with the FDA in May to discuss the registration path for cyclosporine solution for inhalation (CSI) as a potential treatment for lung transplant rejection.
-- With its partner, Cubist Pharmaceuticals, Chiron soon expects to reach a decision to determine the regulatory path forward for daptomycin in the European Union, in which Chiron has commercial rights.
-- Chiron is investing to expand its TOBI franchise in its study of the dry-powder formulation delivered with a hand-held device, which the company is developing in collaboration with Nektar Therapeutics. Chiron now plans to use commercial product and the commercial device in its upcoming Phase III trial, which the company anticipates will delay the start of the trial from the end of 2004 to the beginning of 2005, with minimal anticipated effect on the product launch date.

BioPharmaceuticals: Oncology

Chiron's oncology franchise has three dimensions: immune-based therapies, monoclonal antibodies and novel cancer agents.

-- Chiron announced a collaborative agreement with XOMA Ltd. for the development and commercialization of antibody products for the treatment of cancer. Chiron has successfully identified a number of potential targets and expects the agreement to help generate antibodies against those targets and accelerate their advancement through the development process.
-- Chiron is initiating a new Phase II study of Proleukin(R) (aldesleukin) for injection plus rituximab in rituximab-naive patients with low-grade non-Hodgkin's lymphoma to determine the combination's potential in patients receiving rituximab for the first time.
-- Chiron has had an abstract accepted for the American Society of Clinical Oncology (ASCO) meeting, to be held June 5-8 in New Orleans, to detail the objective, durable responses found in a specific sub-population of patients in its existing Phase II trial of Proleukin plus rituximab in patients with low-grade non-Hodgkin's lymphoma who have failed rituximab therapy.
-- Chiron discontinued further development of tezacitabine, a next-generation nucleoside analog, based on an analysis of the data from a Phase II trial in patients with gastroesophageal cancer.

Other Recent Business Milestones

Other recent business activities underline the value of Chiron's products and intellectual property and the strength of its leadership.

-- Chiron announced the appointment of Rino Rappuoli, Ph.D., to the position of chief scientific officer (CSO). Dr. Rappuoli joined Chiron as head of European vaccines research in 1992 with the acquisition of Italian vaccines company Sclavo SpA, where he served as head of research and development. Dr. Rappuoli is co-founder of the field of cellular microbiology, a discipline combining cell biology and microbiology, and has pioneered the genomic approach to vaccine development termed "reverse vaccinology."
-- Chiron was listed at number 769 on the Fortune 1000 list for 2003, up from its debut at number 912 in 2002.

1Q04 Earnings Conference Call

Chiron will hold a conference call and webcast on Wednesday, April 21, 2004, at 4:45 p.m. EDT to review its first-quarter 2004 results of operations and business highlights. In addition, the company may address forward-looking questions concerning business, financial matters and trends affecting the company.

To access either the live call or the one-week archive, please log on to http://www.chiron.com/webcast. Please connect to the website at least 15 minutes prior to the conference call to ensure adequate time to download any necessary software.

Alternatively, please call 800-374-0907 from the United States or Canada or 706-643-3367 from other locations. Replay is available approximately two hours after the completion of the call through 11:55 p.m. EDT, Wednesday, April 28, 2004. To access the replay, please call 800-842-1687 from the United States or Canada or 706-645-9291 from other locations. The conference ID number is 6631837.

About Chiron

Through its global Blood Testing, Vaccines and BioPharmaceuticals businesses, Chiron Corporation addresses human suffering with more than 50 diverse products to detect, prevent and treat disease worldwide. The company's consistent success comes from its pioneering science, skill in delivering innovations in biotechnology and disciplined business approach. Chiron believes that science has the power to improve people's lives and harnesses that power to transform public health.

This year, Chiron Vaccines celebrates 100 years of advancing medicine with the anniversary of two founding companies. In 1904, Emil von Behring and Achille Scavo independently started companies in Germany and Italy, respectively, dedicated to the research, development and manufacture of vaccines to protect humanity from infectious disease. As the fifth-largest vaccine manufacturer in the world, Chiron remains dedicated to the legacies of von Behring and Scavo to prevent disease and develop new vaccines to improve human health globally.

This news release contains forward-looking statements, including statements regarding sales growth, product development initiatives, new product indications, new product marketing, acquisitions, and in- and out-licensing activities, that involve risks and uncertainties and are subject to change. A full discussion of the company's operations and financial condition, including factors that may affect its business and future prospects, is contained in documents the company has filed with the SEC, including the form 10-K for the year ended December 31, 2003, and will be contained in all subsequent periodic filings made with the SEC. These documents identify important factors that could cause the company's actual performance to differ from current expectations, including the outcome of clinical trials, regulatory review and approvals, manufacturing capabilities, intellectual property protections and defenses, stock-price and interest-rate volatility, and marketing effectiveness. In particular, there can be no assurance that Chiron will increase sales of existing products, successfully develop and receive approval to market new products, or achieve market acceptance for such new products. There can be no assurance that Chiron's out-licensing activities will generate significant revenue, nor that its in-licensing activities will fully protect it from claims of infringement by third parties. In addition, the company may engage in business opportunities, the successful completion of which are subject to certain risks, including shareholder and regulatory approvals and the integration of operations.

Consistent with SEC Regulation FD, we do not undertake an obligation to update the forward-looking information we are giving today.

NOTE: Arilvax, Dukoral, Encepur, Fluvirin, Menjugate, Procleix, Proleukin, RabAvert, TOBi and Ultro are trademarks of Chiron Corporation. Betaseron and Betaferon are trademarks of Schering AG. Tigris is a registered trademark of Gen-Probe Incorporated.

CHIRON CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

<table>
<thead>
<tr>
<th>Three Months Ended</th>
<th>March 31, 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pro Forma Pro Forma Adjusted (1) Adjustments Actual</td>
</tr>
<tr>
<td>Revenues:</td>
<td></td>
</tr>
<tr>
<td>Product sales, net</td>
<td>$281,066 $-- $281,066</td>
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<tr>
<td>Revenues from joint business arrangement</td>
<td>30,361 -- 30,361</td>
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<tr>
<td>Collaborative agreement revenues</td>
<td>6,515 -- 6,515</td>
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<tr>
<td>Royalty and license fee revenues</td>
<td>54,792 -- 54,792</td>
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<tr>
<td>Other revenues</td>
<td>6,938 -- 6,938</td>
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<tr>
<td>Total revenues</td>
<td>379,672 -- 379,672</td>
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<tr>
<td>Operating expenses:</td>
<td></td>
</tr>
<tr>
<td>Cost of sales</td>
<td>126,701 -- 126,701</td>
</tr>
</tbody>
</table>

Research and development 98,410 -- 98,410
Selling, general and administrative 104,740 -- 104,740
Amortization expense -- (21,332) 21,332
Other operating expenses 2,116 -- 2,116

Total operating expenses 331,967 (21,332) 353,299

Income from operations 47,705 21,332 26,373

Interest expense (5,925) -- (5,925)
Interest and other income, net 16,074 -- 16,074
Minority interest (620) -- (620)

Income from continuing operations before income taxes 57,234 21,332 35,902
Provision for income taxes 14,309 5,334 8,975
Income from continuing operations 42,925 15,998 26,927
Gain from discontinued operations 12,845 -- 12,845

Net income $55,770 $15,998 $39,772

Basic earnings per share:
Income from continuing operations $0.23 $0.14
Net income $0.30 $0.21

Diluted earnings per share:
Income from continuing operations $0.22 $0.14
Net income $0.28 $0.21

Shares used in calculating basic earnings per share 187,809 187,809
Shares used in calculating diluted earnings per share 207,816 191,999

Revenues:

<table>
<thead>
<tr>
<th>Description</th>
<th>2003 Adjusted (2) Adjustments</th>
<th>2003 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product sales, net</td>
<td>$218,620</td>
<td>$218,620</td>
</tr>
<tr>
<td>Revenues from joint business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>arrangement</td>
<td>26,452</td>
<td>26,452</td>
</tr>
<tr>
<td>Collaborative agreement revenues</td>
<td>4,114</td>
<td>4,114</td>
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<tr>
<td>Royalty and license fee revenues</td>
<td>53,424</td>
<td>53,424</td>
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<tr>
<td>Other revenues</td>
<td>4,012 (14,413)</td>
<td>18,425</td>
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<tr>
<td>Total revenues</td>
<td>306,622 (14,413)</td>
<td>321,035</td>
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</table>

Operating expenses:

<table>
<thead>
<tr>
<th>Description</th>
<th>2003 Adjusted (2) Adjustments</th>
<th>2003 Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of sales</td>
<td>85,589</td>
<td>85,589</td>
</tr>
<tr>
<td>Research and development</td>
<td>82,130</td>
<td>82,130</td>
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<tr>
<td>Selling, general and administrative</td>
<td>73,042 (7,613)</td>
<td>73,042</td>
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<tr>
<td>Amortization expense</td>
<td></td>
<td>7,613</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>1,691</td>
<td>1,691</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>242,452 (7,613)</td>
<td>250,065</td>
</tr>
</tbody>
</table>

Income from operations 64,170 (6,800) 70,970

Interest expense (3,462) -- (3,462)
Interest and other income, net 14,318 -- 14,318
Minority interest (400) -- (400)
Income from continuing operations before income taxes 74,626 (6,800) 81,426
Provision for income taxes 18,657 (1,700) 20,357
Income from continuing operations 55,969 (5,100) 61,069
Gain from discontinued operations 1,426 -- 1,426
Net income $57,395 $(5,100) $62,495

Basic earnings per share:
  Income from continuing operations $0.30 $0.33
  Net income $0.31 $0.33

Diluted earnings per share:
  Income from continuing operations $0.30 $0.32
  Net income $0.30 $0.33

Shares used in calculating basic earnings per share 186,649 186,649
Shares used in calculating diluted earnings per share 189,687 189,687

(1) Pro Forma Adjusted amounts exclude the amortization expense on acquired intangible assets related to the acquisitions of PathoGenesis, Chiron Behring, Pulmopharm and PowderJect Pharmaceuticals.

(2) Pro Forma Adjusted amounts exclude (a) the amortization expense on acquired intangible assets related to the acquisitions of PathoGenesis, Chiron Behring and Pulmopharm and (b) revenues from the Biogen and Serono settlements in connection with the McCormick patents owned by Schering's U.S. subsidiary, Berlex Laboratories.

CHIRON CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and short-term investments</td>
<td>$550,471</td>
<td>$538,482</td>
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<tr>
<td>Accounts receivable, net</td>
<td>369,508</td>
<td>382,933</td>
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<tr>
<td>Current portion of notes receivable</td>
<td>1,489</td>
<td>1,479</td>
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<tr>
<td>Inventories, net</td>
<td>236,299</td>
<td>199,625</td>
</tr>
<tr>
<td>Other current assets</td>
<td>147,721</td>
<td>135,130</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>1,305,488</td>
<td>1,257,649</td>
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<tr>
<td>Noncurrent investments in marketable debt securities</td>
<td>535,022</td>
<td>560,292</td>
</tr>
<tr>
<td>Property, plant, equipment and leasehold improvements, net</td>
<td>707,790</td>
<td>689,750</td>
</tr>
<tr>
<td><strong>Other noncurrent assets</strong></td>
<td>1,688,577</td>
<td>1,687,479</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$4,236,877</td>
<td>$4,195,169</td>
</tr>
</tbody>
</table>

| **Liabilities and stockholders' equity** |                |              |
| **Current liabilities** | $397,830 | $436,913 |
| Long-term debt | 929,780 | 926,709 |
| Capital lease | 157,615 | 157,677 |
| Noncurrent unearned revenue | 40,393 | 45,564 |
| **Other noncurrent liabilities** | 196,631 | 176,944 |
### CHIRON CORPORATION

#### SUPPLEMENTAL SCHEDULE OF COMPUTATION OF EARNINGS PER SHARE
(Unaudited)
(In thousands, except per share data)

<table>
<thead>
<tr>
<th>Three Months Ended</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pro Forma Adjusted</td>
<td>Actual Adjusted</td>
</tr>
</tbody>
</table>

#### Computation for earnings per share - continuing operations

**Income (Numerator):**
- Income from continuing operations: $42,925
- Plus: Interest on 1.625% convertible debentures, net of taxes: $1,570
- Income from continuing operations, plus impact from assumed conversions: $46,255

**Shares (Denominator):**
- Weighted-average common shares outstanding: 187,809
- Effect of dilutive securities:
  - Stock options and equivalents: 4,190
  - 1.625% convertible debentures: 7,306
  - Liquid Yield Option Notes: 8,511
  - Weighted-average common shares outstanding, plus impact from assumed conversions: 207,816

**Basic earnings per share from continuing operations:** $0.23

**Diluted earnings per share from continuing operations:** $0.22

#### Computation for earnings per share - net income

**Income (Numerator):**
- Net income: $55,770
- Plus: Interest on 1.625% convertible debentures, net of taxes: $1,570
- Interest on Liquid Yield Option Notes, net of taxes: $1,760
- Net income, plus impact from assumed conversions: $59,100

**Shares (Denominator):**
- Weighted-average common shares outstanding: 187,809
- Effect of dilutive securities:
  - Stock options and equivalents: 4,190
  - 1.625% convertible debentures: 7,306
  - Liquid Yield Option Notes: 8,511
  - Weighted-average common shares outstanding, plus impact from assumed conversions: 207,816
### CHIRON CORPORATION

#### Supplemental Revenue Summary (Pro Forma)

USD $ (in thousands)

<table>
<thead>
<tr>
<th></th>
<th>Current Quarter</th>
<th>Prior Quarter</th>
<th>Change from Prior QTR</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product Sales</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blood Testing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ortho</td>
<td>$6,234</td>
<td>$8,625</td>
<td>$(2,391)</td>
<td>(27.7)%</td>
</tr>
<tr>
<td>NAT</td>
<td>61,886</td>
<td>58,299</td>
<td>3,587</td>
<td>6.2%</td>
</tr>
<tr>
<td>Total Blood Testing</td>
<td>68,120</td>
<td>66,924</td>
<td>1,196</td>
<td>1.8%</td>
</tr>
<tr>
<td>Vaccines</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flu Vaccines</td>
<td>7,705</td>
<td>141,142</td>
<td>(133,437)</td>
<td>(94.5)%</td>
</tr>
<tr>
<td>Meningococcus Vaccines</td>
<td>4,549</td>
<td>33,672</td>
<td>(29,123)</td>
<td>(86.5)%</td>
</tr>
<tr>
<td>Travel Vaccines (TBE, Rabies, Arilvax and Dukoral)</td>
<td>23,010</td>
<td>27,850</td>
<td>(4,840)</td>
<td>(17.4)%</td>
</tr>
<tr>
<td>Pediatric/Other Vaccines</td>
<td>51,182</td>
<td>58,974</td>
<td>(7,792)</td>
<td>(13.2)%</td>
</tr>
<tr>
<td>Total Vaccines</td>
<td>86,446</td>
<td>261,638</td>
<td>(175,192)</td>
<td>(67.0)%</td>
</tr>
<tr>
<td>Biopharmaceuticals:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proleukin</td>
<td>31,868</td>
<td>29,852</td>
<td>2,016</td>
<td>6.8%</td>
</tr>
<tr>
<td>TOBI</td>
<td>52,524</td>
<td>49,307</td>
<td>3,217</td>
<td>6.5%</td>
</tr>
<tr>
<td>Betaseron*</td>
<td>30,136</td>
<td>36,148</td>
<td>(6,012)</td>
<td>(16.6)%</td>
</tr>
<tr>
<td>Other</td>
<td>11,972</td>
<td>4,742</td>
<td>7,230</td>
<td>152.5%</td>
</tr>
<tr>
<td>Total Biopharmaceuticals</td>
<td>126,500</td>
<td>120,049</td>
<td>6,451</td>
<td>5.4%</td>
</tr>
<tr>
<td><strong>TOTAL PRODUCT SALES</strong></td>
<td><strong>$281,066</strong></td>
<td><strong>$448,611</strong></td>
<td>$(167,545)</td>
<td>(37.3)%</td>
</tr>
<tr>
<td>Revenues From Joint Business</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arrangement</td>
<td>$30,361</td>
<td>$28,313</td>
<td>$2,048</td>
<td>7.2%</td>
</tr>
<tr>
<td>Collaborative Agreement Revenues</td>
<td>6,515</td>
<td>3,008</td>
<td>3,507</td>
<td>116.6%</td>
</tr>
<tr>
<td>Royalty and License Fees</td>
<td>54,792</td>
<td>63,605</td>
<td>(8,813)</td>
<td>(13.9)%</td>
</tr>
<tr>
<td>Other Revenues</td>
<td>6,938</td>
<td>11,044</td>
<td>(4,106)</td>
<td>(37.2)%</td>
</tr>
<tr>
<td><strong>TOTAL REVENUES</strong></td>
<td><strong>$379,672</strong></td>
<td><strong>$554,581</strong></td>
<td>$(174,909)</td>
<td>(31.5)%</td>
</tr>
<tr>
<td><strong>Gross Margins</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blood Testing</td>
<td>43%</td>
<td>38%</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Vaccines</td>
<td>33%</td>
<td>49%</td>
<td>(16)%</td>
<td></td>
</tr>
<tr>
<td>Biopharmaceuticals</td>
<td>76%</td>
<td>66%</td>
<td>10%</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL GROSS MARGINS</strong></td>
<td><strong>55%</strong></td>
<td><strong>52%</strong></td>
<td>3%</td>
<td></td>
</tr>
<tr>
<td>* Excludes Betaferon Royalty</td>
<td><strong>$13,807</strong></td>
<td><strong>$16,658</strong></td>
<td>$(2,851)</td>
<td>(17.1)%</td>
</tr>
</tbody>
</table>

**Year Ago Change from Prior Year Change %**

<table>
<thead>
<tr>
<th></th>
<th>Year Ago Quarter</th>
<th>Change from Prior Year</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product Sales</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blood Testing</td>
<td>$6,408</td>
<td>$(174)</td>
<td>(2.7)%</td>
</tr>
<tr>
<td>Ortho</td>
<td>42,123</td>
<td>19,763</td>
<td>46.9%</td>
</tr>
<tr>
<td>NAT</td>
<td>48,531</td>
<td>19,589</td>
<td>40.4%</td>
</tr>
<tr>
<td>Total Blood Testing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vaccines</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flu Vaccines</td>
<td>4,253</td>
<td>3,452</td>
<td>81.2%</td>
</tr>
<tr>
<td>Meningococcus Vaccines</td>
<td>7,536</td>
<td>(2,989)</td>
<td>(39.7)%</td>
</tr>
<tr>
<td>Travel Vaccines (TBE, Rabies, Arilvax and Dukoral)</td>
<td>25,700</td>
<td>(2,690)</td>
<td>(10.5)%</td>
</tr>
<tr>
<td>Pediatric/Other Vaccines</td>
<td>30,913</td>
<td>20,269</td>
<td>55.6%</td>
</tr>
<tr>
<td>Total Vaccines</td>
<td>68,404</td>
<td>18,042</td>
<td>26.4%</td>
</tr>
</tbody>
</table>

### Biopharmaceuticals:

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proleukin</td>
<td>25,983</td>
<td>5,885</td>
<td>22.6%</td>
</tr>
<tr>
<td>TOBI</td>
<td>40,734</td>
<td>11,790</td>
<td>28.9%</td>
</tr>
<tr>
<td>Betaseron*</td>
<td>29,300</td>
<td>836</td>
<td>2.9%</td>
</tr>
<tr>
<td>Other</td>
<td>5,668</td>
<td>6,304</td>
<td>11.2%</td>
</tr>
<tr>
<td><strong>Total Biopharmaceuticals</strong></td>
<td><strong>101,685</strong></td>
<td><strong>24,815</strong></td>
<td><strong>24.4%</strong></td>
</tr>
</tbody>
</table>

### TOTAL PRODUCT SALES

- **2003**: $218,620
- **2002**: $62,446
- **Change**: 28.6%

### Revenues From Joint Business Arrangement

- **2003**: $26,452
- **2002**: $3,909
- **Change**: 14.8%

- **Collaborative Agreement Revenues**: 4,114, 2,401, 58.4%
- **Royalty and License Fees**: 53,424, 1,368, 2.6%
- **Other Revenues**: 4,012, 2,926, 32.9%
- **TOTAL REVENUES**: $306,622, $73,050, 23.8%

### Gross Margins

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blood Testing</td>
<td>40%</td>
<td>3%</td>
</tr>
<tr>
<td>Vaccines</td>
<td>49%</td>
<td>(16)%</td>
</tr>
<tr>
<td>Biopharmaceuticals</td>
<td>79%</td>
<td>(3)%</td>
</tr>
<tr>
<td><strong>TOTAL GROSS MARGINS</strong></td>
<td>61%</td>
<td>(6)%</td>
</tr>
</tbody>
</table>

* Excludes Betaferon Royalty

- **2003**: $13,966
- **2002**: $(159)
- **Change**: (1.1)%

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**SOURCE** Chiron Corporation

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EXHIBIT Q
Operator: Good afternoon. My name is Marcus and I will be your conference facilitator today. At this time I would like to welcome everyone to the Chiron first quarter 2004 financial results conference call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question and answer period. If you would like to ask a question during this time, simply press *** then the number "1" on your telephone keypad. If you would like to withdraw your question, press *** then the number "2" on your telephone keypad. I would now like to introduce Mr. Martin Forrest, Vice President of Corporate Communications and Investor Relations. Sir you may begin.

Martin Forrest, VP of Corporate Communications and Investor Relations

Thank you Marcus. Good afternoon everyone and welcome to Chiron’s first quarter 2004 conference call. On behalf of the Chiron team I would like to introduce you to our principal speakers. Howard Pien, Chiron CEO and President; and David Smith, Chiron’s CFO, and I’ll be available after the call along with the investor relations team to follow-up with any questions that you might have.

Before I turn the call over to Howard for a discussion of Chiron’s results, I’d like to remind you that our remarks today will include forward-looking statements related to future events in the financial performance of the company. Actual events and performance may differ materially from our expectations. We refer you to the documents that the Company has filed with the Securities and Exchange Commission, which are available through our website at chiron.com. These include the 2003 10-K report, the first quarter 10-Q report, which will be available shortly and information under the heading “Factors That May Affect Future Results” in the MD&A portion of our periodic filing. This information identifies important factors that could cause the company’s actual performance to differ from current expectations.

Please note that where we indicate a number to be pro forma in today’s discussions, we have made available a reconciliation of pro forma to GAAP in the condensed consolidated statement of operations attached to our press release issued today. The reconciliation for the fourth quarter, along with the reconciliation of pro forma to GAAP for prior quarters, is also available on the website. Consistent with Regulation FD, we do not undertake an obligation to update the forward-looking information we are giving today. And finally, please note that this call is being electronically recorded and is copyrighted by Chiron. No reproductions, retransmissions, transcripts, or copies of this conference call can be made without the written permission of Chiron. With that as a preface, I will turn the call to you, Howard.

Howard Pien, President, Chief Executive Officer, Director

Good afternoon and welcome to our call. Today Chiron announced its first quarter earnings results. In today’s call I will talk to you about our progress to date, inform you of the status of some of our key milestones, and provide you with the details of some of the key developments. Chiron is off to a strong start for the year. We have made excellent progress to advance key clinical programs. Through our investment strategy, we continue to lay the groundwork for enhancing future value for shareholders. At the same time, we are maintaining Chiron’s record of solid financial performance. We are reiterating our pro forma earnings guidance for the year of between $1.80 and $1.90 per share for 2004.

2004 is unfolding as a year in which we continue to execute on our strategy for both the near-term and the long-term entirely consistent with our plan. Our growth trajectory is highlighted by our rise
in the Fortune 1000 ranking from number 912 in 2002 to number 769 in 2003. Driving our growth last year was the acquisition and successful integration of PowderJect, which has positioned Chiron as the number two provider of flu vaccine worldwide, and which provides exciting opportunities for our future growth.

As we move into 2004, we will continue to fulfill our agenda for value creation and long-term growth, while still aiming to deliver a long-term EPS growth of 20%. Regarding our first quarter, today we reported first quarter pro forma net income from continuing operations of $0.22 per share. Revenues grew 24% year-over-year to $380 million. All 3 businesses performed in-line with our expectations this quarter and our earnings for the quarter reflect both, the growth and investments in each of our units. During the earnings call last quarter we indicated that the traditional seasonality of our earnings will be even more pronounced with the acquisition of PowderJect and our enhanced investment agenda. While we do not give quarterly guidance, we are cognizant that this quarter’s earnings are below the consensus number. We want to emphasize that when we look at the growth of our businesses for the entire year, we are confident in our ability to deliver solid financial results, completely consistent with our previously stated guidance. And later in the call, David will provide more details of the contours of our financials between the first and second halves, so as to give you greater clarification on this amplified seasonality.

Now, back to the progress of each of our businesses and why we are positive about our prospects for this year. Let me begin with the blood testing unit. Our blood testing business is advancing on 2 tracks. The core of the business is our NAT franchise. The franchise continues to expand, both, in geography and through the introduction of the new assays. Procleix is making inroads in to new geographies, particularly in the Pacific Rim where we are already established in such countries as Australia, Singapore, and Hong Kong. We recently won a contract for the duplex Assay with a major blood center in Korea accounting for about 1/3 of Korea’s annual donations. We are also anticipating expansion this year in Thailand. Our position in Asia paves the way to the future introduction of Ultrio, the hepatitis B endemic (sic), which is part of the world and represents a significant threat to our safety. In addition, we are entering new markets in Europe as well, in particular, Poland, and Greece. Ultrio achieved CE marking early in this year and is undergoing a successful launch.

Uptake of the new product among our existing customers has been going well. They are now telling us that they are pleased with the convenience and sensitivity of the Triplex Assay that adds hepatitis B to the pre-existing HIV and hep C tests. We are also moving ahead with our plans to file a BLA for Ultrio in this year. Local trials in the US have commenced on the TIGRIS fully automated system, a key enabling technology for slower pool sizes and individual donor testing. This automation will also provide greater throughput and more operational efficiency for blood centers than other existing NAT technology. In addition, as the mosquito season has now started, we are moving forward with clinical trials for our West Nile virus Assay. This innovation has detected over 800 positive blood donations since its introduction last June and the predictions are that this year we’ll see the spread of the virus towards the West Coast. We are trying to move as rapidly as possible with BL submission for the Assay. Blood testing is also expanding its reach into the realms of blood safety, through the in-licensing of technologies. We are progressing with the development of technologies from IDI for bacteria detection in platelets and from ZymeQuest for blood type conversion.

Now on to our Vaccines business, the flu vaccine business should continue to grow this year and our production for the ’04-’05 season is now well underway. The CDC has chosen the 3 strains for this year’s vaccines and we are comfortable that we will be able to meet our goal of producing approximately 50 million doses of Fluvirin, a vast majority of which has been for the US market. Our commitment for flu extends beyond the egg-based product with our activities and efforts in cell-culture. We are on track to initiate a Phase III program later this year for European registration. We have also filed an IND for flu cell culture in the US and we have begun the dialog with the agency and established a firm development plan. As you know, Chiron testified before the House
Oversight Committee, examining last year's flu season and the country's preparedness for a flu pandemic. We welcome the Government's interest in strengthening the US public health infrastructure and we welcome its resolve to increase immunization rates, which we believe is the best strategy that will help prepare the nation for a future pandemic. We will continue to work with both branches of the government and we pledge we will put all of our efforts to be part of the solution. We have made meaningful progress in establishing a commercial operation for vaccines in the US. We have appointed Mr. John Vavricka, a veteran from GSK, to head our US operations. Establishing our commercial capability is an important step in our US strategy, both for capturing the upside to the flu market and for the pre-launch conditioning of our meningococcal business. Development of our tetravalent ACGW vaccine is progressing as is our broad coverage men B vaccine, which has enrolled its first patients in Phase I trial.

Finally on to our Biopharmaceutical business. There is a flurry of activities in Chiron biopharmaceutical. First quarter, commercial performance of TOBI and Proleukin was strong and progress in R&D is steady and firm. Let me highlight a few advances. Chiron announced a collaborative agreement with XOMA for development and commercialization of antibody products for treatment of cancer. Chiron has successfully identified a number of potential targets and this agreement will allow us to accelerate their development. We expect to see 2 INDs filed as a result of this collaboration within the next 24 months. We are preparing to initiate a Phase III clinical trial for tfacogin, a severe community-acquired pneumonia. We expect that the first patient in this randomized double-blind trial will be dosed in May. As we speak, the investigator meetings are being held and we look forward to updating you in the month to come. We are also about to begin our Phase II randomized trial of Proleukin in combination with rituximab, in rituximab naïve patients. We will present an abstract at ASCO detailing the high quality responses found in a specific subpopulation of patients with particular genotypes in our existing Phase II trial.

We will be meeting with the FDA next month to discuss the registration path for cyclosporine solution for inhalation, or CSI, as a potential treatment for lung transplant rejection for which they may indicate the possibility of a substantial reduction in mortality. And with our partner Nektar, we are advancing the Phase III programs to TPI, the dry powder formulation of TOBI. We have taken the proactive decision that for the Phase III trial we will use both the commercial product and the commercial device therefore smoothing the registration path. As we go, we anticipate that the Phase III trial will begin in early '05, not at the end of '04 as we had previously targeted. This small slippage should have minimum if any effect on the launch date. We will be telling you more about the evolution of our programs in greater detail on June 23, when we will be holding an analyst and investor day. Now, I would like to turn the call over to David for a detailed discussion of the first quarter financial results.

David V. Smith, Chief Financial Officer

Thanks Howard. I will begin with the review of the results for the quarter, which were released today at approximately 1 p.m. Pacific Daylight Time. All earnings per share amounts discussed today refer to the pro forma diluted per share earnings. As we previously discussed, we present our financial results on an as reported GAAP basis and a pro forma basis. The adjustments we made this quarter to arrive at pro forma earnings consist of the amortization of expense on acquired identifiable intangible assets related to acquisitions and discontinued operations. The adjustments made in the first quarter of 2003 consisted of the amortization expense on acquired identifiable intangible assets related to acquisitions plus the Biogen and Serono settlements in connection with the McCormick patent and with discontinued operation. A reconciliation between our GAAP and pro forma result can be found on our website at chiron.com.

For the first quarter of 2004, Chiron reported pro forma income from continuing operations of $43 million or $0.22 per share. This result was in-line with our expectations, and as we mentioned in our last earnings call, reflects the effect of our acquisition of PowderJect. Chiron reported pro
for the first quarter of 2004, as compared to the quarter in 2003, was primarily due to 3 factors: The seasonal impact on the PowderJect acquisition, the decline in the Betaseron royalty rate, and foreign exchange rates. The impact of these factors was an approximate $0.11 decrease in pro forma earnings per share.

Total revenues for the first quarter of 2004 increased 24% to $380 million from $307 million for the same period in 2003. Product sales increased 29% to $281 million from $219 million. Foreign exchange rates resulted in a 5% increase in total revenues. Increases in sales were seen primarily in Procleix, TOBI, and pediatric and other vaccines. Revenues from the joint business arrangement, collaborative agreement revenues, royalty and license fees, and other revenues increased 12% primarily due to increased profitability of the joint business arrangements, increased collaborative agreement revenues, and the timing of contract manufacturing activities. Gross margins decreased to 55% from last year's gross margins of 61%, primarily driven by the expected decline in the gross margin for the vaccines business along with the reduction in the royalty rate related to Betaseron. Research and development expenses for the first quarter of 2004 totaled $98 million, up 20% from the first quarter of 2003. The increase reflects the movement of our investment agenda and is primarily related to the development of tifacogin, cyclosporine solution for inhalation, the TOBI franchise, meningococcal franchise, and flu cell culture. These increases were partially offset by decreases due to the transfer of the responsibility of the IL-2 HIV SILCAAT trial, and higher development cost in the first quarter of 2003 associated with Betaseron. SG&A expenses for the first quarter of 2004 totaled $105 million up 43% from the first quarter of 2003 with PowderJect contributing 1/3 of the increase for the current quarter. Integration related expenses were immaterial in the first quarter, although we do expect them to increase in Q2 as integration efforts draw to a conclusion. Excluding PowderJect, increased SG&A expenses mirrored increases in sales across our businesses, the impact of geographic expansion, and FX effects.

Now I would like to move on to a review of the business unit financial results starting with our blood-testing unit. Blood testing total revenues including product sales, Chiron share of the revenues from our joint business arrangement with Ortho, collaborative agreement revenues, and royalty and license fees increased to $117 million in the first quarter of 2004 from $93 million in the year ago period, a 27% increase. This increase was primarily due to higher product sales of Procleix over a year ago, as well as our increased revenues associated with increased profitability from our joint business arrangement with Ortho. Sales related to Procleix were $62 million in the first quarter of 2004 compared to $42 million for the first quarter of 2003. Driving Procleix growth was the West Nile Virus Assay available on an investigational use only basis in the United States, market share gains in the US for product sales of Procleix, and a continued penetration into several markets abroad.

Turning now to vaccine. In the first quarter of 2004, total product sales for the vaccines business were $86 million versus $68 million in the same period last year. We saw increases in pediatric and other vaccines and flu vaccines. These increases were partially offset by a decline in travel vaccines and Menjugate sale. Sales of pediatric and other vaccines were $50 million in the first quarter of 2004, up 66% from a year ago period. The increase was driven largely by tender sales of our pediatric vaccines, particularly polo and increased sales following our acquisition of PowderJect. Sales of flu vaccines were $8 million in the first quarter of 2004, up 81% from the year ago period. The increase was driven largely by additional sales of Fluvirin to the CDC in the United States in the first quarter of 2004. Sales of our travel vaccines were $23 million in the first quarter, down 10% from the year ago period. Our TBE vaccine was a principal driver as a portion of sales shifted from the first quarter 2004 to the fourth quarter 2003. The decrease was partially offset by sales of Arilvax and Dukoral, the travel vaccines we acquired with PowderJect.

Our first quarter Menjugate sales were $5 million, down 40% from the year ago period. This decrease was primarily driven by the timing of outbreaks and vaccination programs in various geographies. Gross profit for vaccines decreased to 33% from last year's gross margins of 49%.
Gross margin for the first quarter 2004 decreased as a result of the addition of PowderJect facilities, a portion of which were not in flu production for a significant part of the first quarter. In addition, the product mix was heavily influenced with the shift of the traditionally high margin TBE sales to the fourth quarter of 2003.

Moving to our third business, Biopharmaceuticals. Total biopharmaceuticals product revenues including Betaferon royalties were $140 million in the first quarter of 2004 up from $116 million over the year ago quarter, a 21% increase. We saw increases in TOBI and Proleukin sales, while sales of Betaseron including the royalty earned from the sale of Betaferon by Schering in Europe were essentially consistent. Our first quarter TOBI sales were $53 million, up 29% from the year ago period, due to increased patient demand, price increases, the benefit of foreign exchange rates, and wholesale ordering patterns. First quarter sales of Proleukin were $32 million up 23% from the year ago period, primarily due to price increases and wholesale ordering pattern. First quarter sales of Betaseron including the royalty earned from the sale of Betaferon by Schering in Europe were $44 million essentially consistent with the year ago period. There were increases primarily driven by increased patient demand, price increases, and the benefit of foreign exchange rates.

These increases were offset by a decline in product sales and Betaferon royalties pursuant to our agreement with Schering and wholesale ordering pattern. Gross margins in the biopharmaceutical segment decreased to 76% from last year’s margins of 79%. This decrease was primarily a result of the effect in the mix of the contractual change in the royalty rate related to the sale of Betaseron and the increased cost associated with the diluent syringe.

In summary, let me take a moment to highlight why Q1 has been a strong quarter for Chiron. Top-line revenue growth continues to fuel our business with excellent growth from each of our business units. While FX did affect our top-line, underlying growth was strong. We are executing on our ongoing investment agenda, which will continue to ramp up during the second quarter and which will provide long-term shareholder value creation.

Now, I’d like to take a minute to talk about what Howard called the contours of our financial seasonality. As we stated earlier, our quarter came in as expected and we are confident with our 2004 earnings per share guidance in the range of $1.80 to $1.90. Let me take you back to what we said on our year-end earnings call. Recall that PowderJect amplified the seasonality of Chiron’s earnings. Chiron is a stronger and different company because of the PowderJect acquisition. More than ever before, our earnings contribution is heavily weighted to the second half of the year and this is amplified by our investment agenda, which is front-loaded when compared against the same period in the previous year. While pro forma earnings per share for the second half of 2003 was approximately 60% of the total 2003 EPS, we expect the pro forma EPS for the second half of this year to be in a range of 75% to 80% of our total 2004 earnings per share. Because of the value creation milestones we have outlined for the year, we are pursuing multiple investment opportunities, which means ramping up our efforts in the first half of the year. For example, we are preparing for the start of the tifacogin trial and for the EU filing for daptomycin and we are advancing our geographic expansion efforts including the establishment of our US commercial operations for vaccines. Because of the fundamentals of our businesses remain strong and our revenue growth drivers remain vibrant, we are confident that we can deliver solid financial results while executing on our plans for future success. When looking at the second half of this year, investors should keep in mind that earnings contributions for the second half of 2003 were affected by charges related to PowderJect, such as the fair value of inventory adjustment and integration expenses, which will not recur in 2004. Overall, we believe that 2004 will be representative of the flow of earnings for Chiron and we stand by our previous guidance for the year. With that, I’ll turn the call back over to Martin for Q&A.
Martin Forrest, Vice President of Corporate Communications and Investor Relations

Thanks David. That concludes our prepared remarks. Now I'd like to open up the call for questions. We are joined for the Q&A session by Craig Wheeler, President of Biopharmaceuticals; Jack Goldstein, President of Blood Testing; John Lambert, President of Vaccine; Stephen Dilly, Senior Vice President of Biopharmaceuticals Development; and Bruce Scharschmidt, Vice President for Vaccine Scientific Affairs. In order to take all calls in the queue, please ask one question and then rejoin the queue for subsequent questions. And with that operator, we will move to our first question.
QUESTION AND ANSWER SECTION

Operator: At this time I would like to remind everyone in order to ask a question, please press “**” then the number “1” on your telephone keypad. We will pause for just a moment to compile the Q&A roster.

Your first question comes from Craig Parker with Lehman Brothers.

<Q - Craig Parker>: Hi good afternoon guys. Thanks for taking my question. I guess I have a broad strategic question and Howard won’t be surprised to hear this from me. If you compare your quarter for the last two years, it’s actually the lowest quarterly earnings you’ve had since the first quarter of ’02, but your revenue is up roughly 50% since the first quarter of 2002, but you did only $0.01 better on the bottom line. I guess I am just sort of struggling with what the strategy behind a business model that produces 50% more top line with roughly equivalent bottom-line?

<A - Howard Pien>: Well Craig that question is strategic indeed. I think the answer is pretty much in the consistent way we have articulated what it is that we want to do in creating value for the shareholders long-term. We understand that indeed our ability to grow EPS consistently has been an important part of the investment hypothesis for Chiron. We also know that there is no sustainability to our ability to grow EPS without replenishing the drivers for long-term growth. And we made, therefore, a very, very conscious decision that when the PowderJect acquisition provided us with additional octane in our engine for growth that we use some of the energy there. We put into a fairly aggressive investment agenda that included, amongst other things, the licensing opportunities and the growth of our own opportunities and the pipeline. We also are very conscious that there is an enhancement of the capability of the management team that will bring about much, much more enhanced level of confidence that we can execute and we can implement against our investment agenda. And as a result of that conviction and which of course requires some fortitude and courage on our part to say that, well we are going to now improve execution and implementation but that’s exactly what we have been doing in recruiting the levels of expertise and the range of experience of the people that have joined us in the last year or two. So there is a range of investment opportunities that indeed require some of the resources and the trick is how to do it with the right balance of delivering short-term growth versus delivering long-term prospects for continued growth. And then the covenant that we have held for ourselves and to our investors is that we will continue to enhance our investment opportunity, execution capability against that investment agenda, while consistently delivering bottom line results. So, thank you Craig for the opportunity for us to re-articulate our sense and conviction that we are on exactly the right path creating long-term values for shareholders.

<A>: We will take our next question.

Operator: Your next question comes from Jennifer Chao with RBC Capital Markets.

<Q - Jennifer Chao>: Hi, thanks for taking the question. My initial question here is on Fluvirin pricing for the ’04, ’05 flu season. I was wondering if you could give us a sense of the pricing flexibility, if there is a difference between the flexibility that you have in terms of pricing for the portion of Fluvirin sales that were negotiated, pre-Chiron PJP acquisition and then versus the incremental 12 million plus that you could join incremental capacity?

<A - John Lambert>: Jennifer, it’s John here. Yes, we’ve, as we’ve said to you before, we have already in place contracts with, with our distributors which cover pricing. And we with these things that hope we can share enough prices in the market price. We are very much tied with the agreements that we’ve got for the moment in terms of pricing, so there is not a great deal of flexibility to increase our prices above where they are at the moment.

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Jennifer Chao: So, can you maybe try and just give us a range of what the terms of the original agreement were? I am assuming there was some kind of a range on year-over-year increases to the pricing.

John Lambert: Haven't got the details here. The pricing is set out very clearly in the agreements that we have.

Jennifer Chao: Okay, thanks.

Operator: Your next question comes from Dennis Harp with Deutsche Bank.

Dennis Harp: Thanks for taking the question. Can you give us an update on the status of China's evaluation of the Procleix system, and what the opportunity is if they choose to go with the Procleix system?

Jack Goldstein: Okay, Dennis this is Jack. Let me try to answer that question. We've just about completed our registration trial in China and we will be filing our registration documents and the dossier will be going in next month in May. We expect that we will get licensure some time in the October or November timeframe to be free to sell product into the Chinese market. There are approximately 9 million units of blood that are screened in all of China, however, there are over 500 blood banks and so it is very, very dispersed. The opportunity that we see in China is really for 6 or 7 large blood banks in the 6 or 7 major cities like in Beijing or Shanghai and some of the other large cities. We don't expect there to be a tremendous uptake in China for NAT testing until we are closer to the Olympics in Beijing sometime in 2008. So, I think it will be incremental between now and then. I don't think that there is going to be a lot of business in the '04, '05, '06 timeframe but starting '07 or so I think we'll start to see an increase in revenues there.

Dennis Harp: Okay, thanks.

Operator: Your next question comes from May Kin Ho with Goldman Sachs.

May Kin Ho: Hi, can you talk a little bit more about the Ultrio Assay in terms of how it might affect the pricing of the NAT test that you have and also how it might also affect penetration, especially outside of the US?

Jack Goldstein: Okay this is Jack again. We are having great success with Ultrio and following our path that we set out for ourselves last year and the beginning of this year. Essentially, what we wanted to do was follow a strategy where we first convert as many as our current customers as we possibly can from duplex to Ultrio in Europe and particularly in Southern European countries, where hepatitis B is more important than in the Northern countries of Europe. So far we have converted approximately 8 centers, 6 major centers in Spain, Italy, and Portugal and 2 smaller centers in Germany, and we believe additional centers in Spain, Italy, and Portugal will follow. For example, we just signed up Madrid, obviously a huge center in the Spanish market, and they will convert over the next month or 2 to Ultrio. So we are on course to follow the forecast that we had for ourselves and what we wanted to do was move Ultrio into approximately 30% of our installed base in Europe. In Asia, where hepatitis B as you know is extremely important, we have several trials going on in our current customer base, Australia, New Zealand, Singapore, but many Asian countries such as Korea, where as was mentioned, we just got a contract with one of the major blood banks in Korea, one of the 3 major blood banks in Korea for 1/3 of the market. They generally require approval or FDA approval in the country of origin. So many Asian countries will not pick up Ultrio until it's approved by the FDA. Some are considering that, but we are certainly using it as a lever, and we are certainly using duplex in many countries as an effort to get into the country, establish ourselves, develop a relationship with the Red Cross or the blood centers in that country and then convert them to Ultrio at the appropriate time. In terms of pricing, as you know we haven't specifically disclosed price, but we are getting a premium in Europe consistent with what
we thought we were going to get, and I could only relate it to 2 Assays in duplex we are getting for a certain figure around the $10, $15 range, and so now we are getting a premium for that third portion of the triplex product.

Operator: Our next question comes from Thomas Wei with Piper Jaffray.

<Q - Thomas Wei>: Thanks, I had a question, one of the surprises in the P&L on a quarterly basis was the royalty in license fee line, it looks very low relative to the past few quarters that you've reported. What's going on there? Is it a timing issue, are there royalties that are coming offline, where is the shortfall on a sequential basis coming from?

<A - David Smith>: Hi Thomas, this is David. If you look at it on a sequential basis you're right, it is down. Driving that is Beta, the contractual reductions in the royalties we have a full quarter effect this time. And also license revenues. So, in the fourth quarter we had some license revenues that we recorded. We principally did not have license revenues in the first quarter, and as you probably understand, we will see the timing of licenses fluctuate from a quarter-to-quarter basis. We obviously work to monetize our substantive intellectual properties estate, but it's not always an even flow. In fact if you go back and would look back over the last couple of quarters last year, you saw some movement up and down. That's chiefly, those are chiefly the reasons why they are down on a sequential basis.

<Q - Thomas Wei>: And other than Betaseron, are there any other contracts where the terms are changing or any royalty streams that are discontinuing?

<A - David Smith>: Nothing of a material nature, we continue to see good growth with HCV and HIV both year-on-year and sequentially.

Operator: Your next question comes from Mark Augustine with Credit Suisse First Boston.

<Q - Mark Augustine>: Thanks very much, I did want to ask you about your volume expectations, manufacturing volume unit expectations for Fluvirin in 2004 and then get an update from you on the status of competitive bidding situations thus far into the '04 and '05 influenza line up? Thank you.

<A - John Lambert>: Hi Mark, it's John again. As you know, at the start of each season each of the manufacturers set off for their eggs wondering the yield is going to be each year. We are now getting fairly well through this focus phase at the moment and perhaps at the end of April, we can have a certain level of confidence of the yields that we can expect, and at the moment we have every confidence that we will reach the 50 million doses that we expect to put onto the market. What happens is most of this goes to the US. And as you also know that when you start the production like flu where you produce from eggs, you don't know what you are going to end up with. It's not like having a pound of powder, you know you are going to have 100,000 tablets. We feel pretty good at the moment with the 50 million figure is a very good indication for us.

<A>: Can I just clarify? Last year though 38 million came to the US market. This year is out of the 50 total we'll see probably around 48 will come to the US.


<Q - Mark Augustine>: Then as one follow-up, can you tell us if you are aware if your competitor has expanded capacity? They did not in 2003. Are you aware of what their plans are and what they are executing on in '04?

<A - John Lambert>: We are not aware of the competitors situation as discussed before, lot of our business, almost all our business in the US is secured through distributors.
<Q - Mark Augustine>: Right.

<A - John Lambert>: So, we're confident of selling the bulk of business into the predominantly US market.

<Q - Mark Augustine>: Thank you gentlemen.

Operator: Your next question comes from Geoffrey Porges with Sanford Bernstein.

<Q - Geoffrey Porges>: Thanks for taking my question. My questions are regulatory ones, specifically what are the timings of submission review and expected approval of the INDs or actually the NDAs should I say for West Nile Virus testing and also of the ANDA 5 indication for Fluvirin? Thanks.

<A>: Geoff, I'll take the West Nile Virus. The West Nile Virus pivotal clinical will be held this year starting this summer, and we expect to file the BLA either at the very end of the year or the first quarter of '05 for West Nile Virus.

<Q - Geoffrey Porges>: And what would the normal approval cycle be for something like that?

<A>: Historically it takes somewhere around 18 months. It's taken from 12 to 24 months in the past.

<Q - Geoffrey Porges>: Okay. Thanks.

<A>: I think the other question pertained to pediatric label for Fluvirin, currently as you know it is approved down to age 4. The vast majority of our current market is in older age groups, but from a public health standpoint, it will really be helpful at more than the current single supplier. We are exploring approaches to making the vaccine available to younger age groups. We are not in a position to offer specifics on timing at this point. We imagine that the approval would rest on demonstration of safety and immunogenicity in the appropriate age groups.

<Q - Geoffrey Porges>: So it's safe to say that we should not assume that you have that approval in time for the expanded use in the pediatric population this season?

<A>: As I said at this point we are not in a position to offer specifics on timing.

<Q - Geoffrey Porges>: Okay, thanks. Thanks a lot for answering the question.

Operator: Your next question comes from Eric Ende with Merrill Lynch.

<Q - Eric Ende>: Thank you. A quick question regarding pricing beyond the '04-'05 season. My understanding is that a lot of the contracts that were signed by PowderJect are actually 2 year contracts and I think that by the '05-'06 season that those contracts should be up. I was wondering number 1, if that's true? Number 2, if it's true, what percent would be up? And then number 3, what kind of pricing flexibility you'd have after the '04-'05 season?

<A - John Lambert>: It's John again. You are correct, the contracts do expire and they are up. This is part of the overall development strategy which John Vavricka is working on. As we plan our strategy going forward, we do expect that our overall distribution strategy will include wholesalers, but will also include a strategy without wholesalers. I think it's too early to determine what will actually happen to market pricing season beyond that.

<A>: If I could just add a word to this. You understand that there are 2 suppliers Eric in this market. You understand that year-on-year the amount of the vaccines that are going to be made is a
function of the production classes the capacity and reliability of the production classes. You understand therefore one's supplier's ability to supply up to certain quantity will have an impact on the amount of competitive pressure on price. You also understand that therefore if we enter into negotiation with the distributors, they will be weighing what the supply record of one manufacturer versus the other one is going to be and ultimately you understand I'm sure that these are pricing negotiations and do not end up being signals of any sort between two competitors in the market. Though that, its not that we don't have some ideas as to what the upside are or, you know, what the sales projection can be, but it's not a negotiation, and the competitive reasons prevent us from doing any kind of public speculation.

<Q – Eric Ende>: Okay thanks.

Operator: Your next question comes from Eric Schmidt with SG Cowen.

<Q – Eric Schmidt>: Good afternoon. A follow-up question on May Kin's question about Ultrio. Given you are expecting only about 30% penetration of the Assay into the installed EU based. First, could you explain why that's as slow as it is? I guess it's, because testing is only expected in endemic countries, but I guess I am having a tough time understanding why everyone wouldn't be adopting the test? And second, could you just comment on what the expected penetration is into the US of Ultrio?

<A – Jack Goldstein>: This is Jack. First of all in Europe, hepatitis B is not yet mandated, so, as a result of that we are faced with converting one blood center at a time. And so what we're seeing right now are the early adopters and like with most products like this, after the early adopters, there will be some mandates in certain countries, and I think the uptake will get faster and faster. So, it was obvious for us to move into countries like Italy, and Spain, Southern Europe where hepatitis B was endemic and where it was more of an issue then in northern Europe. Eventually however, we believe like other things that are happening in Europe that there will be a commonality of testing of all the countries in the EU. This I think is going to be amplified in the fourth quarter, mainly in the first quarter of '05, when we introduce TIGRIS into the EU and TIGRIS will support Ultrio and not duplex. So you'll have the premium automation supporting the premium, the agent product. So, I think that will increase our penetration rate very significantly in Europe and in Asia as well. In the US, we are expecting after the clinical trial. Under an IND, we are expecting some of the clinical trial participants to continue with hepatitis B testing under the IND and under a cost recovery mode. It won't be significant amount of dollars, but it will be great positioning in terms of getting laboratories associated with testing hepatitis B before the BLA is approved. When the BLA is approved, what usually happens in the United States is that certain centers will start testing. There is a competitive situation and we expect all of the centers in the United States to test for hepatitis B within 6 months or 8 months after the BLA is approved.

Operator: Again, I would like to remind everyone, in order to ask a question please press *** then the number "1" on your telephone keypad. Your next question comes from Jennifer Chao with RBC Capital Markets.

<Q – Jennifer Chao>: Okay, thanks for taking the question. I was wondering maybe, Howard or David if you could speak more to the anatomy of the operating expenses associated with PJP? In other words if you can give us a sense for example of when the SG&A figures really start to increase during the calendar year in front of efforts for Fluvirin and any specific activities going on, on the R&D line and the COGS lines for the rest of the year.

<A – David Smith>: Let me try at that Jennifer, this is David. The efforts from an SG&A perspective are ongoing on a year round basis. They are amplified by the work we are doing in the US with the expansion of the commercial operations, what John referred to, with John Vavricka taking on the responsibility for it here. So we continue to see efforts and we will continue to see efforts ongoing as it relates to that particular activity. Let me address the COGS side, COGS were
lower, a portion of which was the fact that while we are in production in the Liverpool facility, a portion of that facility was not in production during that time. It's on one of the downstream portions of the facility that is not utilized this early, so that's something that is considered idle and is obviously a period charge that hits in this P&L, but the facilities are functioning effectively and moving forward as John talked about. We remain very comfortable with what we are doing at our goal for 50 million doses. So as the streams for SG&A and for R&D are something we are, compared to the first half of the year over last year, they are definitely higher. This is something that when we look at our overall guidance then for the full year, that is why we give guidance off of 2003 versus giving it off of any particular period in time, you need to take a look at all of that. It's really a question of the amplification that occurs when the revenue is on the back side of the year, on the back half of the year you see more of the amplification on the expenses on the front side.

<Q - Jennifer Chao>: So David, I'd take it to mean then, due to the seasonality of the Fluvirin sales, that we should expect a similar level of proportion to product revenue on R&D and SG&A line as we are seeing currently, we wouldn't expect any significant, certainly no significant decreases, but are we thinking about that in the right way?

<A - David Smith>: Well I think if you think about it from, as a percentage of revenue, to use that, instead of percentage of sales use percentage of revenues. The expenses are higher as a percentage of revenue on the front half of the year because you don't have the revenue cover from Fluvirin. So if you looked proportionally on a first half, second half, I would expect that you would see the percentage of revenues for these lines would be lower compared to first half.

<Q - Jennifer Chao>: Okay, that's helpful, thanks.

Operator: Your next question comes from Elise Wang with Smith Barney.

<Q - Elise Wang>: Hi, I was wondering if you could just elaborate, you mentioned on a couple of products TOBI, Proleukin, and Betaseron price increases as well as some wholesaler buying patterns. If you can just elaborate what level of stocking there may have been in each of those products as well as what the price increases were?

<A>: Sure Elise. The price increases were about 5% for Proleukin and TOBI and from a wholesaler perspective it's when you compare it to a prior period it's really not a question of stocking that occurred as much in the first, in this year, but the fact that there was a much lower level of orders versus demand in the first quarter of last year. So, in effect what we are seeing is a little bit of topping up, but the inventory levels are very consistent with what our expectations are at this point of time. So, there wasn't what I will call significant wholesale stocking that occurred.

<Q - Elise Wang>: Okay that's helpful and then in regards to the margins that we are seeing in the biopharmaceutical side and the vaccines, can you talk about some of the patterns that we can expect going forward? Obviously, there is the seasonality factor on the vaccines with the flu coming in, the flu vaccine coming in later but can you talk little bit more of that how you would expect those margins to change during the course of the year?

<A>: Yeah the guidance we gave for the full year was at or slightly below for overall corporate margins when you take into consideration the fair value of inventory charge and not being there this year. And I think it's fair to say that margins on the front half of the year because of the fact that you've got some idle that are going on there probably lower than what you would see on the second half of the year which is consistent with it what we were talking about in terms of our earnings being back-end loaded as well. On the biopharma side of things, it's what you're seeing is as we talked about in the past, is the beta royalty change is having a downward effect on the margins and the fact that the diluent syringe we also foreshadowed would be more expensive.

<Q - Elise Wang>: Okay thank you very much.
Operator: Our next question comes from Dennis Harp with Deutsche Bank.

<Q - Dennis Harp>: Thanks for taking the follow-up. As you anticipate potentially the introduction of another product, namely Antegren for multiple sclerosis, what is Chiron's and Schering AG's response to that as you seek to fulfill your 20% EPS goal and there is a potential new entrant into the MS market?

<A - Craig Wheeler>: Dennis this is Craig Wheeler, thanks for the question. Obviously, we are watching this very closely. We haven't seen the data coming out from Antegren yet so we are not quite sure how, what one can say about single agent versus combination. However, we are thinking very carefully about that marketplace. We do anticipate that a new entrant into that marketplace will induce competition, it also will continue to expand the market. We expect it to be used in earlier patients and in new patients that are coming in. From our view we expect that because of different mechanisms there are, likely to be a combination use of this product in the marketplace. We continue to think that based upon the data we've seen and the data that we are generating that a high dose interferon is the right product to be combining within any combination therapies. I'll also remind you that they don't yet have long-term data on that therapy, so we'll expect as they come into the marketplace to see some of the adoption within longer term data, particularly if you are looking at a chronic therapy, the physicians will be looking at that data evolving as they begin to use the product, but we are thinking about it very carefully in terms of how we might combine it. We are looking at it as a potential expander of the market, but we are cognizant of the fact that we will be more competitive.

<Q - Dennis Harp>: Great, thank you very much.

Operator: Your next question comes from Geoffrey Porges with Sanford Bernstein.

<Q - Geoffrey Porges>: Hi, thanks for taking the follow-up. Could you just talk a little bit about patents, we've seen the effect of the Betaseron patent, first patent expiry here. I am wondering if you would give us a sense of when you expect the next step down to be in the Betaseron royalty rate? And secondly could you also comment what you anticipate will happen when the first HIV NAT patent expires in 2005 outside the US? Thanks.

<A - Craig Wheeler>: Hi, this is Craig and I'll take the beta question. The step down that you saw was a contractual step down in Betaseron. It was not an expiration of a patent. So it was strictly what you call in contractual negotiations a step down over time. I'll let David answer the HIV numbers.

<A - David Smith>: Geoffrey, the HIV patent outside the United States start to expire, I think it's in 2005. Those are not significant in terms of revenue generation at this point in terms of the royalty stream and we obviously have a long way to run before we see any issues until the patent expiry as it relates to HCV.

<Q - Geoffrey Porges>: Okay, thanks a lot.

<A>: Marcus, I think we have time for one more question please.

Operator: Yes sir. At this time your final question comes from Mark Augustine with Credit Suisse First Boston.

<Q - Mark Augustine>: Thanks for the follow-up. I did want to ask you if you could take a minute and tell us a bit more about your cancer growth factor kinase inhibitor program? Thank you.
4-1 development after the initial tolerability study, which is well underway now and we are getting good amounts of genetic data out of that. We are going to step into 2 studies in hematological malignancies. We are chasing the hematological malignancies largely because of the availability of biomarkers. So we are likely to be looking at refractory AML and myeloma, because you can follow the [Ed note: audio dips 57:06] of the molecule in bone marrow aspirates through the course of treatment. So, we see that as the next logical stage starting that towards the end of this year and giving some very clear understanding of the PKPD relationship with Chiron 258. So things are going very well at the moment and we will have more data to talk about soon.

<Q – Mark Augustine>: I appreciate. Can you talk what factor it hits?

<A>: I don't think we disclosed the whole profile. That's going to be published at ASCO in the next few months. So there will be a poster at ASOC on that.

<Q – Mark Augustine>: All right, thank you very much.

Operator: At this time, there are no further questions. Mr. Forrest, are there any closing remarks?

Martin Forrest, Vice President of Corporate Communications and Investor Relations

Yes there are and I will turn the call over to Howard for closing remarks.

Howard Pien, President and Chief Executive Officer

Thank you Martin. We conclude with the reiteration that it was a very good first quarter for us and we expect the rest of the year will be full of goal posts of our progress. We are executing on our 20 milestones for growth providing the foundation while maintaining a strong financial performance. As I mentioned before, we will be holding an analyst Investor Day on June 23. I encourage you to attend or to listen via webcast to this important event. We are committed to the consistent delivery of financial growth, just as we are also committed to long-term value creation by executing on our investment agenda. Thank you again for joining us this afternoon.

Operator: This concludes today's conference call. You may now disconnect.
Conference Call Transcript

CHIR - Chiron Analyst Day 2004

Event Date/Time: Jun. 23, 2004 / 7:00AM PT
Event Duration: N/A
Well, good morning, and thank you for joining us here today.
We're about ready to start, so it's my pleasure to welcome all of you to Chiron's Analyst Day Strategy into Action. I'd like to welcome everyone who's here in person and also all of those who are joining us on our Webcast this morning.

We are very, very excited to be here today to share with you our plans and our strategies for growing all three of our businesses. I'm Martin Forest (ph), head of the Corporate Communications Group at Chiron, and I'd just like to make a few comments about the agenda for the day.

The agenda for our program today is in the binder that you have on your table. And we have presentations that are about an hour in length. We're willing to do them by business unit. And each business unit presentation will be followed by a Q&A period of about 20 to 25 minutes.

We're going to begin with our BioPharma business, then we'll take a short break for lunch. We only have a half-an-hour for lunch and I'll have some boxed lunches brought in, so we'll have some time to maybe check some messages, grab lunch and come back. There we go. After lunch, we'll pick up with Blood Testing, and then we'll have a short break. And then we'll end the day with Vaccines and then closing remarks from our CFO, David Smith.

So, OK.

So let me call your attention to our forward-looking statements, we will be making them today. Please refer to our FCC filings, which detail how actual results may differ from expectations.

With that behind us, I'd now like to introduce our first speaker, our Chairman and CEO, Howard Pien, who will open the program with opening remarks. Thank you.

HOWARD PIEN - CHIRON CORPORATION - PRESIDENT AND CEO

Good morning and welcome.

We are enormously pleased that so many of you have come to this Current Analyst and Investor Day. We are pleased because we actually have terrific amount of information to impart.

And these presentations that we have are designed to answer some of the most frequently asked questions of Chiron's management.
And these questions typically take on one of two things. One is, will you do 20 percent EPS growth and how you can sustain it? And the other one is, how you can reassure us of the productivity of your BioPharmaceutical R&D? Will that investment pay off? And if so, why do you need the other two businesses? And if not, why don’t you get rid of the pharmaceutical business?

It is not incidentally those questions are the most frequently asked in more elegant ways than I just paraphrased. And I’m painfully aware of the way I just paraphrased them sounds a little bit like the question of (inaudible) start (ph) being (inaudible).

But it is not. It is not our aim today to convert those of you who are devoted skeptics or atheists with respect to the theology of Chiron. It is, however, our goal to share with you the exuberance of spirit and the intensity of the sense of purpose of the Chiron management team.

And for those of you who are less familiar with the Chiron theology, which we refer to as the Chiron business model, it is useful to give you a little bit of context. The context is as follows.

That Chiron is probably unique amongst the big biotech companies in that we have three viable businesses and four revenue streams.

Our Blood Testing business is the leading provider of products used by the blood banks to ensure the safety of blood supply in the U.S. and increasingly in many other parts of the world. And our Vaccines business is now the fifth largest worldwide and the second largest in the flu business. And our BioPharmaceutical business has a well established portfolio that the promises of big growth still lies ahead. Finally, there is the Royalty Revenue generating north of $200 million every year and is a potent reminder of the founding strategy of Chiron.

What is the founding strategy of Chiron? Well, it is that we would push the frontier of the end-emerging (ph) technology creating intellectual properties from the pioneering work that we have done on Hepatitis B, Hepatitis B & HAV (ph) cloning. And use the IP (ph) both to leverage the partnerships that will lead to products and businesses and use the royalty to fund our internal investments and acquisitions.

So it is no accident that Chiron has the three businesses that we have today, and indeed unifying all of the businesses is our single vision that we advance pioneering science to make the products that make a difference in people’s lives. And it is true then consistent (ph) exploitation all the intellectual products that has led to the three businesses plus the royalty stream and the (inaudible), and the persistency continue today.

And our confidence and our ability to augment shareholder’s value is fortified by our approaches that guide (ph) forward key aspects of our company, how we acquire, how we expand, how we invest, and how we vision (ph) ourselves. Let me tell you more about each of these four approaches.

The first approach, we fortify value creation, is through the acquisition of adjacent technologies that compliment our existing strengths. You can see this strategy in the deals that we have done on our agreements with NEXTAR, NOVARTIS, are building and our emerging pulmonary franchise The agreement with CUBIST (ph) adds another product to our anti-infected (ph) portfolio that leverage our existing sales and marketing infrastructure. And our agreement with XOMA offers acute (ph) platform to harvest the potential of the oncology franchise from the multitude of targets that we have from our past research investment.

And this approach is most vividly evident in our Blood Testing business. The most recent example are the agreement with IDI and with ZymeQuest, which you’ll hear a lot more in Jack Goldstein’s (ph) presentation on Blood Testing. But I want to just emphasize the contours (ph) of our thinking.

We built an amino acid (ph) business with a move into the nucleic acid testing technology, which would go into an 80 percent market share leadership position in the U.S. We’re continuing to expand our business through the in-licensing of technology with these kind of agreements, which will extend Chiron’s leadership position from the blood testing field into the broad safety arena.

An (inaudible) as intimate group of customers, we understand their most pressing needs and we have identified the most promising technologies that will lead (ph) them. But more explicitly, Chiron’s leadership position in blood testing is well recognized by the holders of the new technology such as IDI and ZymeQuest. They recognize that we can create value for this small wonder of intimate customers, and in turn, to both their and our shareholders.

And on this point, you can certainly quiz Doug Claiborne (ph), the CEO of ZymeQuest, who will join Jack (ph) in his section on his perspective.

A second approach for strategic growth is the leveraging of our platforms, our products, our franchises, and our skills to new geographies. This allows us to create new revenue streams and new venues, but with significantly reduced investments and risks.

As you can see from this map, Chiron is well positioned to take advantage of new opportunities in the global market. As a company, we have nearly global presence to one or more of our three businesses all over the world.

The most, the most prominent example of this approach to value fortification is, of course, the acquisition of PowderJect. In Q4, Chiron’s vaccines business was rich in scientific heritage, was almost exclusively a European organization in commercial terms (ph).
The acquisition of PowderJect has made us a player in the U.S. market and has also provided us with the capability that will be essential for us to extend our vaccine product portfolio including our laryngitis and flu cell culture vaccines.

Much of the success of our ability to exploit the value of the PowderJect acquisition lies in the critical art of making flu vaccines from eggs (ph). That ability was amply (ph) evident in the fact (ph) that two months after the consummation of the deal under the extraordinarily capable leadership of John Landberg (ph), Chiron plus PowderJect has succeeded in supplying 38 million doses to the U.S. market, an astounding 40 percent increase over the previous year.

Now for those of you who have followed Chiron, the changing dynamics of the U.S. flu market should now be familiar. And you'll hear more about this in John Rovigas (ph) presentation. Suffice it to say for now that the growth trajectory of the U.S. flu market is vivid and quite probably spectacular.

A second example of the way that we can leverage value platforms in new geographies is our agreement with Cubist for Daptomycin. We here license the ex-U.S. rights for Daptomycin last fall, we have just announced an update on our regulatory strategy for the European Union, which you'll hear more about in Craig Wheeler's presentation. Suffice it to say for now, that we can exploit the value of Daptomycin with minimum incremental investment and significant expertise.

The third way we fortify value creation is how we fulfill our investment agenda, mainly, that we know how to take calculated risks with a small number of success (ph). We recognize, as you do, that the risks of delivering true innovation can be high, but we pick investments whose rewards are at least commensurate with the risks.

One example is the vaccines. We're developing vaccines for all five serotypes (ph) of meningococcal laryngitis including Men C. And those of you who are familiar with the (inaudible) you will know that Men B is the most challenging of the serotypes (ph) because of the composition of its outer membrane recital (ph). And to be successful, Chiron has pioneered an approach that is based on a retrospective analysis of a subgroup of patients. But as Jenna Wilcox (ph) as Deputy Commissioner of the FDA, has said, a retrospective analysis of a soundly grounded and underlying biology informs a regulatory decision. And Tifacogin is a natural - it's the analog (ph) of a natural bodily substance, which have amply demonstrated its anticoagulation and anti-inflammatory properties. And you'll hear more about this from Steven Dooley (ph).

Chiron's fourth approach to enhancing value creation is a consistent focus on implementation. That's why we have given you a scoreboard against which you can measure us. The 20 milestones in both (ph) this year that is how we measure our progress in creating value.

They are a mix of pipeline progresses, regulatory filings, and regulatory and commercial advances, none of which ship shops (ph), a few free (ph) pointers (ph). And underpinning the first 19 of these goals is the financial objective of pro forma. EPS of $1.80 to $1.90, which I am pleased to reaffirm is our guidance for this year.

These are, in our view, goals worthy of a vibrant organization founded on an uplifting vision. In other words, while we flourish (ph) our heritage as wide (ph) use (ph) climb (ph) towards the infamous horizon, Chiron is now wide (ph) use (ph) try (ph) in formation (ph).

So, the trinity that defines Chiron's vision and the detection prevention in treatment is now supplemented by the trinity that defines Chiron's stage in our organizational work. We have a clear vision of what we stand for. We have a clear set of drivers for growth. We have a clear understanding on how we can augment value creation with those approaches that will lead to figure payoffs and the incremental investments that we're making.

So, we have a second thoughts about our strategic direction. Instead, there is only resolve in turning strategy into action, and action into results.

Thank you very much and welcome.

The way this is going to work is that each one of the presidents of the three businesses will lead each one of the three slots (ph) of the presentations. And at the end, there will be a Q&A session, and David Smith, our CFO, myself will come back on stage and join the panel and answer your questions.

So without further ado, Craig, all yours.
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CRAIG WHEELER - CHIRON CORPORATION -
PRESIDENT OF CHIRON BIOPHARMACEUTICALS

Thank you, Howard.

So I was - I'm very pleased to be here to be able to present you on the BioPharmaceutical Strategy. And I was trying to think about how to build on the (inaudible) analogy, but I couldn't quite get there. So I'm going to try to give you an overview of the (inaudible) we'll be taking in biopharmaceuticals.

You heard Howard describe some of the elements of our strategy around looking how to acquire adjacent technologies and thinking about how to leverage our geographies. Thinking about how and where to take appropriate risks in the business. And then, finally, focus on execution.

And I think you'll find over the next 60 minutes that I'll talk to you about that we are already living that strategy in biopharmaceuticals.

Today I'm going to be joined on the stage here by Dr. Steven Billy (ph), our Senior Vice President for Development and Dr. Ken Baser (ph), Senior Vice President of Research to go through what our portfolio is and really try to give you some insights. And we will be talking about some new data that we haven't exposed before. We'll try to go into more depth on our programs.

But before I actually go into the future, so permit me, I just want to take a slight step back into the past and to talk about what we've been doing in BioPharmaceutical. I've been at Chiron about three years now and I have brought in by Sean Lansing (ph). I think I was given the same charter as the other presidents of the businesses when Sean (ph) brought us in. How do we reinvent Chiron's businesses for the next generation, for the next stage of our evolution? And we had been focusing absolutely over the last three years on making sure that we can prepare this business for the future.

We started off in the commercial and the PDMO (ph) manufacturing organizations first, trying to enhance our capabilities, (inaudible) upgrade our operations in Europe and make sure we had sound fundamentals to be able to bring the products that we had in our pipeline as well as maximize the value of the existing products in place in the division.

More recently, we have taken on research and development. In development, we did a series of things. You probably have seen it if you followed the company through our press releases.

First, we got out of unproductive development programs. We got out of UL-2 HAV. We got out of Engine (ph), we got out of HAV (ph) immunotherapy (ph). And we followed that with having worked through the replace (ph) of later stage (ph) pipeline, to bring (inaudible) revenue that can really fund that launch (inaudible).

And you've seen that in our deals with CUBIST for daptomycin and CUBIST (ph) CFI (ph) with Novartis. As well as putting (inaudible) back in the clinical and (inaudible) pneumonia.

And then finally we have reinvested in our existing products to make sure we can maximize the life of those products both with IL-2 and the antibody combination programs and with TOBI in its new delivery form. So we're very (inaudible) to make sure we can move (ph) all this pipeline.

Last year we then moved onto the final stage, which is research. And we took a very hard look at research. And research is a little bit different story. In research and this is what you'd expect for a company of innovation, we took a hard look at research and we found that we had great clients in 14 different problematic (ph) areas. We're in obesity, diabetes, cardiovascular, antibacterial, oncology, antiviral. So we had good clients everywhere, but we were not as competitive trends (ph) anywhere.

So we took our approach or philosophy and said, we are going to play to win. And we haven't cut (ph) our research investment a dime (ph), but we're now focused in three areas - (inaudible), antibodies, and HAV.

And we've also taken our resources and reallocated them dramatically. And so we've taken a lot of resources and really created a world class translational (ph) medicine group and Ken, in his presentation, will talk about those aspects of the business today.

Now a key point to restructuring or revitalizing any business is getting the right leadership in place. And I can tell you that with Ken and Steven here, we have world class leadership in place in our R&D organization.

Steven corrected me over dinner last night on 11, he's actually been a part of 13 approved programs over the course of his career. Now I think he would hold that above against anybody in development as really an astounding achievement. But Ken wasn't to be outdone. So Ken has now been a part of the programs putting 17 compounds from research into development.

But it's not just Ken and Steven that have changed, if you looked at our research and development organization, we've restructured and reallocated resources and I showed you the changes in the previous slide. We've also recruited really (ph) world class capabilities both in the research and in the clinical organization. But just as importantly, we've been able to make that transformation. This was a very difficult transformation to make while retaining the best of what Chiron has to offer in scientific expertise.

So we've really created a broad new structure in R&D that has taken the scientists and clinicians that we have and augmented
them with world class capabilities. So we're an exciting trend (ph) in the research and development organization now.

Our business today can be thought of in two categories. One is, infectious disease and pulmonary, and the other is oncology. In our Infectious Disease portfolio, it is really built around TOBI and (inaudible) Tobramycin (ph), which developed a strong and still growing therapy for cystic fibrosis. In fact, this is the leading therapy for pseudomonas (ph) infection and cystic fibrosis. It's a tremendous product and it's really a pleasure to sell this product in the marketplace.

We are hoping to grow this business by 2008 to a business of between 400 and $550 million. That business first will be built around the investment in the next generation TOBI product, what we call TBI (ph) that drive harder and (inaudible) will significantly reduce the treatment version for all cystic fibrosis patients and it's a very exciting program.

Behind that, we have cyclosporine solution for inhalation CFI, which we'll be filing this year. CFI, and you'll see the data today, offers a tremendous opportunity that's a life-saving therapy for lung transplant outpatients worldwide.

Cubicin, which has been launched by CUBIST here in the U.S. this year. It is a fantastic new antibiotic that we've leveraged as the strength that we have in our European organization where we are ideally suited to be able to bring that product to the marketplace.

And then finally behind that, we have Tifacogin (inaudible). And this product is probably - that I am most excited about. This is a program that is going after, as Howard said, an absolute unmet need in a patient population of 300,000 patients annually in the U.S. alone. And that patient population today faces a 30 percent mortality rate. So if we're right about (inaudible) this is a fantastic product for the division.

The second leg of our products is our oncology business, and that's really built around Proleukin IL-2. And Proleukin today still is the only long-term hope for patients with metastatic melanoma (ph), and renal forcarninoma (ph).

The other pill that we've had is in Europe, our product, Cardioxane, which is a cardioprotectant for anthracyclines therapy, which has been a nice growing product for us in the European market.

Our near-term opportunities in oncology, and we're trying to grow that business between 250 and $350 million by 2008, really is - has in extending Proleukin and in the new portfolio that we'll describe here today.

I look at 2008 not only in terms of revenue that we can drive, but really in putting the platform in place, it gives us the ability to really capitalize on what's really becoming a thrilling (ph) antibody

and (inaudible) portfolio that's coming up behind in our research and development organization.

On the slide here, we talk about further Proleukin (inaudible). You should think about this as taking Proleukin, which is really a high-dose therapy, which is well known in practicing (inaudible) opportunities but also for the - some of the toxicities that are associated with this, and reposition it in a much broader patient population in lower doses as a combination therapy. First, in combination with antibodies, antibodies that have action through ADCC (inaudible) antibodies (inaudible) cellular (ph) toxicities (ph). Antibodies like rituxan (ph), urbutax (ph), campass (ph). And second, in combination with newer agents or most targeted agents like supreme (ph) for Maxum, like Avastin (ph), and others. And we're really looking at creating a whole new wave looking at Proleukin and building that. We'll describe those trials to you here today as well.

What's great (ph) on here is the stuff that's actually beyond OA258 (ph) and Anti-CD 40, these programs are the vanguard of what is a very deep pipeline that we have been researching antibodies (inaudible). And we'll talk about some of the early results in both of those programs today.

One of the critical strengths of Chiron BioPharmaceuticals is our European business. And I bring this up because it's kind of - we are an unusual company for a company of Chiron's scale very early on recognized the real potential of the European market as a critical business pillar (ph) for us. And we invested very early (ph) for the product. We have, in the last few years, we have reinvested daily (ph), we have acquired some of our distributors, we've structured invested (ph) capabilities. We now have a direct field force in 11 countries - direct operations in 11 countries in Europe. We have fully operational development capabilities so we have our own clinical trials in Europe. We also have a clinical (inaudible) as our safety surveillance capability necessary not only for our own program, there's a lot (ph) existing products, but all the programs that we'll be launching.

It's these investments that really give us the confidence to be able to say that we are a global business of BioPharmaceuticals, and it's these European capabilities which were really a key factor in our ability to license in Cubist (ph) Daptomycin from Cubist (ph).

Now Daptomycin is - will be filed by the end of this year in Europe for skin and soft tissue infection. It is the right drug at the right time for Europe. It's an interesting drug. Daptomycin - and some of you, I know, follow Cubist (ph), because I've gotten a lot of questions about their business in the last few months as well, but it's a very interesting drug. It is a first in class compound, it's a first in class cyclic (ph) leupeptide drug, and this brings some interesting characteristics.

It has low (ph) sensitivity to the classics problem of (inaudible). It has no identified mechanism of the (inaudible). And it has activity
against all GRAM positives - in clinically formed (ph) GRAM positive bacteria including methadone (ph) existence (ph) Staph.

These attributes really make this a very attractive clinical option for physicians. It's not - it's not the mechanisms interfere - selectively interfere with the (inaudible) of bacterial cell walls. And this makes it a very quickly a bacterial (inaudible) as opposed to bacterial static (ph) compound verses (inaudible). So it really eradicates the infection.

It also has the unique characteristics that in this mechanism of action, it doesn't light (ph) the cell wall, which means it doesn't - the bacterial contents do not spill into the bloodstream and the toxins and bacteria do not further complicate the (inaudible) into the patient.

On the dosing side, this compound is dosed once a day, which actually believes (ph) to be an ideal dosing regimen for the outpatient setting in patients don't have to come back multiple times. And for the inpatient setting, where you can put it on board (ph), but it doesn't have such a long half-life that you don't actually need to change antibiotics and the clinicians don't have problems with that. So it's really got a great dosing pattern as well.

Cubist's early results of this compound from our perspective have been very encouraging. They have seen rapid uptake on hospital formulary. But just as important, they have seen that compound taken at inpatients and outpatients and on label and off label. We anticipate we'll see (inaudible) same characteristics in the European market.

I talked about why it's the right drug, but why is it the right time? Europe has a severe issue with resistance emerging, and this is a real-time issue today. I'll pick on the UK on the chart on the right as just an example. Forty-two percent of (inaudible) are in UK hospitals (inaudible) are methadone (ph) resistant, 42 percent. The crisis is so big in the UK that in all of their critical hospitals have identified infectious disease experts to be responsible for managing their resistance problem in the hospitals.

You can see by the numbers in the other markets in Europe, the UK is not alone. All of these numbers are growing. This is a - this is an issue that's here today and it will only get worse. Demand is in place and Cubicin is really the drug that is - the drug that's going to be able to fill that demand.

We're already beginning to see pressures for us to demand (ph) patients to begin to get the drug into the European market. So there really is a built up demand in the marketplace today. We view this opportunity as a 100 or $200 million opportunity in Europe alone.

We announced recently our decision to go for a centralized filing (inaudible) this is our regulatory strategy. In Europe we'll be able to go for a slightly broader indication than we have here - the drug has here in the U.S. because of the way the class (inaudible) in Europe. So we'll going for skin and soft tissue as opposed to skin and skin structure, which gives us a broader detailing (ph) application out of the box.

We'll file this year. We anticipate that we will be getting approval sometime in the first half of '06. We will file the supplemental data from the ongoing endocarditis/bacteremia trial, which Cubist has ongoing now. We anticipate filing that in '06 and having the full compliment on the market in '07. We look at this as a tremendous opportunity for the business.

It's not just daptomycin that should create major opportunity for us. Our execution capability is showing us off across our entire portfolio. This year on this chart are our internal milestones that we have our development portfolio.

At this point in the year, we have already achieved approximately two-thirds of our internal development milestones, and we see full opportunities to hit all the milestones that we have on this chart here.

So to describe some of the successes we're having here in the (inaudible) portfolio, let me introduce Steven Dooley (ph), who's going to take us through this (inaudible) portfolio. Thanks.

STEVEN DOOLEY - CHIRON CORPORATION

Thanks, Craig. It's really good to be here.

We're having a really exciting year in BioPharma, particularly in development. We've already made significant progress towards our goal of re-energizing, revitalizing the BioPharma pipeline. And we're well on track to deliver these very significant milestones to major regulatory submissions this year, one of them, cyclosporine solution for inhalation in lung transplantation.

I'm going to take you through the data that's led us to that. Daptomycin, which you've heard about from Craig already. Three major feature (inaudible) Tidagorin's already in phase three, the Pearl (ph) Study with Proleukin, which I'll describe in a minute is already underway. And finally, the anti-CD 40 IND to get into the clinic. And also completing - there's one study with tobramycin powder for inhalation, otherwise known TOBI, CHIR258, the initial phase-one study, and the Proleukin with rituximab low grade NHL study that we described (inaudible). As you can see, we're well on track to make significant progress.

I'd like to start off by talking about Proleukin. One of the big questions coming into (inaudible) BioPharma was, what could we do to really turn around Proleukin? It's an excellent drug, it has a lot of potential, we believe it is grossly underleveraged right now.

The most memorable feature, if you talk to practicing hematologists or oncologists about Proleukin is this picture. These
three patients are long-term survivors of metastatic cancer. The two women you see here are 13 years or 14 years out from the diagnosis of metastatic renal (ph) cancer. They're clear disease that happened (inaudible) high dose Proleukin. The gentleman you see here is long-term survivor of metastatic malignant melanoma. These things don't come when we (inaudible) oncology. This is one of the unique features of Proleukin.

That in itself is a double-edged sword. People remember Proleukin, people remember the high dose drugs, and they've used it or they've received it what they were (inaudible) if they (inaudible) top 50 (ph) profile has to be gone through with vascular leak (ph) syndrome, admission to intensive care unit, it is a very intensive intervention.

What we're trying to do is actually look at other features of the IL-2 molecule. And an observation that we've made is something (ph) a different approach. If an IL-2 is given substantially over a number of weeks, and I'll describe the schedule in a moment, the potent (ph) will increase in a number of (inaudible) NK (ph) cells, the natural killer cells (ph).

Now that's interesting because natural killer cells (ph) are implicated in the mechanism of action of (inaudible) antibodies (inaudible), cancer. The mechanism we're looking at is by expanding the NK (ph) cell clone, the NK (ph) cells are more available than to bind (ph) to monoclonal antibodies than the tumor cell and lead (ph) onto tumor cells there.

We decided that the best place to investigate this phenomenon and the (inaudible) this phenomenon was actually in combination with Rituxan (ph), but as I said, we're going to go on to a broader program (inaudible).

The reason for Rituxan (ph) was it's probably (inaudible) with the most clear cut ABC C-related (ph) mechanism.

So the first study that we conducted was an open label single ARM Phase II study of the combination of low-dose subcutaneous Proleukin with the standard (inaudible) Rituxan (ph). And what's all important here is the population we studied.

This is a population of CD20 positive B cell non-Hodgkin's in Pharma (ph) patients, low grade and (inaudible) but who become (inaudible) Rituxan (ph) treatment. All the patients in this study had either progressed through or failed to respond to either Rituxan (ph) or ARMs versions (ph) of IDC20 (ph) antibodies such as devomil (ph) and (inaudible) within the previous six months.

So the reason we go into this population was if we saw any kind of efficacy signal (ph) it would be interesting and worth following up.

The regimen is very different from the high dose Proleukin regimen. It's an outpatient regimen. We start off with the Rituxan (ph) standard week one dose, 375 milligrams (inaudible). And then on week two, dosing (ph) Rituxan (ph) on Monday, Wednesday, and Friday they get the three doses of 14 MIUs (ph) of Proleukin.

Now, the reason for the three times a week schedule is we've done some fairly intensive clinical pharmacologists, we've discovered that intermittent dosing of IL-2 actually gives us a better kick in terms of end (ph) case cell numbers (ph) but continuous dosing. And we're actually working on the mechanism of that right now, but that's the rational for this regimen. Overlapping the 14 MIUs (ph) and 375 milligrams of (inaudible) Rituxan (ph) throughout (ph) week five, and then the last four weeks Proleukin alone.

So the first (inaudible) we've now completed our enrollment of 50 patients into this study. And the first 26 subjects have moved out to week 16 and is valuable (ph) to respond. We've got five responses and that in itself is interesting in the population of heavily poor treated (inaudible) and four additional patients with fairly long-term stable disease. Four of the responses are pretty high quality, three of them are quite long-lasting, including one incomplete (ph) response.

So here we have a - approaching 20 percent response rate in a highly pretreated refractory population to Rituxan (ph), so that of itself says, OK, we're adding something to the (inaudible) antibody of IL-2.

The next step, of course, is to try and characterize who is responding, what's different about these patients? There's absolutely nothing about the demographics or the treatment history that we could see, so we looked - we view that translational (inaudible) approach to really look is there a biology (ph) (inaudible) for why some patients are responding and not others.

Now I'd like - I'd like here to take you in a little more detail into the mechanisms of action of end (ph) case cells and IL-2.

End (ph) case cells bind to the monoclonal antibody, which binds to a tumor cell. Viral (ph) (inaudible) CD16 or Fc (ph) Gamma R3A (ph). It's been quite a body (ph) of work over recent years which actually studied very (inaudible) receptor. And particularly, the immunoassays (ph) of position 158 on this (inaudible).

And then a substitution sometime happens where either people have valine (ph) (inaudible) or they have female ailing (ph) female ailing (ph), which I have to say is FS (ph) because I can't say female ailing (ph) twice in a hurry. That influences (inaudible) antibodies.

So people with the VV variant (ph) have a very tight binding and that's implicated in a very effective ADCC or antibody depending cellular (ph) toxicity (inaudible). People with FS (ph) variant have a low infinity (ph) binding and tend to have low responses to monoclonal antibodies that work (ph) through ADCC (ph).
And what we see here is the SS (ph) group, that low infinity variant group. all of the patients that had shrinkage and tumor volume carry the SS (ph) variant (ph). The patients that showed an increased in tumor volume were a mixed bag.

So what that tells us is the patient - some patients become resistance to Rituxan (ph) therapy for a variety of reasons probably unrelated to ADCC (ph). But the group of patients with the low infinity variant (ph) had a high probability of benefiting from IL-2.

The nice thing about this if we follow it up is potentially a clinical test trial to benefit. If it doesn’t require a tumor biopsy, it’s a peripheral blood monosite (ph) test. It requires sampling blood and it can be done at the central lab. So we see this as a very trackable way of identifying patients out there in real life clinical practice.

The other way with following this up is to say, can we move now from a "if you like the boutique (ph) indication (ph), which is highly pretreated Rituxan (ph) or refractory (ph) patient, to Rituxan (ph) naive patients. And then can we move from there to use with other lung (inaudible) antibody.

So we’ve now initiated the study called the “Pearl” (ph) Study. It’s a definitive controlled randomized study of IL-2 plus Rituxan (ph), versus Rituxan (ph) alone in Rituxan (ph) naïve patients with non-Hodgkin’s lymphoma. And it’s an extremely translational mix in heavy study. We’re doing team profiling from tumor biopsies where in as many patients (inaudible) getting pre- and post-treatment tumor (inaudible) the gene expression profiling. We’re looking at the position 158 polymosigen (ph). We’re also looking at some other polymosigen (ph) in the (inaudible) and we’re looking at BCL2 (ph).

So by the end of this study, we believe we will have shown where the benefit of IL-2 partitions in a naïve population, and that will inform how to attack the other antibodies that work for RDCC (ph).

Now I started this off by talking about how do we breathe, if you like, new life into a somewhat aging act, which is - which is IL-2. And so that my (inaudible) for this is to CHER a project, there are some analogies there.

CHER is our acronym for the four monoclonal antibodies we’re going to go after. First, which are campa (ph) herceptive (ph), (inaudible) and Rituxan (ph) because those are the ones from the market we believe have the most clear argument that there’s an ADCC (ph) component to the mechanism. So don’t forget. CHER (ph), she’s not dead yet, all right?

The other place we’re going with Proluikin, equally important if not more important is the combination with other (ph) (inaudible) group therapy. This graph is taken actually from the Web site of Maxum (ph) Pharmaceuticals. And we’ve been talking a lot to them.
over recent weeks and months about the (inaudible) Study and another study in malignant melanoma.

The story here is it's a group of patients who've received a combination of their drug, selthine (ph), which is a form of histamine, plus a low-dose subcutaneous IL-2 during remission from first treatment of AML.

And what they've shown is over a long term study, this is months from (inaudible), an increase in (inaudible) leukemia through (ph) survival. That's very important because this will play out we believe into a benefit in terms of overall survival.

And the comparison with selthine (ph) plus IL-2, first with standard of care, which in this case is watch and wait. And what we're seeing in about five years is approximately doubling of the patients in leukemia-free survival. That's an important result on that point still hold a new life cycle that we're calling (ph) Proluken Two. Plus is the short hand of looking at combinations of Proluken with other targeted therapies. The obvious ones are selthine (ph), then there's the red (inaudible) story, there's Avastin (ph), and a bunch of others, then small molecules coming through, which have related mechanisms we believe we can combine with the ILC mechanism.

Having talked about IL-2, I'd like to now change here and talk about a very different subject which is TPI. And this is our, again, our life cycle play (ph) which is part of our commitment with cystic fibrosis and trying to come up with a definitive delivery to (inaudible) for TOBI.

Kids with cystic fibrosis who get pseudomonal (ph) lung infection can receive TOBI now by nebulizer (ph) dosing (ph). It's a very effective treatment. It preserves lung function. The problem is that it requires nebulization (ph). The nebulizer (ph) that heathers (ph) the child through the nebulizer (ph) twice a day for about 15 minutes of nebulization (ph) to get an effective dose of tobramycin into the lung.

What we're trying to do is reduce the treatment as much as we can to turn this more into something an allergist to treating asthma. So with a portable device that a kid could carry with them, can then take about two minutes a day in terms of treatment burden (ph).

We just completed our Phase I assessment in cystic fibrosis patients of our TPI (ph) device. And there's two points on this slide, one of them is the device, not approximately that long and approximately wide, fits in the top pocket. That is a simple device that we're giving TPI (ph), the other picture is a lot (ph) more (inaudible). This is a micrograph of the formulation of TPI (ph).

The way that we give tobramycin, such to be given in dry powder inhalers, is working (inaudible) to come up with this microsphere (ph) formulation where the microsphere (ph) is just the right size to fit the appropriate slight (ph) characteristics to get down the airway for inhalation. And we've done a lot of work looking at airway flow rates and how well a child has to be able to breathe to be able to inhale this drug.

And the good news is we found a formulation that gives us predictable pharmacokinetics, is well tolerated. We were worried about a significant amount of dry powder into a cystic fibrosis lung which causes coughing. We've not seen that as a problem. And we have seen very reliable device functions, and we've taken the decision now to move forward into Phase III.

Just because I can't resist showing really nice data, this is the pharmacokinetics from our Alis One (ph) Study. Increasing doses of TPI (ph) given in the clinical trial device compared against the 300 milligram in nebulized (ph) doses of TOBI. What you can see here is Phase III dose, 112 milligrams, of (inaudible) TPI (ph) gives a very similar pharmacokinetics profile with approximately a third less dose - one-third of the dose administered. The other thing is you can see the pharmacokinetics (ph) can make the dose scalable across the doses, very predictable, and the elimination is exactly what we'd expect.

So this is the right (inaudible) Phase I study, absolutely no surprises. The device behaved, the drug behaved good and great shape to move forward.

We decided to move forward based on the following facts. The results of Phase II, good tolerability. The toxicology studies with dry powder in dogs and rats look very clean. We've now got (ph) very close to the final presentation device, and we've got FDA buying (ph) discussing straight into definitive studies.

There will be two studies which will start in Phase III. One of them is an efficacy study in totally naive patients, which will be based on a FCZ1 (ph) endpoint (ph). So we'll show preservation of lung function. It would be one cycle of TPI (ph) versus placebo, followed by two further cycles where everyone gets a TPI (ph). So the (inaudible) comparison will be approximately one. And the biggest study, a comparison of TPI (ph) dose is totally for safety and tolerability in all (inaudible).

We decided to wait until we have final root (ph) material, that's final manufacturing root material, and absolutely final device available before we start Phase III. This is borne (ph) a better (ph) experience of the last thing we want to do in a bridging study after we've got our efficacy in the bag. So we're waiting until we're good and ready, which we believe will be at the very beginning of next year, i.e. 2005, leading the worldwide registration filing in 2007.

But we see this as a significant step forward in the TOBI franchise treatment of cystic fibrosis and promises to reduce treatment burden, thereby increasing compliance in the patients already getting TOBI and allowing us access to new patients as well.
Another program that really plays to our strength in inhaled therapy and I imagine strength in lung disease is TGRKIS (inaudible) Solution for inhalation. We did license worldwide rights the development and commercialization of this drug from Novartis, from the University of Pittsburgh. It's a - it's a good fit with our current expertise partly because the (inaudible) kids with cystic fibrosis is often lung transplantation. We already know these dos, we are already talking to this community.

The indication (ph) for CSI (ph) is prevention of lung transplant rejection. And we have more than 100 patients with the data and what's quite a small outside overall population. There are about 14 to 1,500 lung transplants performed around the world. Now that is far (inaudible) that is far fewer than what needs to be, for instance, kidney or heart or even liver these days. One of the reasons for that is they've historically done so badly.

This is a slide that I'm afraid is a bit of an eye chart (ph) if you're sitting at the back, of the survival from after lung transplants compared to survival after other solid organ transplants. The different colors are the lines on the left hand side of the chart show the different diagnosis that led to lung transplantation in the first place.

And the first conclusion from this is, they all do pretty much the same. It really doesn't matter if it was right. The air (ph) for cystic fibrosis or emphysema, the outlook is pretty bleak. Fifty percent of patients who receive lung transplants are dead within two-and-a-half years. That's a very poor outcome compared to the other solid organ transplants where at 10 years, more than 50 percent is still alive. We think we know why this is, and we believe we have a - we have something for it.

At any stage in many lung transplant patients, the majority, it was (inaudible) broncholitis (ph) of the (inaudible). This is a terminal scaring of the lung that occurs from inside the airway. It's like rejection from the luminal side, and that scaring obliterates the airway and prevents the passage of air and therefore, efficient respiration.

The problem is the current immunosuppressive therapy given systemically is dose limited by toxicity. And you can't get enough into the luminal space to prevent OD (ph). And this is an incredibly simple premise, which is giving cyclosporine by nebulization directly into the (inaudible) cavity to increase the local concentration and prevent lung transplant rejection by the OB (ph) mechanism.

The good news is we already have the clinical data in the bag. This is a randomized controlled study. It's a double-blind control study of 56 patients, 30 received placebo on top of standard of care that's maximum dose combination immunosuppressive therapy. And this is their survival curb (ph), and as you can see, as we expected by about three years, about half of them have died. That's exactly the same picture that you see everywhere with lung transplantation.

And this is the population that received inhaled cyclosporine. Approximately four full (ph) reduction of the odds of death over the course of the study. It's very important finding, and very much in keeping with our mechanism (ph) to understanding the instate (ph) lung transplantation.

And just as an illustration, what I put on here is the survival curve for other solid organ transplants. So our premise is that we're turning lung transplant survival into a very similar trajectory to other solid organ transplants.

We believe this will have benefits both in increasing the survival patient getting lung transplant. But we believe lung transplantation will become much more common because at the moment, the logistics aren't in place because it just is not a particularly beneficial intervention.

The plan forward with CSI (ph) is to filing for registration this year. We're finalizing our toxicology package. That may seem a little bit backwards, but we actually got the clinical data before we got the last part of the inhalation toxicology in our dose so that we could actually look at the (inaudible) path (ph). Now we know we have a survival benefit in human (ph) and the toxicology looks pretty clean, so there should not be a major issue.

We're going to file in the second half of this year, we've requested prior to review from the FDA. And I have to say that our conversations with the agency have been extremely constructive. This is absolutely mapping (ph) to what they've been talking about over recent years. This is a drug with a clear cut scientific rational for an area that's major in medical need in a well-defined population. Everything is aligned for this to be a very good review process for us.

So the next step is to say, firstly, how can we get the drug approved, how can we increase the number of patients to (ph) get lung transplantation, then what are the other indications that we can use this drug for?

And the first two that fall off the page are OB and bone marrow transplantation. That's patients who effectively gets (inaudible) host (ph) rejection of their own lung. And the other one is insufficient problem (ph) fibrosis both of which are in the assessment phase right now. So we're excited about this as a very near-term opportunity for Chiron.

The last drug I'd like to talk about tifacogin. A brief recap, I think we've talked a lot about this in public speaking (ph) our Webcast area this year. The first and most important point about the study in community-acquired pneumonia is this is not a (inaudible) study. Community-acquired pneumonia is a well defined disease with a well defined pathophysiological cascade. There's a significant unmet medical need, which both Howard and Craig have referred to, approximately 100,000 patients a year dying in the U.S. alone.
from this indication. And the trial is underway, we're currently dosing patients in our definitive Phase III trial.

The whole concept of TIF008 (ph) or the (inaudible) Trial is to intervene early in the cascade of the disease. About 1.2 million patients will be hospitalized with community-acquired pneumonia this year in the United States. So about a quarter of them will progress, such as they are on the verge admission to the intensive care unit. That's when we're intervening with tifacogin.

This is at a stage of the disease when they're starting to show some abnormality and clotting factors. Maybe they're showing some elevation in dedyma (ph), they're starting to show some trigger in the inflammatory cascade. But it's well before their intravascular leak (ph) syndrome. It's well before they have DIC. So the premise here is to get in with a well characterized pharmacological intervention early in the cascade to prevent the downstream event. We are not trying to resurrect nearly dead people. That's what - that's what differentiates this from a Substance (ph) Trial. I think absolutely critical that we enroll the patients at the right time into this study.

The Study Eight (ph) Design (ph) takes account of everything we've learned over a long development program with tifacogin. We've got both clinical and pre-clinical evidence of a heprin (ph) confounding (ph) effect including binding of heprin (ph) directly onto tifacogin. So we've minimized the use of (inaudible) heprin (ph) just allowing sort of (inaudible) a lot usage.

Pneumonia, we've shown clear cut across a number of studies, evidence that the drug had benefited and documented pneumonia. So we're requiring documentation of pneumonia.

We've also observed that once the tissue factor cascade is triggered, they start geometry (ph) changes such that we may need a slightly higher dosage of the drug than we've given before. So we're giving a higher dose of tifacogin in this study so that we could be absolutely sure we're on the plateau of (inaudible).

And finally, we've had good discussions with the FDA and how it referred to somewhat of Jan Woodstock (ph) said, for the FDA, that absolutely clearly we've got a sound scientific rational for this study. And that this is a positive study which will be the basis for approval in this important indication.

So the final analysis for the (inaudible) Trail we expect in the end of 2006 and the end point is very clear cut, all cost (ph) 28 day mortality. In addition to that, we're doing a whole host of end points to capture the pharma economic (ph) benefit. We're looking at long-term benefit, we're following the all the patients so we count out to a year of close (ph) treatment. So we believe this will really - this would be the definitive study for (inaudible) into the community-acquired pneumonia.

So finally, I hope I've summarized for you what's already a very successful 2004 for BioPharma development. More news to come over the rest of the year. This is what we're calling our "bullet train" (ph) slide, there are bullets (inaudible). Tifacogin is underway. CTI will be in position to start Phase III at the beginning of next year. Daptomycin, we're going to file later this year. And IL-2, we've already talked about (inaudible) and we've got the Pearl (ph) Study underway.

Now that's news in itself. But two things I haven't measured. CHIR258 (ph), a small molecule multiple (inaudible) inhibitor of cancer and Anti-CD 45 that's equally exciting. These are hallmarks of our new approach to oncology development, really based on an intensive translation on medicine approach, some of which I've talked about in the IL-2 program.

But what this requires is an absolutely close working relationship between the research and the development organizations. And this is something that Ken (ph) and I spend a lot of time talking about is how to build that infrastructure so that they could flow both forward in development from research into my organization, but also backwards. Every patient we treat in these early phase oncology programs gives more information to the research group on how to do better, how to redesign the molecules, where would you go, which indication's of target?

So I think it's incredibly appropriate that I'm going to hand over now to Ken who's going to talk about the revitalizing of the research organization, but also take you through some of the data on CHIR238 and Anti-CD 40.

Thank you very much.

KEN BAER - CHIRON CORPORATION - SVP RESEARCH

Thank you, Steven.

Before I talk about our two, excuse me, pre-development compounds - I should say early development compounds, I'd like to talk to you about what has gone on during the last year. This coincides with it being the first year in my being part of Chiron, and the only way I can describe it is extremely exciting. It's gone
by in extreme flash and it certainly affirms my decision to come here.

Why did I come to Chiron? Well, the first reason was the people. I had an immediate affinity and bonding to the people, and it's confirmed over the last year their dedication to drug development, their energy, their focus. I also felt that I had something that I could bring to the organization, and that is my experience in terms of drug development.

Most of all, however, was the pipeline. And as preface to me talking about CHIR258, I got the data after I've accepted but before I actually joined the company. And the only thing that I could say is that I was astounded. Having worked at both Novartis and Pharma, having participated in a large number of (inaudible) programs and development compounds, I was really astounded at the quality of the molecule, the safety profile, and I'm really excited to be able to you about it later. Before I do that, as I said, I'm going to tell you a little bit about what has happened this year.

It's incredibly important that the research organization essentially provide a clear consistent pipeline of high quality molecules into development. This series of steps, which is kind of (inaudible) and shows how it occurred during the year, I'm going to talk about how to (inaudible).

I think it's very important to talk about the nature of the enhancement of quality of both targets and of the potential drugs. Without having high quality targets of high quality drugs, development is going to be difficult and the chances of success diminished significantly.

We spend a significant amount of time taking targets that earlier had been deemed to be exciting scientifically and adding that extra hurdle of their drug ability. As a result, we have a lot less targets, but the targets that we're working on we feel are extremely important and potentially will be important in the treatment of cancer.

The second part of the equation, which is the drugs, in the area of monoclonal antibodies, we have created the collaboration with XOMA(ph). Their skills are very complimentary to ours and in fact, add tremendously to the possibility of creating high quality monoclonal antibodies.

In the small molecule arena, we've added a significant number of molecules to our drug libraries. We've added x-ray (inaudible) sciences and as well, modeling chemists (ph) that definitely increase our ability to do high quality structure based drug design.

As a last point or what I started first was, consolidation of the pipeline. Now the pipeline was an extremely good one, but there were two backup programs to take molecules that were really not discernibly (ph) different from apparent molecules. They weren't discernibly (ph) different because essentially models that were using to develop them did not provide a clear pathway to truly creating molecules that were going to be more successful in humans. And that really led to, if you will, the established (inaudible) translational medicine program, and I'll talk about that in a little bit more detail.

The explosion of technology and of information on basic biology of cancer, is I think known to everybody. The fact is though that we will be no more successful in developing drugs with these new tools unless we change the paradigm in which we do that process. That process to a larger percent now will increase the use of translational medicine.

So what is translational medicine? Well, firstly it's the use of data from clinical trials. It is the use of human tissues to provide true insights about what the drug is doing and potentially what needs to be fixed in the drug. It can tell us how we should run clinical trials. It can tell us what clinical trials to actually run. It can tell us what patients to use. It can tell us what targets to choose. The fact is that translational medicine, if applied properly to a truly integrated - as part of a truly integrated drug development program, can change the way that we do drug development and enhance the success of our drug development process.

To give you an idea about or a picture about translational medicine, this diagram really shows the fact that drug development is not a linear process. It is one which involves all aspects of the research engine, all aspects of clinical development, commercial regulatory, and in fact, as we look at, indexes (ph) in the hub of this is translational medicine, information from clinical trials, information from tumor data, normal data, etcetera. So it's in and out, and answers questions that are posed by the various of these organizations within Chiron. And certainly, it synthesizes, if you will, the need for full communication between all of the portions within the company. That is how we will succeed.

CHIR258, I think I gave you a little bit of an idea of how I feel about the molecule. Steven feels the same way. And I think the first time we got together, the only thing that was common about it is why haven't we gotten the compound into the clinic now? What wasn't done yesterday?

So the fact that it is in the clinic and patients are being treated is something of extreme excitement to us. What led to CHIR258 going into the clinic? Well, this came, as Craig said, as part of our focus of our efforts. In the small molecule arena, we felt that we could be extremely competitive in tinatis (ph). To that end, we have a library of over 50,000 compounds that are, first of all, drugable, and secondly, designed to be kinase (ph) inhibitors as starting points.

Instead of having one micromover (ph) an IC-50s (ph) as starting points, we now have one nanomover (ph) inhibitors that are revealed during hydroscopic (ph) screening.
The cancer (ph) of the quality of these compounds helps us move through the drug development process faster, and ultimately enhances the chances of our being successful through any of the programs.

We now have crystal structures of over 100 kinase (ph) generated internally. These are tinsas (ph) with and without various inhibitors, but ultimately this forms the basis for (inaudible) us moving our drug development program forward very rapidly.

And as a last point, computational chemistry and chemoinformatics (ph) really provide a strong basis for us moving forward with kinase (ph). Despite the fact that it is a very large family of targets, over 500, they all have one thing in common. That is the kinase (ph) binding site. This allows us to take that very large family and understanding structures at the level that we do to create the truly engineered molecules that have the selectivity profiles that we want. CHIR258 is an example of this type of molecule.

Before I show you the actual data, I want to talk to about the cartoons that's here (ph). In addition to the growth factor kinase (ph) that 258 exhibits, it also exhibits the number of kinase (ph) that are important for the process of angiogenesis that is (inaudible) new blood supply.

Furthermore, another target, PDGS, is very important for the naturation (ph) of these blood vessels, and ultimately, the envision of this causes blood vessels to be fragile and leaky, immature and ultimately it slows the growth of tumors. So by having three different modalities, if you will, for (inaudible) of kinase (ph), we have a molecule that really can attack a tumor in seven different ways.

This is a structure of 258, which is beautiful to a chemists' eyes. It's not chiro (ph), it's easily synthesized. It has good solubility as a salt and it has very good viability (ph) in (inaudible).

It's kinase (ph) profile is very important. You notice here some of the targets that I mentioned and in addition - the addition of - the inhibition (ph) of CK inflict (ph) very potent inhibition (ph) of those. But what is more or just as important to what it does inhibit potentially is what it doesn't inhibit.

We've looked at (inaudible) than 25 other kinases (ph) some very closely related and some very different. But the fact is that these are as much as a thousand-fold or 10,000-fold less active. This means that the activity against these targets is truly separated, that is the largest tumors. Notice that it goes from 300 to 1,000 in only about two weeks, which is a very rapidly growing, very aggressive tumor. We treat it - we treat the mice with 30 milligrams per kilogram once a day orally as a drug, and you can see regardless of the tumor size, there is rapid (inaudible) and leading to regression.

Now these mice were treated up to 60 days. This means that they received material during that process, 64 days. Very little apparent effects on the body, no weightloss to speak of, other than the tumor that was removed, and otherwise, no other side effects. It's a very safe compound.

If we look at a larger group, this is a second experiment, look at a larger group of mice that go up to 1,000 cubic millimeters, and we treat them, about half of them will actually be cured. Much larger percentages of the smaller tumors are cured, and this is typically what we would expect. The remainder will grow out and after 20. 30 days, we started treatment and these are the 10 mice that we used. You can see that in one case, the tumor was 2,000 cubic millimeters, two grams. This represents, if you will, in a human being a 16 to 20 pound tumor.

Treatment of - with 258, reduced the tumor burden in all of the animals treatment and in fact, led to frank (ph) regressions in a number of them. This shows that the (inaudible) did not occur. This shows that in a second treatment, there was a definite response. These are very exciting data. Very few kinase (ph) inhibitors by themselves will produce this level of anti-tumor effect. This does well for the clinic.

CHIR258 began Phase I clinical trials at the (inaudible) in the UK earlier this year. This is a treatment that involves seven days on, seven days off. We've treated three patients in a cohort, and two cohorts we are currently at 75 max per day of the seven days on, seven days off. Very little side effects have been seen other than the fact that it (inaudible) doesn't taste very good. It's given as a suspension and a flavored drink and I haven't tasted it yet, but the patients say that it's really bad. Obviously it would be given as a tablet at some point. Very minimal side effects, fatigue, some diarrhea. This does not increase as the dose have increased the compounded.
Very exciting. It suggests that we are - we'll have additional doses that we can increase it before we establish a dose limiting toxicity. I'm going to talk next - on the next slide about target modulation, which is very important.

As I said, to date, we have not seen any particularly worrisome side effects with the compound, but we have seen is direct evidence, and in fact 258 is doing what we want it to do.

First, is a kinase (ph) that is a part of the signal (inaudible) cascade which is downstream from that of our targets and saw (inaudible) translates to the nucleus and (inaudible) the signal for self proliferation as a result of that.

So downstream, we can see these are some patients that were treated with a 250 mg (ph) dose. We can see direct modulation of the level of fear relative to (inaudible). We can see that on day one to day seven, when the treatment stops for the holiday - seven day holiday, and then back on day 15, when dosing comes again, very rapid onset of its inhibition of (inaudible).

These are samples, by the way, we're taken from TBL's (ph).

So we suggest at a very early stage in the clinical trials, at very low doses that are non-toxic, that it is doing - 258 is doing what we want it to do.

So this is some TK (ph) information for key doses. Notice the ordinates on the graph are different. This being 30 and this being 16. Our first dose produces a TK (ph) curve (ph) of this, following continuous dosing from day one through day seven, there is (inaudible) if you will of the area under the curve. But following the seven-day holiday, the second dose or the second dose week of dosing, you can see those levels that were exactly the same were started. This is shown also at the higher dose, and you can see that there is a dose dependent increase from the concentration of drug for all three of these doses.

This (inaudible) for the drug is calculated from these which shouldn't support our Web daily dosing schedule, and ultimately we also do not see accumulation with plasma following repeated drug dosing with 258.

The second compound I'm going to talk about is the monoclonal antibodies, Anti-CD40, and it is at its earlier stage than is CHIR238. I'll quickly go through it.

We also know that CD40 is more potent than rituximab (ph) in vitro and in (inaudible). Rituximab (ph) of course, hitting (ph) CD20, which is another target that is expressed on the surface of (inaudible).

The toxic (ph) study that compounds absolutely clean (ph). We've also done an extended toxic (ph) study that looks very good also where we'll later stage a toxicities and other molecules associated potentially with agonist (ph) activity.

We will have an IND filing at the end of this year and begin Phase I clinical trials, and after Phase I clinical trials, then we will be generating the larger amounts of material that is - that will be used for the larger and more extended (ph) clinical trials.

A couple more words on XOMA. The search for a partner for monoclonal antibody began before I joined last year and was only concluded at the beginning of this year. We looked at a large number of potential partners and settled on XOMA. Why did we settle XOMA?

Number one, the people. We had an immediate close working relationship with people from XOMA. We felt that they were dedicated and as, you know, if you will, determined to develop monoclonal antibodies as we were. They have an excellent partner shown by the fact that the second day following the collaboration being announced, their teams were working with ours. And as a result of it, our next antibody that is in line for development has had an advancement of its DC (ph) decision by over a year. Literally within the first few weeks of working, they have had a major impact on our programs and continue to do so.

So what does XOMA bring to the collaboration? As you can see, Chiron already had a number of skills that were important for the creation, production of monoclonal antibodies. But XOMA came with an extremely broad variety of technologies that allowed them to generate - allows them to generate a high quality monoclonal antibodies.

They also came with again large numbers of technologies that allow them to engineer their monoclonal antibodies to humanize (ph) them, to (inaudible) mature them, and last but not least, the ability to rapidly produce cell lines (ph) that can be used for the production of very large quantities of antibodies.

Previous to this, we had to go to the outside for each one of these steps, generate agreements, pay royalties at very hefty prices. Now we have a collaborator that works side by side with us to perform all of these tasks.

I'm going to close by talking a little bit about the pipeline. Obviously, because it's early we can't give a lot of details. What I can tell you is that in the small molecule arena, we have a variety of kinases (ph) and other targets that we're working on. And in the
antibody series (ph), we have some kinases (ph), non-kinases (ph),
all very interesting targets. And certainly in the case of the
antibodies, ones that are appropriately more for an antibody
relative to a small molecule.

You'll see that within the pipeline that in each one of these steps,
we have a variety of molecules. That is that the pipeline is
populated and that's important. The last thing we want to is to have
gaps in the pipeline. This means, gaps in the number of compounds
that are moving into the development organization.

Associated with the molecules that are further down the line are
timelines and these are shown here. Each one of these different
colors represents a different transition. During the early part of
2004, as you can see, significant movement for all programs have
(ph) and will occur. But the last quarter of 2004 and all of 2005,
there will be a significant number of (inaudible) decisions on
moving our compounds, antibodies, and small molecules into
development. Obviously, not all of these molecules are going to
make it, but those that do will have enhanced quality and an
enhanced likelihood of being successful.

That's about all I have to say. I'm going to now turn the podium
over to Craig for the last few summary slides.

CRAIG WHEELER - CHIRON CORPORATION -
PRESIDENT OF CHIRON BIOPHARMACEUTICALS

Thanks very much, Ken.

Now I hope you can, after seeing the presentations, understand the
enthusiasm that we and the division have for what we've been able
to accomplish in the last three years. I know it's not over. We've
shown you a promising pipeline. It still requires focus and it
requires execution.

But the interesting thing for me is I've sat back and looked at
where we have (inaudible) over the last years, the first time in the
three years that I've been here in Chiron that I can have - I can see
what I call the runway. I can see a path of success on how we can
actually build a long-term sustainable and productive pipeline for
the business.

And if you look at it, we have a pipeline, we have the infrastructure,
and we have the management team to make this work. And for those of you who have followed Chiron for some
time, and maybe those of you who haven't but just, you know, ask
another question of how we (inaudible) pharmaceutical business, I
just ask you to take a look at what we talked about today and
where we'll be by the end of this year, beginning of next year. And
just compare it to what you've seen in the past.

At the end - by the end of this year, we will have two regulatory
submissions of new products that we'll be launching. We will have
three late stage programs in TPI (ph), tifacogin, and the IL-2 Anti-
body program. And we will have four compounds from our own
research laboratories into development.

So I am convinced at this point in time that we are in a place
where it's execution that matters. We've got to deliver on the promise that
we've created. The science, the staff, the people, the capabilities
are in place at Chiron. And it really is the time for us to show you
that we can achieve and on the result that we've shown you
already, we can achieve commercial success for these products.

And I'll commit to you, you know, standing here as well as my
management team, that we will continue to be open with you in the
data (ph) that's coming forward. We will continue to make very
crisp decisions, and we will focus on execution. And in return,
what I'd ask from you is to support us in the strategy that we've
outlined here for our patients, for our investors, and for the future of Chiron.

So thank you very much and we will take questions. I'll ask
Howard and David to come up and join as here (inaudible).

Yes. I think we have a microphone. Could you just hold for a
moment.

UNIDENTIFIED SPEAKER

I'm just wondering if you had any thoughts on Betaseron and the
outlook? I know you didn't speak about it today.

CRAIG WHEELER - CHIRON CORPORATION -
PRESIDENT OF CHIRON BIOPHARMACEUTICALS

Yes, sure. You know, we still - we still continue to be pretty
bullish on the life cycle of Betaseron. You know, we are - we have
been cognizant of, you know, the new treatment modalities that are
in the pipeline. I had a long conversation with Jim Mullen (ph) that
surprise (ph) (inaudible) he was not very forthcoming of the data
as you may imagine.

But our view is, of this compound, is that there will continue to be
room for this and that its new compound that will be launched will
actually expand (ph) the marketplace. It will be something we are
considering in terms of, you know, eliminating the sale that will
make the (inaudible) more expensive. We do believe there will be
room for accommodation and it will have its trial data coming out
of both (inaudible) and in combination. But we do believe very
much on the high dose message. And you've seen the trials that we
at Chiron are investing in combination with a higher dose of the
use of Betaseron.

We have strong patent position with Betaseron, we have room
temperature formulation that we've been come out with. So we do
anticipate a long life cycle for that molecule. We think we will
keep them in touch on the market. We're already putting it into our long range plans. We don't see a catastrophe on that horizon for the product. We do think it will become a more competitive environment.

Yes.

UNIDENTIFIED SPEAKER

Two quick questions, first, in terms of - with Cubicin, you laid out the regulatory plan. Is there - what happens if the (inaudible) Study is negative? Does that affect the original filing in any way? And also, in terms of this CD40 program, could you outline the competitive landscape a little bit better in terms of, you know, is there IP around this, the target or the antibody, and where do you stand there?

CRAIG WHEELER - CHIRON CORPORATION - PRESIDENT OF CHIRON BIOPHARMAaceuticalS

Sure. So I'll take - I'll take the first part of the Cubicin question. I'm going to ask Richard Dax (ph) and come up here and answer the second part. Richard, by the way, I haven't introduced yet. Richard is our new Head of European Development (inaudible) expert. Because last night, I asked him to (inaudible) Richard pointed out that he's been involved in 10 approved drugs over his career. So we've got a little bit of a competition going.

But the filing pathway (ph) that we have, will not affect the approval pathway (ph). We've done a lot of work with regulatory agencies in Europe to understand what the appropriate pathway (ph) was. And the decision we were trying to make is do we go with a single indication and wait for the second trial? So we have a clear approval path with the existing data.

Now it will have some impact in terms of go to the market if (inaudible) travel and come to path (ph). I'm going to ask Richard just to comment a bit on the position of (inaudible) with or without the (inaudible) and (inaudible) the data.

RICHARD DAX - CHIRON CORPORATION - HEAD OF EUROPEAN DEVELOPMENT

The first thing is as you know, we're going to centralize - we're going to go through (inaudible) states and we're going to apply for complicated skin, skin structure, in December before the end of the year.

If we don't - if we get a failure in the Endocarditis Trial, and clearly this is a big issue because we believe that the place of daptomycin is for the treatment of all (inaudible) irrespective of resistance and we believe it's a better treatment for MRSA (ph) and then SSA (ph). And that's major use will be in severe infection.

However, Cubist has nearly completed a very robust trial and I believe that the likelihood of failing in this study is exceedingly low, unlike, as you know, the community-acquired pneumonia study.

So this is an non-inferiority study. This is well designed. This is where perhaps we can compete with very effectively with daptomycin (ph) because of our (inaudible). And it is - the likelihood of a failure is exceedingly low.

However, it's likely we'll have to wait for the data.

CRAIG WHEELER - CHIRON CORPORATION - PRESIDENT OF CHIRON BIOPHARMAaceuticalS

OK. Thank you, Richard.

The second part of the question was around the target of (inaudible) CD40 and the competitive on (inaudible) technology. I'm going to ask Ken to give us a few comments on that. Ken.

KEN BAER - CHIRON CORPORATION - SVP RESEARCH

And I'm going to ask Stephen to talk about the clinical situation.

But the only thing we can say about the IP situation is that we do have IP. We feel we have a clear pathway (ph) for it with (inaudible).

STEPHEN DILLY - CHIRON CORPORATION - SVP DEVELOPMENT

Our pathway (inaudible) landscape. the reason that we're going to CLL (ph) and melanoma is that those are the obvious targets for Anti-CD40. And with the NHL (ph) target, it's just a (inaudible) place to go into early phase development.

This is an inhibitory antibody, it's a blocking antibody have (ph) no (inaudible) activity. But what differentiates our molecule from the only other one (ph) in terms of development against an antibody of CD40 which would be (inaudible) genetic molecule that's currently in Phase I.

We also have stronger detail into our long-term toxicology programs. So from the get go, we know whether or not we have long-term in the suppression issues. And so far the profile is exceedingly clean. We think that will enhance our ability to move briskly in the clinic.

So we will be filing the R&D (ph) at the end of this year, accepting (ph) (inaudible) patients beginning 2005 will be CLL (ph) and melanoma targets as a - as our first (inaudible) forward (ph).
UNIDENTIFIED SPEAKER

OK, thank you.

UNIDENTIFIED SPEAKER

I have several questions, if I may. The first one is on Proleukin. Can you talk about the patent license (inaudible) Proleukin. And then, always when you look at its limitations, it seems like you have plenty of patients. Each patient is five percent. And so how confident are you that the B (ph) versus F (ph) is actually real? Should I wait for the other question?

CRAIG WHEELER - CHIRON CORPORATION - PRESIDENT OF CHIRON BIOPHARMACEUTICALS

(inaudible) put them out (ph) and we can figure out who can answer them.

And then on CSI (ph), you mentioned the market is about 40 to $70 million. What is the pricing assumption for the actual premium pricing of that? And then for Cubicin, can you talk about the comparative dynamics, because a lot of the companies are trying to develop antibiotics in that area as well.

CRAIG WHEELER - CHIRON CORPORATION - PRESIDENT OF CHIRON BIOPHARMACEUTICALS

OK. So I'm going to take the CSI (ph) question. I'm going to ask you (ph) to take the IL-2 question. Let me talk about the patent life on IL-2 first.

The patent life that we have on IL-2, we have our patents through - our first patents expire in 2012. We have lots (ph) of patents behind that, plus we have actual (inaudible) in terms of formulations and extensions that we're looking at internally.

So here we have quite a bit life left on Proleukin. It's also biologic, which is heavily dependent on the manufacturing processes and I think if our manufacturing team were here to vouch that it's not the simplest program to manufacture. But we are cognizant of the fact that there will probably be generic biologic for that one (ph), so we're working on (inaudible) strategy.

I'm going to ask Stephen to comment on the - on the program.

STEPHEN DILLY - CHIRON CORPORATION - SVP DEVELOPMENT

(inaudible) the reason that I'm quite is that I'm confident about the efficacy (ph) (inaudible) story is two-fold. One of them fits exactly around the (inaudible) biological mechanism. As we look (inaudible) first to (inaudible) expectancy (ph) with the (inaudible).

And so it played out both in terms of the responders, the (inaudible) showed the slide about the (inaudible) effect with the way it was played out more broadly. Because I always felt in oncology development that respond to the very broad (ph) instrument to study biological effect. And so the slide that I put most weight on is actually the quantitative slide that shows the shrinkage at eight weeks. Where in fact we've shown 50 percent of the population that showing shrinkage correlated exactly with the FC (ph) (inaudible).

Now the big question is, does that play out in other scenarios? So we confirm that we've got specific patients in now so by the end of the year, we'll have more solid data in the (inaudible) population.

What's really important then to note, does the same effect play out in the first line (ph)? Now the Pearl (ph) Study (inaudible) doesn't show a blanket effect of about a 15 percent increase in response rate in the entire (inaudible) population or a delta (ph) within any of the cell groups, (inaudible) X (ph) carrier or (inaudible).

So with those - with those (inaudible) the effect in that study sometime towards the end of '05, beginning of '06.

UNIDENTIFIED SPEAKER

So what do you think about Cubicin?

CUBICIN

UNIDENTIFIED SPEAKER

Yes, OK - yes, the question you asked ...

UNIDENTIFIED SPEAKER

Yes, OK - yes, the question you asked ...

UNIDENTIFIED SPEAKER

OK. The question you asked about ...

STEPHEN DILLY - CHIRON CORPORATION - SVP DEVELOPMENT

(inaudible) So in the first line therapy, it's going to be more like 25 percent. Somewhere between 20 and 25 percent we believe in the
Rituxan NHL (ph) population or in other indications and other (inaudible) antibodies.

CRAIG WHEELER - CHIRON CORPORATION - PRESIDENT OF CHIRON BIOPHARMACEUTICALS

Thanks, Steve.

Now let me take the question you asked on pricing of CFI (ph), we have not - we have not determined pricing at this point. But that’s why - that’s why we’ve given a range. We anticipate there will be brackets (ph) of small population, and then we’ll wrap it up and take the survivor benefit that we’re showing. And so we’re still working on the (inaudible) on how do we price that compound. So we haven’t made that final determination yet. But we do anticipate that we will be able to get a very healthy margin on the product.

UNIDENTIFIED SPEAKER

Just so the 70s assuming a higher price, 40 is regular price?

CRAIG WHEELER - CHIRON CORPORATION - PRESIDENT OF CHIRON BIOPHARMACEUTICALS

I’m sorry?

UNIDENTIFIED SPEAKER

Do I understand you correctly to say that you give the range because you don’t know the price and...

CRAIG WHEELER - CHIRON CORPORATION - PRESIDENT OF CHIRON BIOPHARMACEUTICALS

We have...

UNIDENTIFIED SPEAKER

... that 70 is actually a higher price whereas 40 is the regular price?

CRAIG WHEELER - CHIRON CORPORATION - PRESIDENT OF CHIRON BIOPHARMACEUTICALS

Yes, there’s two things in there. One is assumptions on penetration, and then the other selling price. So we have not yet formally announced the price yet. We’re still actually working internally on determining on what that price will be.

UNIDENTIFIED SPEAKER

And if I can clarify, in the patent, you said 2012 for (inaudible)?

CRAIG WHEELER - CHIRON CORPORATION - PRESIDENT OF CHIRON BIOPHARMACEUTICALS

Yes.

UNIDENTIFIED SPEAKER

How did that happen because the drug has been around for a long time?

CRAIG WHEELER - CHIRON CORPORATION - PRESIDENT OF CHIRON BIOPHARMACEUTICALS

I don’t. I don’t know the answer to that. I know that’s been our patent life expectancy (ph).

UNIDENTIFIED SPEAKER

(inaudible)

UNIDENTIFIED SPEAKER

Maybe they want to comment on how they got there.

CRAIG WHEELER - CHIRON CORPORATION - PRESIDENT OF CHIRON BIOPHARMACEUTICALS

I don’t believe (ph). Your final question was on Cubicin's competition. Richard.

RICHARD DAX - CHIRON CORPORATION - HEAD OF EUROPEAN DEVELOPMENT

OK, the competitive scene is interesting. Currently in Europe, of course, I have (inaudible) launch is really doing very well. (inaudible) is doing well - reasonably well. Vicamcin (ph) we still use by decreasingly. A lot of penicillin and (inaudible) are used very widely for Staph infections.

Daptomycin is (inaudible) against all Staph reliably, whereas vicamcin (ph) is not (inaudible). And the tolerance of Staph or severe (inaudible) penicillin (inaudible) NSSA (ph) is increasing.

So we think we’ve got a good competitive edge there and this is a growing market as it is a growing clinical need.

Of the new products that will be coming out, there’s quite a lot of new (inaudible) with activity in vitro against MRSA (ph), and I
think it's just too early to say how effective they're going to be. It's a bit strange, but they are effective, and they certainly are in vitro and (inaudible) days.

Dovovycin (ph) is just finishing phase three, skin and skin structure, and that is under Vicrom (ph). That's an interesting glycopeptide (ph) which is much more active against MRSA (ph), have a very long half-way. However, it's still possesses the weakness of vancomycin (ph) against MRSA (ph) specifically with the lack of (inaudible) effect. And we believe that there will be clear differentiation between dapto (ph) and Dovovycin's (ph) in terms of severe Staph infection.

CRAIG WHEELER - CHIRON CORPORATION - PRESIDENT OF CHIRON BIOPHARMACEUTICALS

Thank you, Richard.

We're going to have to wrap up now based on time. I'll take one more. That's fine, sorry.

UNIDENTIFIED SPEAKER

I'm not very large (inaudible) just a quick question. Of the XOMA comments, you said that the XOMA had some antibody technology you're looking for. Does that Anti-CD40 program, was that going to require licenses for the new antibody patent (inaudible) from PDLI (ph)?

CRAIG WHEELER - CHIRON CORPORATION - PRESIDENT OF CHIRON BIOPHARMACEUTICALS

Stephen or Ken, I'm going to ask (inaudible) to answer that question?

KEN BAER - CHIRON CORPORATION - SVP RESEARCH

Basically, there will be a number of licenses that will definitely either have patent or are in the process of having.

UNIDENTIFIED SPEAKER

(inaudible) Did you consider PDLI (ph) when you were looking for acquisitions or partners in developing (inaudible)?

CRAIG WHEELER - CHIRON CORPORATION - PRESIDENT OF CHIRON BIOPHARMACEUTICALS

Yes, we looked at - we looked at most of the antibody companies out there when we were looking at partnerships. And really, (inaudible) our need best, because of the depth and breadth of technology that they have access to and licenses. They can bring a large number of technologies to (inaudible) antibodies.

All right. Thank you very much for your attention. We are thrilled to be able to present this to you and are committed to this business. And I and my management team are happy to respond to any questions as they come in over the course of the year.

But thank you very much for your attention.

UNIDENTIFIED SPEAKER

Thanks very much, Craig.

A couple of quick announcements here. We are a little bit behind schedule but we can get back on track. We're at our lunch break. So what I'd like to do is ask everyone to pick up a box lunch and return to the presentation area for a 12:15 start for our next set of presentations. Thank you.

(LUNCH BREAK)

UNIDENTIFIED SPEAKER

In a minute we'll beginning our Blood Testing presentations. And while people are settling in, I'd just like to clarify our answer about patent coverage for IL-2 Proleukin.

Our family of patents provides protection through 2012. We do have certain patents that begin to expire before that beginning first in Europe in the 2004'5 timeframe and then after that in the U.S. I don't have specifics on this, but if you'd like to follow up, please see either me or Dion Maddison (ph) and we'll set up a call with one of our patent council. So thank you very much for settling in and getting ready to begin our afternoon session.

We are turning to blood testing, and I'd like to introduce our President of Chiron Blood Testing, Jack Goldstein. Thank you, Jack.

JACK GOLDSSTEIN - CHIRON CORPORATION - PRESIDENT, CHIRON BLOOD TESTING

Everybody here me OK? Not activated? How about now? OK, great.

Well, thank you very much and welcome to the Chiron Blood Testing portion of the program. (inaudible) Maybe I need to stay at the podium. (inaudible) OK.

So I didn't realize that I was going to be talking during lunch, so I promise to try not to give you indigestion. But I would appreciate it also if you didn't take a nap or lunch snooze.
Seriously, I think we have an exciting program for you and I think you’ll learn even more about blood testing than we’ve talked about some of the quarterly conference calls. And I think we’re trying to give you more in-depth information about the short-term, the medium-term and our strategic movement into blood safety.

So today, I’m going to talk to you about the near-term, a little bit about the past, and then what’s happening over the next couple of years that are driving the business and will drive the business, at least for the next few years. And then we’ll lucky enough to have Dr. Andrew Keaton (ph), who’s our Chief Medical Officer of Chiron Blood Testing, to talk about some of our transition products and to blood safety. Namely he’ll talk to you about bacterial detection in platelets. And then we have the President and CEO, Doug Claiborne (ph) of ZymeQuest to talk to you about enzyme conversion of (inaudible). So why don’t I begin by talking about where we’ve come from.

So Chiron Blood Testing is quite different than our competitors. And the reason that we’re different is because we’re totally 100 percent focused in transfusion medicine. All of our products and services are geared toward the transfusion community, and we have taken what we call a market serve strategy. We’re serving a particular market. We want to become the leader of this market. We want to build a long-term sustainable business. And we also want to capitalize on the pioneering science that we’ve already so much about within all of the research and development activities of Chiron.

Chiron built its blood testing business through a series of partnerships. We built a leading position in both immunodiagnostics and that blood testing. Our first agreement with Ortho in 1986, and as many of you know, I was on the other side of that agreement, and in Ortho and Johnson & Johnson. So we build our first agreement in 1986 with Ortho in the area of AIDS, Hepatitis, blood testing, and immunodiagnostics, which turned in 1989 into a joint business. Truly a collaborative joint venture, over which I became president of on the Ortho & J&J side. But the business was so successful that it helped my career significantly, eventually becoming president of Ortho Diagnostics.

At the same time that we did the deal with Ortho, we also licensed a key competitor in the field and that is Abbott Diagnostics for both blood screening and diagnostics. So we formed the first version of (insubable) in the area of immunodiagnostics for the HIV and Hepatitis both in blood screening and in the clinical diagnostics.

Following that in 1998, we went into a partnership with Gen-Probe. It followed very, very much the model that we used for the Ortho and Abbott relationship. And in addition to going into a partnership with Gen-Probe, we licensed a key competitor in the field. We licensed Roche and formed another duopoly in NAT testing.

At this juncture, both have evolved into a fairly stable duopoly, and I’m sure all of you know the various attributes of that followed and the usual attributes that occur when you have that kind of a relationship in the marketplace.

Chiron Blood Testing is only five years old, and in that five-year period, we’ve made significant advances in NAT blood screening. Chiron Blood Testing has built a sustainable business. It creates value for our shareholders, and it fuels investments throughout the rest of the organization.

We position NAT as the gold standard of care. NAT now is about 65% penetrated in the industrialized market where about 54 million units of blood are collected and tested.

As you know, we’ve got our BLA approved for our duplex test which test simultaneously for HIV-1 and HCV in February 2002, and launched the commercial product in the United States. We achieved worldwide pricing of between 10 and $15 for that duplex test on a per donation basis.

Again as you know, we filed an IND for the West Nile Virus, an emerging threat to the U.S. blood supply last summer, and as of last July, all of the blood in the United States has been tested for West Nile Virus. And we’ve stopped many transmissions of West Nile effected blood from being transfused to any of suppressed and other patients.

This year in January, we received CE marking for our new product, all three of them I’m going to talk about, that adds Hepatitis B to our HIV and HCV tests. We’ve got CE marking and started initially selling it into Europe countries, into the EU, starting in February of last year and have achieved premium pricing with that product as well.

So I think in just a few years, we’ve really established a significant beachhead in this marketplace.

And just to just briefly talk a little bit more about that, I mentioned that in the industrialized world, there are 54 million units of blood are collected and tested. There’s approximately another 20 million in China and India and some of the other developing countries. But in the industrialized world, we’ve garnered a 33% market share worldwide.

There’s still 23% or so that’s unpenetrated, and there’s about 8% of the market that makes their home brew products as well. And if you look at worldwide share, we’re pretty much neck and neck with our key competitor, generally following the principles of a duopoly.

Now let’s just talk a little bit about each territory. In the United States, as you know, we have north of 80% market share. When we first went on the market, although we had the American Red Cross,
we only had half of the independent blood centers than we have today. So what happened? Well, we actually took those customers away from our competitor.

In Europe, we had an entrenched competitor, and so now we have 24% share in Europe. How did we get that share? Mostly we took it away from our key competitor.

In Asia Pacific, there's a little bit different situation. Some of the countries were not testing, and so we introduced testing to those countries. And in other countries, we were competing with our key competitor and we took business away from our competitor.

And the way that we did that was really multi-fold. It's because of the sensitivity of our tests, the ease of use, the throughput, the shorter turnaround time, our service and support and also our dedication, and knowledge, and our credibility that we have in the transfusion community plays a major role. Currently, we enjoy 100% customer retention, something that's pretty significant.

OK. So that was the past, and what have we done and what are we going to do in order to keep this market and keep growing?

Well, we have a three-tiered approach to our short-term growth. The first is the introduction of the new tests, the second is, automation, and the third is market penetration and geographic expansion. Pretty simple stuff. So let me talk about each one of those and give you some information about each one of those areas.

OK. So the first new test, I mentioned Ultrio. Ultrio adds very important Hepatitis B to our current test, which tests simultaneously for HIV and HCV. So this test now tests for three different diseases simultaneously. It's a multiplex test, testing for all three of these particular diseases.

We received CE marketing in January and we currently have commercial sales in four major European countries, Italy, Germany, Spain, and Portugal. I'll talk a little bit more about that.

We have a three-phase marketing approach for Ultrio. I know many of you had asked questions about Ultrio penetration, etcetera. Phase one is we wanted to go into southern Europe, which is an endemic area for Hepatitis B. Italy, Spain, and Portugal has a major problem with Hepatitis B. In fact, in blood donors, about one in 40,000, depending on the country, but about one in 40,000 blood donors is positive for Hepatitis B even though they had been screened by an immunodiagnostic test. So a pretty significant issue and problem.

So phase one was to try to convert at least 30% of our installed base and particularly in southern Europe as quickly as we can. Currently, we have 13 customers using or contracted to use Ultrio, out of about a total of 60 that we have in the EU, so about a 20%, 25%, and we're moving towards our first goal of 30%.

Our second goal, once we had a new instrument, called the FEP, which I'll talk about later. It's called the front-end pipetor. Once we had the FEP, we would go into phase two, and phase two is to continue to convert our current installed base, but also to start up new customers. We needed this piece of instrumentation to start up new customers who didn't have our instrumentation previously.

And phase three is at the end of this year and beginning of next year when we will introduce TIGRIS into the EU, which again I'll talk a lot more about as we move forward. And that will serve the automation segment and we will use that to try to convert the rest of our installed base and move new customers also through Ultrio in the European Union. So that's our three goal approach.

We have market evaluations also ongoing in a number of countries. Singapore has completed their evaluation, which admitted an RFP to the Singaporean Government to movement over to Ultrio. We have trials scheduled for New Zealand, Ireland and Belgium, all of those countries, by the way, accept CE marketing as approval, and therefore, we can convert those particular customers.

We're in the throws of a U.S. clinical trial on both our semi-automated system, which we called eSAS, as well as our fully automated system called TIGRIS. We expect those trials to wrap up fairly soon, and we will file our BLA in the second half of this year for both Ultrio semi-automation and Ultrio on TIGRIS. A very important milestone for us before the end of this year. And then away we will go with Ultrio.

So many of you have asked the question, well, how about sensitivity of Hepatitis B in this multiplex assay? Is it good enough in the pools that are currently used in the market today? By the way, today, the standard in the United States is pools of 16. They pool 16 blood units and they use one test on 16 blood units. The standard in the EU is pools of eight or individual blood testing depending upon the country. But by and large, they're in pools of eight or in singles.

So what I've done is a compiled a number of studies. And all of these studies were done against the standard, which is the Abbott Prism Test. And so you can get an idea of how many window periods are closed for Hepatitis B at these various pool sizes.

So if you look at one through 16, the standard in the U.S., even if you - if you discount in-house Gen-Probe data, it still gives you about a closure of about five days in the window. And by the way, the other studies were done at Richard Blood Bank, which is the largest blood bank in Spain. The EFS is a center for blood transfusion of France. And the PEI, the Paul Ehrlich Institute, they're the FDA of Germany.

So those are the three studies that you see to the left, a lot of which depends on the group of samples that they have at their, you know,
in their repository in their sample bank. So, it's very sample dependent, and therefore, you get different results with different sets of samples.

But basically, the message I want to get across is that at one through 16, the windows close somewhere between five and seven days. At a pool of one to eight, it's about a week-and-a-half. And in IDT, it's about almost three weeks.

This goes very well with our strategy for both automation and individual blood testing, and I'll talk about our strategy in automation as we move forward.

So let's move on to the next test, and that is West Nile Virus. A little blood testing humor. It didn't go over big. It's not for everybody evidently. I thought it was funny.

I mentioned that we filed our IND in last year. All blood is tested for West Nile Virus in the United States. We picked up somewhere around 800 cases last year of infected blood that was not transfused because it was positive for West Nile Virus, was a response that we had and our partner Gen-Probe to an emerging threat. So whether it's West Nile Virus this year or whether it's SARS next year, we're ready to respond.

The U.S. clinical trials are about to be initiated. We're waiting for the height of the mosquito season in the United States. As you know, this is moving west. Already the first positive samples have been detected first it was New Mexico, and now we've just gotten three or four new positives in the Phoenix area. We have a case in California down in Bakersfield. And we'll see what happens. We'll see what ensues in the height of the season this year. But a significant threat to the blood supply.

So we'll have a pivotal trial starting this summer, and we will file a BLA on the semi-automated system, and that's what, again, what we call eSAS, our semi-automated system the first quarter of '05 in conjunction with the American Red Cross and independent blood centers throughout the U.S., and we will have a TIGRIS trial as well.

One of the issues with West Nile Virus that we found last year, if you remember reading in the paper, was that there are a lot in the endemic areas, there are a lot of very low level positives. And therefore, it forced several of the blood banks to do individual donor testing in the endemic areas. That was a huge drain on the labor supply and it was very difficult for them to do.

So in order to support the blood centers this year, we are putting TIGRIS systems in selected blood centers in endemic areas to allow them to do individual donor testing during the endemic period. And they've actually developed a trigger point, both for the American Red Cross and independent blood centers throughout the U.S., once they hit a number of positives, it will trigger them to move to individual donor testing, and we'll be able to support them through the use of TIGRIS. And so we're also expect to file a BLA for TIGRIS sometime in the first half of next year. So that's a significant move to us as well.

Sorry, I had to do that.

OK. Moving on to automation. Our fully automated system is called the Procleix TIGRIS System. It's targeted to blood centers that process greater than 50,000 blood units per year. So medium to larger centers. It's fully automated from beginning to end. It's specifically designed to work with Procleix assay. It's a clone system so you can't use somebody else's assay on this particular system. And it's the first complete automation for nucleic acid testing, particularly in blood donor centers.

You guys heard about throughput and I'll talk about throughput on the next slide in comparison to even our semi-automated system and also the competition. And it has the highest level of process control.

If you know the blood centers work, they are GNP biological manufacturers. They are under the same FDA guidelines that we are as pharmaceutical manufacturers. And they have to adhere to GNP's process controls, everything that you have to do when you are manufacturing biologics, which they do which are transfused into people. So going through the same constraints that we are and thus complete automation helps them adhere to those principles.

Our goal is to get CE marketing before the end of this year to launch at ex-US. Just at the end of this year, ready for 2005 so that we can hit the ground running as we come into the new year. And as I mentioned before, TIGRIS will be submitted for BLA with Ulitro by the end of this year.

So in terms of throughput, if you go to the next slide, I wanted to try to give you a little idea of the difference between the semi-automated system and the fully automated system. TIGRIS processes 1,000 units of blood in a 14-hour timeframe. You get the first results start coming off after four hours, and then you get 125 results every hour thereafter. So you can actually continue to load these things as results come off and continue running this instrument. But we use 14 hours kind of as our endpoint.

It has internal controls, it has high process control, and one operator we've shown can operate at least two TIGRIS instruments.

So if you compare to ourselves to our current system, with our current system, the semi-automated system, one tech in seven hours can do 188 units of blood. That's pretty simple. So related to TIGRIS, we multiply that by two. So in 14 hours, one tech can be 376 samples.

With TIGRIS, one tech, one TIGRIS will do 1,000 samples in 14 hours. One tech can do two TGRIS, so that equates to 2,000 samples per 14 hours. So that's kind of the comparison that we use.
Our competitor currently does 48 samples in seven hours. They have an automated system - their current automated system that has some new systems under development. But their current system that they use in Europe only does 96 samples in seven hours. So the difference is quite remarkable.

Moving on to our upgrades through our semi-automated system, what we've done is we wanted to make some advancements to the semi-automated system that we sell today for two reasons. One is for blood donors that process under 50,000 units of blood per year, and also, as a backup to TIGRIS. TIGRIS at some point will undergo service. It'll have some downtime, although in the meantime between failure by the way, if TIGRIS has shown to be over 900 hours in the laboratory, which is very significant for a laboratory instrument.

But there will be some downtime and there will be sometimes when customers need backup. So Optiva is a system that will be used as backup for TIGRIS as well as for blood centers that are under 50,000 units of blood.

And we've taken two of the components of our semi-automated system that are very laborious and then we've automated them. So one is called the FEP, the front-end pipetter. I mentioned that this is a factor in order to bring new customers up on our semi-automated system in Europe before TIGRIS is ready. And the reason why we can't use our old system is our old system that we currently use is not CE marked and is un-CE markable. Our FEP was CE marked last week I'm happy to report. And so now we can start our phase two of Ultvio and start bringing on new customers with Ultvio in the EU.

And in addition, the second component is called RAS, reagent addition station, a brilliant name from our marketing group. But the reagent addition station will submit for CE marketing later this year.

Obviously, we're putting all the resources on TIGRIS. That's the most important thing. We've let it slide a little bit, but it's still important to the industry and we're still moving along with these two modules.

The last thing in terms of short-term drivers that I'll talk about is geographic expansion. And we said this year that we wanted to move forward.

Moving on to our upgrades through our semi-automated system, what we've done is we wanted to make some advancements to the semi-automated system that we sell today for two reasons. One is for blood donors that process under 50,000 units of blood per year, and also, as a backup to TIGRIS. TIGRIS at some point will undergo service. It'll have some downtime, although in the meantime between failure by the way, if TIGRIS has shown to be over 900 hours in the laboratory, which is very significant for a laboratory instrument.

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The last thing in terms of short-term drivers that I'll talk about is geographic expansion. And we said this year that we wanted to expand into four countries geographically where we didn't have business previously, those being Thailand, Korea, Poland, and Greece. So let me give you an update on those four countries.

Thailand collects about 1.2 million units of blood, about 350,000 of those units are in Bangkok. They're managed centrally by the Red Cross in Bangkok. And currently, our running rate is about 120,000 donations. By the end of this year, we would be at a running rate of 350,000 donations. We will have all of Bangkok.

We have not competition, at least not at this point in time, in the Thailand market. So we're moving to increase our share as they get funding for expanding beyond Bangkok. So that's basically it for Thailand.

Korea, as you know, processes two-and-a-half million units of blood. It's the second biggest country in Asia next to Japan in terms of blood collections. They're very centrally managed. There's three centers in Korea, one in Seoul, one in Pusan, and one in the middle of the country. We have been given the one in the middle of the country. They process 790,000 units of blood. The lab is up and running and they will begin testing blood and reporting out the results some time in the July/August timeframe of this year. We also have some additional potential opportunities in Korea for testing plasma.

Poland collects one million units of blood. There are about 16 blood centers in Poland, nine of which will do NAT testing. Excuse me. We have 225,000 units of blood so far in Poland and we believe that Poland will mandate Hepatitis B testing and move to Ultvio before the end of the year. By the way, all of these countries are using our duplex test not the Ultvio test.

Greece collects about 600,000 units of blood. It's very decentralized. The largest blood bank is 25,000 units of blood. We currently have 130,000 units in that country and we're increasing step by step. We'll be increasing more before the Summer Olympics starting in Greece this year.

It's not on the slide, but I also wanted to point out, Wales. Wales collects - excuse me - my voice has gone quickly. Sorry, Wales processes - I'll have to go on like this, sorry, 120,000 units of blood and they have started sending their blood to the center in the UK that uses Chiron products. So our share in the UK has increased by 120,000 units.

I won't go into detail in some of the other countries where we're doing evaluations. I think I've talked about them before. I'll just say a couple of words about Mexico and Morocco, both of those countries where we're going direct, Morocco from France. Morocco processes about a million units of blood, but they have over 500 blood banks. Luckily 19 of those represent about half of their market. We expect them to start testing before the end of this year, the beginning of next year. We're there in the registration process.

Morocco, 200,000 units of blood. We believe they'll begin testing sometime mid-next year. We've done trials in both Casablanca and LeBlanc (ph). We believe that we will have a good shot introducing Ultvio into that market to be the first market that uses Ultvio in Africa sometime mid-next year.

So that's just a word about some of our geographic expansion. I'd be glad to answer any questions about the other countries as we move forward.
So now I'd like to move more into our strategic thrust, and this is a slide showing in the U.S. - it was put together by Sonny Zek (ph) at Mass General. It's a slide of the residual risk of transfusion events in 2003 and it just compares that to residual risk of other diseases in the hospital.

And you can see for HIV and HCV since we've introduced Procleix NAT testing, we've reduced the residual risk to one in a million. Still some, but it's down to one in a million. You can see Hepatitis B, where we haven't start our testing in the U.S., it's about one in a 100,000. And in Asia and as I said, southern Europe and other countries, it's down to one in 10,000 - 20,000, one in 30,000. So it's pretty significant. So that is the next area that we're going to attack.

And if you look strategically at the issues that are facing our customer base and you look at those residual risks, you'll see the next largest risk is in bacterial contamination, transfusion contaminated platelets. And the next is mistransfusion - mismatches. Well, we've all heard - remember last year that the case in Duke University in a heart transplant when the patient was given the wrong kind of blood. It happens a lot.

So strategically, those are the next two bastions that we are approaching. And our next speakers will talk about those, if I can have the next slide.

So we're transitioning from just having products in the NAT lab, we're transitioning to blood safety. We're moving into the testing lab and then into processing lab and keeping with our market serve strategy, staying with the same customers that know us so well and that we know so well. And we believe that 2008 that we'll be somewhere between seven and $900 million, growth from 400 million that we were last year, that magnitude because of these opportunities.

So with that, next I'd like to introduce you to Andrew Heaton. I first met Andrew, I won't tell you how long ago, when Andrew was the CEO of a blood center - Blood Bank of the Pacific in San Francisco, when myself and a sales rep tried to sell him the immunodiagnostic products from Ortho. Luckily we did a good job and he did buy those products, but he was a tough customer. And so, being a tough customer, we wanted him on board at Chiron to kind of show us the way. But he is our expert in transfusion medicine, our Chief Medical Officer, Andrew. Thank you.

ANDREW HEATON - CHIRON CORPORATION - VICE PRESIDENT & CHIEF OF OPERATIONS

Well, thank you for being available to hear entirely new developments in blood testing. And these new developments are certainly going to add some sizzle to our lives over the next two years.

Today I'm going to present the first two very interesting new technologies that we've in-licensed in line with the current strategy that you've heard from Howard earlier. They represent cutting edge science for when they're merged with our past expertise and our past post development and our capacity to facilitate fast track regulatory approval. They should make it a powerful combination to produce a high value product, improved blood safety, and resolve a global blood safety issue.

As Jack Goldstein commented, NAT is a worldwide standard, two-thirds of our blood screening market is penetrated, and certainly so far as sensitivity is concerned. NAT is the most sensitive testing and has reached the gold standard level in terms of appreciation of sensitivity.

But there is a significant remaining risk of blood transfusion. As you heard from Jack earlier, it's not viruses any longer. It's bacterial contamination and it's getting the wrong unit. It's approximately 40% of us here today will receive a blood transfusion at some point in our lives. These are the major risks that we need to address today.

I'm delighted to describe that we have at least two new alliances that are fulfilling our goal of moving out of the laboratory, out of the NAT laboratory, and expanding into blood safety. We're staying in the market we know and the bacteria screening opportunity will provide us with our foothold or toehold into the hospital transfusion market, which is an area that we haven't previously been in. And I have to say, it really feels good to be behind a solid idea, cutting edge science, to be able to create a new market, which I will now provide you with the background on.

There's a real risk to platelet transfusions. It's very hard even with the sharpest and best needle technology to avoid allowing very small quantities of bacteria to pass into platelet units. Somewhere between one in 20,000 and one in 60,000 those bacteria grow in the platelet unit and the outcomes are underreported. Most doctors transfuse these platelet products to cancer patients, the sick who don't have any white cells and who are especially vulnerable to bacterial contamination, and it's the single biggest safety issue in blood transfusion today.

Now for the blood centers, platelets are quite problem. Platelets have to be separated from blood very quickly after collection. They're stored at room temperature and are used by cancer patients and the order patent is highly volatile from day to day. You can only store platelets for three days in Japan and five days in the U.S. So it's a hard planning process and we don't have a lot of time to plan platelet production and make it available to meet patient needs. There's never in our platelets on Mondays after public holidays so for our customers, it is a big operational issue.

Interestingly, as a safety issue, industry took the lead and the American Association of Blood Banks, a trade association, recommended a standard, which came into effect on March 1st of
this year that all blood should be screened for bacterial contamination.

Initially the FDA followed and suggested QC type standards, but later the Advisory Committee - the Human Services Advisory Committee, on which I might add I sit, has encouraged the FDA to look a little more enthusiastically upon the regulatory requirement to implement bacterial screening for platelet products. The FDA's now working aggressively with industry, with blood banks, and with manufacturers to encourage such standards.

It isn't just the U.S., however. In Europe, the Council of Europe, which is one of their regulatory groups, is recommended bacterial screening of slightly concentrate. And in addition, the European Union, in Europe they have overlapping regulatory groups, has recommended or has a blood safety directive, which by February 7th of next year requires consistent standards across Europe.

Well, why use nucleic acid testing? Well, nucleic acid testing allows you to detect the genes of the bacteria, not it's growth. Old bacteria can be detected. Current methods only detect bacteria that produce oxygen or acid. They don't detect anaerobic bacteria.

The test basically would basically look like our procleix test. So it will be familiar to the customer. And even better from the customer's perspective, it has a single endpoint. You don't need to monitor it, you don't need to recall a product.

It will detect yeasts as well as bacteria, because in some cases, yeast has got into bacteria into slightly (inaudible) to cause contamination. And it's a significant desirable market. In terms of comparative assessment over 15 to 20 (inaudible) 5.5 million units, you're talking about $100 million units - $100 million market just for the platelets and that ignores the potential for moving into red cells as well. So we believe that Chiron could bring real value both in terms of creating a new market and bringing value to the customers.

Now consistent with our approach to alliances, we selected Infectio Diagnostic of Quebec to be a partner. Infectio is a proven assay developer. They have an immediate Strep B test which I've just in the last month (inaudible) test has come out as well.

They bought us two key pieces of an intellectual property. One of the curses of testing for bacteria is that you use bacterial enzymes in the nucleic acid testing and your reagents are contaminated with bacterial genes. IDI brought with it, IP that allows you to eliminate that contamination to make it a more pure and more sensitive assay.

The second IP they bought was access to a housekeeping gene in the bacteria, it was common, highly conservative oral bacteria that could use selective targets and detect bacteria and yeasts.

The relationship between us and IDI has been as the assay developer, initially as a manufacturer and then subsequently transferring the manufacturer to us as the assay moves down the
regulatory pathway. I have to say they're a pleasure to work with and they are as enthusiastic as we are in the development.

Of advantage to us, the IDI eSAS can be used by our (inaudible) customers in an existing format and together with the platforms that I will share with you and the eSAS, we'll be able to develop a super sensitive system that we believe will allow our customers to pursue seven day dating on that platelet product that's so true both the quality and reduce the out dating.

This is a demanding development. And in fact, we had to work as a team in four different areas. In the acquisition of a specimen, the extraction of the bacteria VMA, the eSAS, and the software. Let's talk first about the specimen.

One of the difficulties of getting the bacteria specimen is actually a free specimen. It's very easy to contaminate when you collect a sample. Of course, if you have a growth test, you'll grow up the contaminant and get a false positive result and our customers do get one to 3% false positive results with the growth based assay. Of course, if you don't grow it up, it will still be assay, you avoid that as an issue.

In terms of extraction, we've scaled the world looking for extraction technology that will allow us to break out the bacteria and the yeast, acquire the DNA, selectively concentrated, and then make it available on the eSAS, which IDI is co-developing with us.

And finally, we have a family of middleware software products that will allow us to link together the results and produce the results.

At this point our technology selection is complete. The extraction process is integrated. And we believe that we'll have a system that with three steps and two devices will give us the result which will represent conceptual continuity practice for our customers.

This eSAS has some very novel features, which includes (inaudible) based concentration once we've broken the part of the bacteria and extracted their DNA. We've developed a function of a functional license system to breakup both bacteria and yeast, which is very hard to do. We've included in this an internal controls that we can make sure that the eSAS function is functioning correctly. And we've also mentioned that in a way that it would require two instruments and a simple transfer is becoming increasingly important as worldwide, it's harder to get medical technology, it's harder to get expertise and the demand for turnaround time is growing.

Of course timing is everything. Our progress in this eSAS development has really been very good. The equipment is selected, the R&D material is due in any day. We've done R&D and feasibility sensitivity analysis and we can reach the sensitivity levels we need. And we anticipate receiving G&P lots in Q4 of this year.

We believe that we'll perform clinical validation studies to pursue a device type application in the first half of next year when we should have regulatory approval right at the end of next year or the beginning of '06.

With these new services and this plot and I'm showing non-U.S. launch in '06, we actually have two entire countries that are holding out of their bacterial evaluation program to await the availability of our result before making a decision, so we may well launch ex-U.S. before the end of '05.

So we think that we don't have a product that will meet market lead and support for platelet growth (inaudible) our customers need. However, the design (ph) application will be followed by BLA application. And we hope to, the moment we have design application, file an IND and then run an intended use upgrade at commercial practice to allow us to get the seven day dating and the label release claim.

So all in all then, the bacteria screening assay meets our strategy. It expands relationships with customers. It fits our strategy goal. It's a high valued product. And it's an highly regulated market with great barriers to entry. It's innovative. They are growth assays. They're approaching assays.

They're stable assays. And there are no other nucleic acid testing assays. It's upgradeable for more value. It's more value to the customers. It's a seven-day dating a label, claim and it brings value to the patient and it reduces the single biggest risk of transfusion today. It shortens time to release and it makes platelets available to the customer longer.

In summary, Chiron brings science, innovation, integration, development, acceleration, and ultimately value to the market. This is a $100 million market and Chiron is well positioned to pursue it.

I'd now like to move to an even bigger and equally exciting opportunity, which is just a plain, neat idea. It's my great pleasure to introduce you Douglas Clibourn, who I've known for about 12 years. He's our alliance partner and he's the CEO of ZymeQuest.

ZymeQuest is a development company which develops an enzyme that converts all blood whether it's blood type O, blood type A or blood type B into blood type O. It's a plain clever idea and I think you'll be very interested to hear his presentation. Douglas Clibourn.

DOUGLAS CLIBOURN - ZYMEQUEST - PRESIDENT

Good afternoon. It's a great pleasure for me to be here with Chiron today to tell you about ZymeQuest.
We are a company in which we have combined our expertise in carbohydrate chemistry, enzyme, biology, married these with medical devices for use in transfusion medicine. We believe our product will transform transfusion medicine by enabling the development of a blood supply that will be safer, more efficacious and cost effective.

Our product is based on the use of proprietary recombinant enzymes that are used in such a way that they remove with great specificity certain (inaudible) from the terminus (ph) of cell surface (ph) (inaudible) on human red cells, thereby creating a red cell that is transfusable (ph) universally.

In December of 2003, we entered into a corporate partnership with Chiron for the further development of our technology. Within this partnership, ZymeQuest continues to responsible for research and for our product development for the pre-pivotal, that is through phase two, clinical trial and regulatory processes and the manufacturing of the various elements of our technology and product.

Chiron came into the partnership by making an equity investment in ZymeQuest. We'll be responsible for the pivotal like the phase three clinical trials and regulatory process. And we'll do all the marketing and sales of the product and all the after sales services with respect to caring for customers on a wholesale basis.

This is a very real business opportunity that is driven by the fact the blood delivery system is under constant high level strain, created largely by the absolute necessity of matching the blood group of the donor with the patient. Something that's quite complex.

Underlying this process is the fact that on the supply side of this equation, that is among the donor population, there's a certain randomness to the presentation by ABO blood group that donor present on a day to day basis.

And on the demand side of this equation, that is the patients and the hospital, there's an equal randomness. So the issue of matching by ABO, the supply and the demand for red cells is quite complex.

Underlying this is the fact that there is never enough Group O. Group O is always hit first in emergent or traumatic situations, and in fact, in some cases Group O is used preferentially. In addition to that and making matters worse is again on the - on the supply side of the equation, the donor population is less than half Group O. And the other side of that equation, on the demand side, the patient population is greater than 50% Group O.

So there is a rather significant disconnect in the process of trying to match ABO between donor and patient, which results in chronic and systemic shortages, which drive a very complex and expensive logistical system. And a never-ending process by which the regional blood center tries to make sure that the right amount of the right blood group is in the right place at the right time for the patient who needs it. Which results in a product, of course, with ever-increasing costs.

Our business opportunity is based upon a very well defined marketplace. As Jack and Andrew have both illuminated in their comments, this is a customer base that we know very well. We know how they operate. A couple of us among this group have actually been a customer.

In the United States today, there are about 140 regional blood centers, not a lot of customers. And in most industrialized nations, there's a single management system that's responsible for the operation of a relatively small number of regional blood centers. These blood centers are highly regulated as Andrew pointed out so they behave in very predictable and repeatable ways. And as I said, we know them very well.

An immediate market opportunity for us in this equation is related to the fact that of the 54 million units of red cells that are collected for transfusion every year, up to 10% of those are outdated on a regular recurring basis. And because of all of the logistical and supply issues, the outdated process is probably worsening rather than improving.

So an immediate opportunity for this technology would be to address issue of outdated, which should provide for about 10% market penetration relatively rapidly.

Beyond that, of course, is the notion of being able to provide a totally universal blood supply that is all O and what we call ECO, enzyme converted O.

The revenue opportunity is substantial. Just addressing the outdated issue alone would drive a business somewhere in excess of $200 million. And on the more global level, we'll be able to convert all of the non-O red cells. Out of the 64 million, we're talking about a business somewhere north of a billion dollars a year.

I always point out here that, and I don't - is this one working? No. I'll stay over here, which is fine. This cartoon is only to show you the concept underlying our science, not to tell you this is not a science lesson. This is a red cell, and these four yellow boxes represent what in reality is an extremely complex branch (ph) carbohydrate chain, which has that (inaudible) term a single sugar, in this case a (inaudible). This assembly, that is the combination of this carbohydrate chain and the sugar forms what we call the "H structure". This is, in fact, the definition of a group of red cells and this H structure, this assembly of this carbohydrate chain in this single throughput (ph) forms the substraight that underlies the basic foundation of the ABH antigen.
In the presence of a particular gene that it has inherited, certain individuals make an additional sugar, in this case the galactose, which becomes linked as the terminal epitope to this H structure thereby forming a group B red cell.

In other individuals who have inherited a different gene, a different sugar is formed, in this case a (inaudible) which becomes linked as a terminal epitope on this H structure thereby forming a group A red cell.

As you can see from the concept presented in this rather simple cartoon, fundamentally, these antigenic structures are identical for the fact that this one and this array have a different terminal epitopes.

So the challenge faced by ZymeQuest in order to take this concept and wrestle it to the ground from the perspective of something that could actually be useful, was to find an enzyme or enzymes with the kinetics and the specificity sufficient to find their way through the nays (ph) and antigens on the surface of the red cell. And find this single structure and a single weak linkage, and create a reaction that would digest that linkage and clear (ph) that terminal structure, leaving behind the function.

So as this clear (ph) here, this former B cell, which we refer to as B ECO looks just like that that is terminal (ph). And the same for A, including the - this subset of A in which there is a repeating epitope.

The terminis (ph) of this structure now looks just like that. And here's something else that's quite important. The antibody against B, which is naturally occurring and is threatened on everyone who is not a B. A's and O's both have anti-B. A's have anti-A, B's have anti-A, O's have anti-A and anti-B.

Interestingly enough, these naturally occurring antibodies which you have, if you're B, you have antibody against A, have single act in their repertoire. Anti-B's can recognize and react only to this galactose, that's the only thing it can do. It has no other reactive capabilities. Anti-A can recognize and react only to this single terminal n-acetyl-galactosamine, that's all it can do.

So in the absence of this terminal sugar, the antibody directed against this antigen doesn't react and remains (inaudible) and that's underlying - is the science underlying how we deliver this technology.

To deliver it of course requires a device. In this case, we have invented a couple generations of this device technology. The one that you see pictured here provides concepts how the other systems work as well. This is a single unit conversion system onto which is installed a single-use sterile plastic disposable kit, which ultimately turns out to be our razorblade with respect to the business model. The single use sterile plastic disposable kit is installed on the machine to the disposable that's connected sterility (ph) in either group B, or group A, or group AB red cells. The algorithm and software in this fully automated system will introduce the appropriate amount of enzyme into the red cell mass (ph) in a processing chamber in which the actual conversion and digestion process takes place, followed by a sequential series of steps that has to do with cell washing. This machine is basically an extremely elegant and bonafide (ph) cell washer. Following the cell washing in which all of the enzyme, plasma, everything residual to the conversion process is removed.

And now ECO red cells wash suspended in normal saline is moved into a normal red cell storage bag to which will be dosed the appropriate amount of preservatives and the equal red cell goes on its way into the inventory for use and (inaudible) medicine.

Obviously, there are a number of benefits that approve from having a universally transfusable red blood supply. Clearly this will (inaudible) an inventory even if it's staged in a stepwise (ph) fashion will eliminate the shortages of group O specifically, while easing the ability to provide - to manage the existing blood supply more effectively. By being able to do so, a great deal of costs comes out of the equation and it's interesting, because most of this cost that has to do with managing this extremely complex logistical system actually has nothing to do with the clinical practice of transfusion medicine. But is instead, related to shipping blood from blood center to blood center, or blood center to hospital, and hospital to hospital.

Underlying this and perhaps most important of all, is the effect it has on blood safety. As was mentioned in earlier presentations by Andrew and Jack, I believe, the greatest risk associated with the transfusion of a red cell is the accidental transfusion of the wrong ABO blood group. This happens at a relatively high rate of occurrence, repeatable year after year. And the numbers are quite variable, and they're not important relative to what I'm about to say. That is, it almost doesn't matter what the numbers are, whether they're 25 or 250 deaths per year or 1,000 accidents or 10,000 accidents per year, and that is the order of magnitude by the way. Those numbers all become zero with the availability and use of the universally transfusable blood supply.

I'll talk to commercialization. It's very well defined and appears to be fairly straightforward. The next step in the process will be the conduct of - the balance of our pre-pivotal trials, Phase III trials which will be conducted under a ZymeQuest sponsored IDE. A pivotal trial, a Phase III trials will be conducted by Chiron under Chiron's sponsored IDE, moving to FDA's submission.

The status of the technologies currently are with the D ECO technology, that is converting B to ECO, we have completed both Phase I and Phase II clinical trials are currently optimizing the treatment conditions and working on perfecting the manufacturer ability of the enzyme. And although this is true Phase II our primary focus right now is on A to get it finished and also because it represents the greater part of the market opportunity.
With the A conversion technology, we have recently completed a Phase I clinical trial. We have a great deal of work going on right now with some process development related to moving the production of the A ECO converting enzyme to the next level on our pathway towards commercializable enzyme. And we're also doing some development work with respect to optimizing the treatment conditions, and are now planning for Phase II clinical trials, which we expect to be prepared to be launched at or about the end of this year or early 2006.

On the device side, the photograph that you saw a moment ago was of the single unit conversion device, which embodies everything required to deliver this commercially. However, we have a third generation device that's invented that converts multiple units simultaneously. In its current iteration, we are able to convert about eight units simultaneously on a single (inaudible) router (ph) while keeping the sterile integrity and fluid pathway of each unit totally isolated and separate from the others.

The clinical trial plan looks something like this. With the Phase II trials for A that we're planning at this moment, the trial will be launched with small allogenic (ph) infusions into normal healthy recipients are moving very quickly in that process. And to full unit infusions, there will be repeat infusions at each step along the way.

The primary purpose of this trial is that in the case of all of our trials to evaluate and measure in vivo (ph) survival circulation and recovery. All of our trials to date have involved chromium (inaudible) the infusion chromium label red cells, which is a very standardized technique in the industry for measuring in vivo (ph) survival.

We will also be looking at great diligence for the formation in addition to the survival, for the formation of antibodies against either the ECO red cell or the enzyme itself. To date, we've found no evidence of any of that.

Control groups, will interestingly enough largely be based on history. You have to remember, we have about a 100-year history of (inaudible) of using group specific red cells. And we understand what are the indications, and we understand the (inaudible) points of a red cell transfusion. So historical data is probably sufficient for the 20 subjects that will be involved in this trial.

Looking ahead of (inaudible) Phase III trial will be based on the use of our automated multi-unit conversion system. It will be rotation, sent to a hospital setting for both chronic and acute transfuse patients. The clinical end points (ph) in Phase III trials will be the clinical end points (ph) associated normally with regular red cell transfusions. That is following a unit of a red cell transfusion, there should be an increase in hemoglobin that's defined by a very standard curve that's used by the industry. We would assume that there will be normal survival based on a historical experience on our chromium (ph) studies. And of course, we look for signs and symptoms of a transfusion reaction.

There will be multiple transfusions, repeat transfusions in these Phase III trials to meet the transfusion requirements of each particular patient. Whether that be two transfusions for or 10 transfusions. We suspect this trial will be ready to start in - by early 2006.

The overall timeline associated with this process as we've been discussing them looks sort of like this. As I said, we're engaged in preparing for Phase II trials at this moment. We expect those trials to begin by the first of 2005. In the background, we're continuing the optimization work with respect to reflecting the conversion protocol per se. Process development is advancing. The manufacturing methods of these enzymes are down its pathway towards commercializable (ph) full GNT (ph) manufacturerability (ph). And we anticipate that the Phase III clinical trial will begin by 2006.

So we're at a point now where based on our own skills and strengths within ZymeQuest coupled with our partnership with Chiron, we believe we're very well positioned to move this technology from where we are to full commercialization. We have, we believe, the scientific know-how and expertise required to continue this process. We know and understand the customers very well. All of the aspects of our technology are the subject of a comprehensive intellectual property portfolio, although we don't own any (inaudible) technologies on the horizon. We believe we will be first to market, and by getting there first and substantially far ahead of any potential competitor, we believe such competitors will be displaced.

The strength of this partnership is fairly amazing. We've been extremely pleased with how it's gone so far. We each have recognized and played to and leveraged the strengths of the other side, thereby creating a whole leverage greater than some of its parts. And we're especially pleased to be able to enter the commercialization process with Chiron because of the extraordinary track record they have with our customers and the process by which they support those customers.

So thank you very much.

JACK GOLDSCHMIDT - CHIRON CORPORATION - PRESIDENT, CHIRON BLOOD TESTING

Thanks, Doug and Andrew, I appreciate that. (inaudible) I'd just like to end with a couple of remarks.

So just in summary, although we've short five years, we've executed on our plan and we've created value at Chiron Blood Testing. For our shareholders, that continues to fuel investments throughout the entire corporation.
Over the next four years, we're transitioning from a Blood Testing Division, just in the NAT (ph) center to Blood Safety. And we believe by doing this, we're going to move from the 400 million in revenues that we enjoyed last year to over 800 million by 2008.

Now I'd like to invite Howard and David back up and we'd like to entertain any questions that you may have at this point in time.

Yes.

I have three questions, my first question, has the FD or B pact (ph) discussed with (inaudible) pool (ph) sizes (ph) in the U.S. recently? And if so, when do you sort of see regulations changing for pool (ph) size?

My second question is, you talked about 13 customers adopting in Australia and Europe. Of that estimated 25%, what% of that volume does that reconcile with in Europe? And can you give us an idea of what pricing is like in those 13 customers?

And finally, on ZymeQuest, can you talk about what the cost would be to convert a unit of blood to the universal recipient (ph) (inaudible) product?

JACK GOLDSTEIN - CHIRON CORPORATION - PRESIDENT, CHIRON BLOOD TESTING

The second question involves the (inaudible) penetration of Ultrio and whether the 13 sites where we have Ultrio in the (inaudible) what percentage of the volume does that represent in Europe? It does represent somewhere between 20 and 30% of the volume.

The next area of penetration will be to get further penetrated in Italy. So just recently we had a meeting of the Italian blood centers and they have decided to move forward with Hepatitis B, particularly in the south of that country. So I think we'll see some uptake in the West of Europe - in the West of Italy, which by and large has a lot of small centers than the rest of Europe.

In terms of pricing, we have seen premiere pricing for Ultrio. We haven't disclosed specific prices, but we have a target and I can say that the pricing is so far actually above our target pricing in these countries so far. Now, some of the small centers, which have relatively high prices already. But we have achieved that premium pricing that we've talked about previously.

And the last question was with regard to ZymeQuest cost and price (ph). I'll let Doug talk a little bit about cost.

DOUGLAS CLIBOURN - ZYMEQUEST - PRESIDENT

We're still making some determinations about costs as the - there's some (inaudible) still with respect to scaling up the manufacturing of this enzyme, for example. We're still at very early preliminary stages. We've made - we've produced these recombinant protein to date and up to 20 liter production vessels. And we're talking about upscale (ph) in, you know, 10 or 20,000 liter production vessels. So we're not quite clear yet of what those costs are going to be. We're probably within about six months of knowing and understanding that I would say at the moment.

And that, of course, will draw some determination about the configuration of the disposable set (ph) which is the primary component of the product. So there's still a couple of unknowns that we're probably within six months of being able to define very clearly.

With all that said, one thing that seems clear so far, however, based upon some of the preliminary work that we've done with some very key carefully selected blood center customers both here and in Europe, is that it would appear that the cost of this is going to be able to rationalize the price that will be costneutral to the customer, and be more than offset by the savings that theoretically will approve (ph) from the reduction and outdated and the simplification of the inventory and distribution process.
That seems to be very fairly clear so far, and we'll be prepared to
define that more clearly once we understand what the actual cost of
providing the product are going to be.

JACK GOLDSTEIN - CHIRON CORPORATION -
President, CHIRON BLOOD TESTING

So in many ways, was (ph) also answer the question about price. I
mean, clearly we haven't priced this product yet. But what we have
done is with that the value to our customers in terms of inventory,
in terms of the logistics of shipping (inaudible) from blood center
to blood center and from hospital to hospital and a variety of other
things that would be eliminated, the value is significant. And if we
just took a very small part of that value, 20 to 30% that we've
anticipated, will get to the numbers that Doug showed you on the
slide.

So we've kind of given a range as a hedge in terms of the market.
And based on the market, half (ph) of the 54 million units of blood
in the industrialized world. So, I hope that gives you some basis for
that (inaudible).

Yes.

UNIDENTIFIED SPEAKER

Thank you. I'd be interested in Chiron's business (inaudible) in
three years that would be seem to be consistent with your mission
towards safety, but weren't discussed yet today. And those being
e viral and activation, automated collection and tests for Chiron, and
more specifically, DFC.

JACK GOLDSTEIN - CHIRON CORPORATION -
President, CHIRON BLOOD TESTING

From a strategic standpoint, we've looked at, I'll call it a "universe
of opportunities" out there, and narrowed down our medium to
long-term opportunities to about six. One of those is Chiron's (ph),
and we have a significant research endeavor in that area that we
haven't talked much about yet at this point in time, but will in the
near future.

And in terms of our viral (ph) activation, at this juncture, we've
decided not to pursue that opportunity today because we felt that
the generation of technology that's out there is not really on viral
(ph) activation, and it is really viral (ph) reduction. And we don't
believe that the value proposition is there for our customers, at
least today. But we'll be looking at that obviously in the future as
well as other opportunities that will meet our needs in terms of our
customer base but also in terms of value not only for our customers
but on the bottom line to us.

So we've eliminated some of the (inaudible) opportunities and
some other automated collection costs (ph) of opportunities at least
for the time being.

But obviously, we'll look at these opportunities continuously and if
something comes up that looks interesting, we're ready.

I think we have time now for one more question.

UNIDENTIFIED SPEAKER

Just a quick follow up, if you do quick math, it sounds like it was
$40 per donation that was the market potential. Is that the right
math to be looking at, if that's 20 to 30% of the received cost
savings? And I have some follow ups, but is that correct?

JACK GOLDSTEIN - CHIRON CORPORATION -
President, CHIRON BLOOD TESTING

Well, again, I could just say that we haven't disclosed price
specifically. But I assume your math is correct and, you know, you
based it on something that we broke (ph) out as well. So, but, you
know, I think we'll know more as we go forward.

UNIDENTIFIED SPEAKER

And the other question was on, you talked about A ECO (ph) in
the time line, and yet it looked like B ECO (ph) seemed to be
ahead. What's happening there and is there any loss in the yields
when you do the enzymatic conversion? How long does that
enzymatic conversion take, ball park, and how is Chiron sharing
the revenues in this (inaudible)?

JACK GOLDSTEIN - CHIRON CORPORATION -
President, CHIRON BLOOD TESTING

Let me - let me start off and then shift it over to Doug and
Andrew. B was (ph) the (inaudible) of A in terms of development.
However, A, from the market perspective and from Chiron's
perspective, it is the bigger opportunity. You know, in terms of if
you look at the % of the population that has A verses B verses AB,
the commercial opportunity is in A. I think about 60% of the
commercial opportunity...

DOUGLAS CLIBOURN - ZYMEQUEST - PRESIDENT

Actually of the non-O red cells, about greater than 70% of them
are A.

So the answer is to be fairly (inaudible) from that perspective.
JACK GOLDSTEIN - CHIRON CORPORATION - PRESIDENT, CHIRON BLOOD TESTING

Right. Doug, why don't you take over the rest of the question.

DOUGLAS CLIBOURN - ZYMEQUEST - PRESIDENT

OK, which was - B (ph) first - the foundation of the work on which were based currently was carried out a number of years ago here at the Kimberly Research Institute at the New York Blood Center. That operation no longer exists, that laboratory is long since gone. And we took that work and used that to build on what we have today.

And the first work they did, they're in the South Lab (ph) Chemistry Laboratory was on B (ph). So as we inherited the technology and transferred it to ZymeQuest, that work was already underway, so we just continued it. It was also a little more straightforward relative to the complexity of the process by which that terminal (inaudible) can be removed. It was more accessible, because as you notice, in that cartoon I showed you, one of the subsets of A has a repeating epitope, which is a little greater scientific challenge to sort out and figure an approach for how to deal with that.

So B was done first just because it was started first, and because it was easier to do. A was more complex and didn't get started until later.

JACK GOLDSTEIN - CHIRON CORPORATION - PRESIDENT, CHIRON BLOOD TESTING

I think we have time for one more question from (inaudible).

UNIDENTIFIED SPEAKER

On ZymeQuest, this is in terms of (inaudible) conversion (ph), so presumably (ph), you don't always go to 100% of any action (ph). So if you have some antigens that's not converted, how much can you tolerate in terms of not getting a reaction is number one.

Number two, in terms of (inaudible) information, presumably it takes time to get antibodies. So when you do your repeat administration, you don't (ph) (inaudible) every six months before you test and therefore, your Phase III would be a long one.

Lastly, on your $800 million target, how much of that is involved these (inaudible) the (inaudible) program or the conversion program?

ANDREW HEATON - CHIRON CORPORATION - VICE PRESIDENT & CHIEF OF OPERATIONS

UNIDENTIFIED SPEAKER

You've asked a lot of technical questions.

First of all, the (inaudible) but it's technically, we've been able to remove all these A (inaudible) and B's (ph) and effectively (inaudible). With A (inaudible) very small residual level of A covered by H (inaudible). The outcome of that is though that the cells type of the type O with conventional (ph) (inaudible) and therefore, they look like an O (ph).

And secondly, it's an usual development in the (inaudible) residual (inaudible) seen (ph) from blood center. over a 10 year period is (inaudible) the transfusions of A ECO and B ECO cells (ph) and we've never seen any harmful effects on the antibody. In fact, we've been (inaudible) by these (inaudible) to show that you get normal blood cells survival. So we don't see, although it is detectable, we don't see it as a significant issue.

JACK GOLDSTEIN - CHIRON CORPORATION - PRESIDENT, CHIRON BLOOD TESTING

And I'd only like to add with respect to the later part of that question, that in the original studies and in our leading up to our Phase II clinical trials of the D (ph) technology, there were volunteer individuals, healthy individuals who were fully immunocompetent (ph) who received multiple units of B ECO red cells. These were all O and A recipients. And then months later received multiple units (inaudible). And there was no evidence of the production of an antibody against either the ECO red cell or the enzyme.

Moreover in our Phase I clinical trials that are A conversion technology, there was actually a Phase IA and a Phase IB. In the Phase IA clinical trial, these healthy normal recipients received five infusions and they were separated on a timeline designed specifically to maximize the possibility of the - of the production of an immune response. The time, of course, was carried out over about 140 days with each subject for that purpose specifically. And the timing of the repeat infusions was specific to the immunogenetic. But (inaudible) if there had been any immunogeneticity (ph) to maximize that outcome and there wasn't one. So we're fairly confident that that's not going to be a likelihood.

UNIDENTIFIED SPEAKER

(Inaudible)

UNIDENTIFIED SPEAKER

I'm sorry, can you repeat that, please...

UNIDENTIFIED SPEAKER
How many AECOs have you transfused from (inaudible)?

**DOUGLAS CLIBOURN - ZYMQUEST - PRESIDENT**

Eight healthy recipients have received 25 infusions. Eight.

**JACK GOLDSTEIN - CHIRON CORPORATION - PRESIDENT, CHIRON BLOOD TESTING**

In terms of the numbers, the 2008 numbers have very little time (inaudible) in them, because we would just be introducing the product outside of the U.S. And in terms of bacterial identification, it would be in the double digits - low double digits in 2008.

So just in summary, we tried to give you an idea of what's driving the business for at least a short-term in terms of tests, automation, geographic expansion. I think those are clear. And a little bit about our transition to blood safety and how we will grow from 400 to 800 million over this next time horizon through 2008. I hope that we've given you the information that you need. I'd be glad to answer additional questions at (inaudible).

And now we'd like to take a five-minute break and get ready for the Vaccine Division. So we'd like to get back here at a quarter-to-two. Thank you.

**UNIDENTIFIED SPEAKER**

Thanks very much.

It's my pleasure to introduce the President of our vaccines business, John Lambert (ph). Thank you.

**JOHN LAMBERT - CHIRON VACCINES - PRESIDENT**

Thanks (inaudible).

It really is a great pleasure to be here today to introduce you to the dynamic world of vaccines within Chiron. If anything from today's presentation what I want you to do is to leave here with four key messages.

The vaccines business is unique and represents a great growth opportunity to Chiron. Chiron is the fifth largest vaccines business and second largest influenza vaccine producer in the world. Our research and development program incorporates cutting edge science and innovation. And our new vaccines presents significant business opportunities to Chiron and great growth opportunities.

Vaccines in the vaccines business is sometimes described as a niche segment in the pharmaceutical market. But there are a number of flaws in this notion. Firstly, the market is $10 billion, can hardly be considered as a niche. And secondly, the nature of the vaccines business is fundamentally different to therapeutic products.

Vaccines are administered to healthy not sick people. Very often they're the first additional (ph) product given to a new born baby. People don't accept or expect to be (inaudible) to vaccination.

Spending is to develop and getting it licensed. It doesn't necessarily mean that the vaccine will be recommended for use by a health authority. If it's not recommended, the chances are it won't be reimbursed by the country's health system. With no recommendation and no reimbursement, the chances of success are very low.

Good examples of this that we can see, the six in one pediatric combination, which has been licensed in a number of countries in Europe and was not recommended so it hasn't been successful. Also we've seen the same with (inaudible) in the number of European countries.

Clinical testing is also a key. And very often, you can't discover the clinical efficacy of a vaccine or side effect profile until millions of doses had actually been administered. And we've seen this for (inaudible) in the U.S. (ph).

This slide shows, using the U.S. as an example, a player (ph) and what has to be considered when you develop a new vaccine. Through vaccine development, market approval, use, reimbursement recommendation, (inaudible) marketing. Many players, many push and pull mechanisms in place. And I'll remind you once again the importance of recommendation for reimbursement and the importance of such (inaudible) has the FDA, the CDC, and AAP in the recommendation process. There are no successful vaccines which haven't been recommended.

Vaccines also touch many political areas, they're a motive, high profile. It wasn't mentioned (ph) in agencies, WHA (ph) was involved, UNICEF is involved. The (inaudible) Foundation also very involved. All funding vaccines to the developing world through Garvey (ph) and other such initiatives.

I'll go back to the (inaudible) side of vaccination and the need to prove even more and more safety (inaudible) efficacy. Take a look at how the clinical program requirements are life insured (inaudible) from the early 1990s and Hepatitis B meeting just more than 1,000 patients. For the newer license products like Fluad (ph) and (inaudible). These are large and expensive clinical programs by any standards.
Well, there are good reasons to pursue these products, to carry out the required studies. The Vaccines market is attractive now and in the future as it has strong elements for growth. Health authorities and governments are waking up to the cost effectiveness of vaccination in all areas. We've seen the mechanisms and principles of immunization (inaudible) the use of prophylactic (ph) vaccines.

Markets are expanding, increase birth rates, and increased (inaudible) and more people can afford vaccines. In (inaudible) countries where individuals who cannot afford to pay, such organizations like Gate (ph), WHO (ph), and UNICEF are helping to fund the vaccination programs.

Our population is aging. At the same time, we expect to lead a good quality of life, willing (ph) to old age, not to be debilitated by complications caused by such diseases as the flu (ph).

If you're in vaccines (inaudible) pedigree, it's a good place to be. Very few sales (ph) holding a significant market share, barriers to entry still high in many areas. So vaccines are very attractive and within Chiron, we're very well positioned.

The Vaccines market is (inaudible) attractive. We've seen topline growth of 12% over the last five years. Similar growth rates are predicted for the future with good gross margin.

But (inaudible) also be segmented. The (inaudible) so-called conventional vaccines yield (ph) pediatric vaccines. We're now living unfortunately with the threats of bio-terrorism, and we've seen the effects of infectious diseases like (inaudible) flu, which I'll remind you of having mortality rate of 80 (ph)%.

We're seeing the terrible rise of sexually transmitted diseases such as HIV, Hepatitis C, and (inaudible). In all these areas vaccines play and will continue to play a major role. The market and opportunities will continue to grow. And perhaps most importantly at Chiron is these growth segments where we're targeting our images.

Chiron is now in the premiere league and with our portfolio of products and development, it's poised for more exciting growth in the future. There's still some way to go to get right to the top of having the products, the portfolio, the wealth of experience matched with the competence needed today to continue to be a major player in the vaccines field.

We've already put a good deal of distance between us and those lower down the league (ph), and now have our sights firmly set on moving (ph) up.

The strengthening of our position is highlighted nowhere (ph) better than the flu market. Flu is and will continue to be an important product in our portfolio. We are currently a strong number two in the market, which is dynamic and growing. But long last, health authorities are waking up to the many benefits of flu vaccination, saving lives where people don't need to die, recognizing the need to increase immunization rates before the flu epidemic (ph) arrives. Seeing the threats of flu (ph) and bioterrorism that can let alone a millions of dollars of healthcare savings also (inaudible) by (inaudible) flu vaccinations.

We believe eventually cell cultures (inaudible) and you'll see more about this short (inaudible) flu still has a long conventional (ph) life ahead of it, and we'll continue to invest to meet worldwide (inaudible).

This year is the Centennial foundation of Sclavo in Italy and Behring and Germany, our heritage. These were initially the vaccine producers for Italy and Germany. Also don't forget our UK heritage in disease prevention goes back nearly 200 years (inaudible) and through Evans (ph) and (inaudible) we've gained the heritage and experience in the UK (inaudible), the UK national producer for many years. We have a long heritage in the Vaccine business.

Chiron Vaccines' participation in the consolidation of the global vaccines market means that we have a mass (ph), some of the finest vaccine experience in the world into one company.

If we turn to the comparatively short license column (ph), some 23 years, you'll see that many of the vaccines inventions (ph) in this period have been made by Chiron. Our company was initially (inaudible) discovery of the (inaudible) Hepatitis B vaccine.

But also look at the slide. The first discovery of diphtheria and tetanus (inaudible) over 100 years ago, and we still see (ph) names of those (ph) each year. The cornerstone of pediatric vaccines.

The first and second generation of rabies vaccines 20 years ago, which we also now are selling millions of doses around the world, including the U.S.

Just seven years ago, the first new (inaudible) for the vaccine since the 1940s NF59 (ph) (inaudible) in the (inaudible) development program.

And then the last few years, the first to prove the concept of a conjugated meningitis (ph) flu vaccine, which is what meningitis C (ph) in those countries where it's been introduced. This is an impressive track record for any company one in which develop (ph) those for the future.

(inaudible)

We are a global player somewhere there (ph). Over the last two years, we've invested considerably for our future with major capital programs in Italy where (ph) (inaudible) to support our future meningitis program. In Germany and (inaudible) for our flu cell culture and pediatric products. In the UK and Liverpool for flu and in India and (inaudible) for rabies.
We have the facilities in place to supply our products of the future.

In our (inaudible) efforts we have and are in the process of moving our operations closer to the market where we can better respond to our customer needs. I believe we are truly one of the few global players in the vaccine field.

We have a strong franchise in the (inaudible) approach to our business where we are entering a new era of product development, building on our long heritage and competencies. In the flu field, we're going to (inaudible) and face (inaudible) cell culture, particularly so we can respond to the pandemic (ph). It will mean a pandemic (ph) (inaudible) can be on the market once if a normal (INAUDIBLE) flu thereby saving thousands and thousands of lives.

Our experiences in conjugation (inaudible) is taking us further into the meningitis field with our meningitis ACWI (ph) combination. And Kevin Bryett will be the next speaker with further details.

Reno is going to be telling you about his research efforts in the field of genomics. And would (ph) like the possibility of developing a meningitis flu vaccine. And there are other research efforts, particularly in HIV and Hepatitis C.

We're proud of what we've achieved at Chiron. We're excited about our plans for the future. I'd now like to turn the floor to Kevin who will talk you through our meningitis program.

KEVIN BRYEITT - CHIRON CORPORATION - VICE PRESIDENT OF MARKETING

Thank you very much, John. Good afternoon, ladies and gentlemen.

I really am very pleased to be here and have the chance to talk to you about meningococcal meningitis. It is a terrifying disease, but it's a disease which we believe we can control. Chiron is at the forefront of the battle. Meningitis is a key franchise for everyone involved in vaccines.

Today I'm going to focus on Chiron products in our developmental pipeline. One, the conjugated meningitis flu vaccine, which we sell under a brand name globally as Menjugate. The second is our combination conjugate product, ACYW.

During the course of the presentation, I'm going to present some data which is unpublished. The data that we in the Vaccines feel is very exciting.

Meningococcal meningitis, this is a picture of the (inaudible) bacteria. Neisseria meningitidis is also known as meningococcal. It effects the area surrounding the brain, the meningitis (inaudible) meningitis.

If it goes across the blood brain barrier, it produces (inaudible). There are many causes of meningitis. You can get bacteria, you can have viral (ph), you can have yeast. But it's the meningococcal that's the most feared.

Your child can be well at breakfast. At lunchtime, he or she is unwell. By afternoon, the child is in intensive care. And at suppertime, your child is dead. Ten percent of children who contract meningococcal meningitis will die even with the most advanced treatment available. With that speed of onset, antibiotics simply cannot reach bacteria (inaudible) level (ph). How does it present (ph)?

It presents like all meningitis. You get a headache, you get photophobia (ph), you get neck stiffness. There's one feature that distinguishes it, a very classical rash. Now the rash looks purple-blue color, it's over all of the body. You can do a very simple test to see if it's meningitis. You use high technology, a glass (ph). If you roll a glass over the arm of the child, if the rash disappears it's probably not meningitis. If the rash does not disappear, the child probably has meningitis. And in that situation, your best bet is to take him straight to the emergency room, because we need to (inaudible) if they failed the glass (ph) test.

What about if the child recovers? Twenty-five percent of the children who have had meningitis will have serious (inaudible) after the event. A number would have had their fingers, their hands and their feet amputated. This is because the disease causes the platelets to congeal (ph) in this (inaudible) leading to gangarine (ph). There is but one treatment for gangarine (ph), that is amputation. They can have a profound deafness, they can suffer from epilepsy, they can have developmental abnormalities. Meningococcal meningitis is a very serious disease.

Meningococcal comes in a number of subtypes. These are defined by polysaccharide or sugars in the (inaudible) wall. Ninety-five percent of the disease is caused by just five subtypes, A, B, C, Y, and W. You can use the polysaccharide delayed (ph) vaccines against A, C, W, and Y. But you cannot use them to make a vaccine against B. Reno will be describing that in the next presentation.

The subgroups themselves occur in different places. Subgroup A traditionally occurs in Sub-Sahara in Africa and it (inaudible) leaves massive epidemics only read them newspapers an epidemic of meningitis. It's almost always subtype A in Sub-Sahara in Africa.

Group B effects infants and is worldwide in it's spread. Group C has a bi-mobile distribution. It effects infants but it also effects adolescents. Traditionally, when they go off to college or university or when they join the Army. Group Y is very common in the U.S. And group W is very rare until about three years ago.
Every year, the Muslim faithful go to Mecca to worship. For the last 10 years, this huge gathering of people being associated with outbreaks in meningococcal meningitis. Originally, that was type C. In the last three years, it was being type W. They even returned to home to Europe and America bringing the infection with them.

Here you can see the difference types between Europe and America. In Europe you'll see that B and C are the primary causes. Whereas in the U.S., Y occupies about 27%. This is not a stable picture.

If you (inaudible) 15 years ago, the U.S. would've shown B and C just the same as in Europe. Nobody knows why the Y has come into the U.S. Because of (inaudible) the next stage must be a (ph) combination vaccines that cover all of the types and cover any future migration.

It's interesting to note that B is increasing in Europe. The reason? Its success in the vaccination is taking the C out, so naturally the percentage of B is going up.

Vaccines do exist. Vaccines are registered here in the U.S. by the FDA. These are the so-called first generation vaccines of polysaccharide vaccines. These are effective, but they have limitations.

Firstly, they have a very low activity in children. Secondly, they have no activity in infants. And thirdly, they do not induce (ph) any memory. In the second generation of conjugate (ph) vaccines, these medical needs are being achieved. And it's achieved by simply attaching the antigen to a protein.

This is a slide for the chemist in the audience. At Chiron, we use CRM197, that's (inaudible) material, which is a (inaudible) mutant of a toxin. And we attached the antigen to that to make it into the conjugate.

Looking at the potential for the U.S., from Menjugate, conjugate meningitis type C, we do not anticipate a universal vaccination indication. It would be used in outbreaks. So when there is an outbreak in a store, in a university, or in an infant's home, then the vaccine will be given.

For ACYW, we do anticipate a recommendation. A number of countries have already recommended type C, UK, Ireland, Australia and parts of Canada. We believe that the U.S. will recommend (inaudible) and ACYW. However, outbreaks are frequent. This slide shows a number of outbreaks in the U.S. of meningococcal disease in the last seven years, and as you can see, it's spread across practically the whole of the U.S.

The new conjugate vaccines have distinct advantages. You can see in this table that in children under the age of five, the C vaccine, shown in red, is significantly more effective than the conjugate vaccine, which in the under two, have practically no reaction, slightly more in the three to five-year olds. Although by the time you reach adults, the vaccines are basically comparable.

I also mentioned the question of memory. This is the second slide involving our C vaccine, Menjugate. We have confirmed in toddlers that Menjugate doesn't induce immunological memory.

You can see here we have three groups. One received conjugate vaccine, one received the polysaccharide, and the third group received Hepatitis B simply as a control. They were given two injections. But after the second injection, as you would expect, the conjugate vaccine had a much higher geometric (inaudible) tighter. We then (inaudible) for a year, and by then the (inaudible) had slightly declined. Then giving a second dose of polysaccharide vaccine, a massive increase in the conjugate vaccine group confirming that they had got a memory response, which was absent in the polysaccharide group and obviously clearly absent in the controls.

That's all very well. We're looking in the laboratory, we've shown that these vaccines work. Do they actually work in the field?

As we experienced in the United Kingdom, in 1999, the British authority introduced mass vaccinations for everybody under the age of 21. The whole population was vaccinated. Menjugate was part of that vaccination program.

In red you can see the incidents of meningitis type B. As you can see, it carries on right the way across the steady (ph) period. The pink (ph) occur in full. Traditionally, meningococcal meningitis is the disease of the (inaudible).

So to B, no impact. To C, introduction of the vaccine, rapid decline. And now meningococcal meningitis type C is almost a disease of the past in the United Kingdom.

Now I'd like to describe our development of our ACYW vaccine. Our aim is to have a product with a wide age range. To achieve this, we have to look up three phases. First of all, we look at Phase III (inaudible) in adults. In Phase II, we move into toddlers and then in the critical group of infants. And in Phase III, we do pivotal studies where we look at (inaudible) schedules and the various other elements.

The Phase I studies are complete. We looked at 90 subjects, two formulations, and gave a control vaccine of polysaccharide. You can see that the conjugate vaccine is as effective as the polysaccharide. As I said to you in the earlier slide, this is as we would expect. Polysaccharide's conjugate's equivalent, therefore, at Phase I was a success, which shown it was as equivalent.

However, if you look at the (inaudible), you will see that the A and the W, the conjugate vaccines show a higher level than the polysaccharide. We then move into Phase II. In Phase II, we looked at adults and toddlers instead (ph) in several of those
Thank you, Kevin.

You have heard about our development program to meningococcal meningitis. What I would like to do now is to go into our research program. Our research program basically is trying to do a number of things.

One is to support the existing franchises, which is the meningococcal franchise that Kevin just talked about, and then (inaudible) franchise that John (inaudible) will talk about after him.

Then we are working on projects that may offer new fields in the arena of vaccines. (inaudible) working (inaudible) are showing our commitment to global health, and obviously in order to do that well, we need to master and work with a lot of technologies (inaudible) innovative field.

Today I will not go into detail on any of those things, but I will actually go and show you three examples only of examples of what we are doing. And I will talk about meningococcal B (ph), HIV AIDS and Hepatitis C vaccine.

Meningococcal B (ph) is an example of how the application (ph), pioneer, and science can solve the problem, and at the same time can offer a new field for new products for new things. So far, the all the vaccines have been developed during the last century, have been developed with one technology only or one principle only, which is so-called principle of (inaudible).

(inaudible) in order to make a vaccine, you need to isolate (inaudible) and inject the cause (ph) of this (inaudible). All the vaccines that are on the market, all the ones that have been developed so far have been used in this technology. That means that basically, in order to gather up the vaccines, what you need to do is you need to have the microorganism (ph) (inaudible) whatever, that causes the disease.

This technology has been great. All the vaccines that we have, all the (inaudible) by (inaudible) vaccines, but then say, thanks to the principles of (inaudible). However, sometimes that principles did not help. Meningococcal B (ph) is one of those cases.

The convention (ph) (inaudible) the (inaudible) technology was not able to solve the meningococcal B problem. The (inaudible) the problems that Kevin told you about, about meningococcal B and why - and ACYW (ph) did not work for meningococcal B. And (inaudible) were really (inaudible) because we could fill out the form (ph) four to five meningococcal (ph) problems (ph), but the fifth one, the B (ph) was not (inaudible).

And at that time, was about (inaudible) August 1st (inaudible). And immediately we realized that that was maybe a new technology that could solve a problem that could not dissolve by a conventional vaccinology.
An example of that, we started the program and we named differently. We named reverse vaccinology, because for the first time ever, we're now using (inaudible) conventional vaccinology to (inaudible). All we needed was a database of the genes of the micro (inaudible).

We started that and the approach worked very rapidly, starting from computer predictions. We were able to fine many vaccine candidates in that field where the conventional vaccinology are not being able to find any.

In a (inaudible) the (inaudible) of the problem to (inaudible) to clinical trials, in four years we were able to move from discovery to clinical trials. And the - also the nice (ph) (inaudible) is that the - why the conventional (inaudible) that produce the (inaudible) could only cover 20. 25% of the global meningococcal strain, the new vaccine that we've had now in Phase I trials, discovering 75, 85% of the strain (ph).

So from the scientific point of view, the vaccine that we're developing by reverse vaccinology have solved the problem. And what we are now waiting for is just the results of the Phase II trial to tell us that (inaudible) study, it's going to be much (inaudible) and then we know we're going to have a problem.

That (inaudible) on how the applications of new technology tries to solve the problem from meningococcal B. And as you realize, we are very excited about meningococcal B program which is in clinical trials, but at the same time, we've seen that the same technology can be applied to many packaging would have been traditionally very difficult to (inaudible) by (inaudible) vaccinology.

And we have lots of good results in many of these packets (ph) of the (inaudible) field. So they would become development candidates with ICI.

The name reverse vaccinology was entered into the history of (inaudible) science and with the scientific community. And now even our competitors offer use the name of reverse vaccinology.

So with the genomic approach to vaccine development we have somehow promoted a issue (ph) new field, which was producing already good candidates without - will include some trials and the lost of excellent candidates increasing the study.

That's for reverse vaccinology and meningococcal B.

The other thing I wanted to spend some time with you about is our HIV program. I'm not here to tell you that we got - we have solved the HIV vaccine. But I'm here to tell you that we are planning to take a different approach.

You can summarize the field of HIV, vaccine development, but that's going to you in two stages. First, the new antibody, Second, (inaudible) cells. What I'm going to talk to you about is what we have been doing?

We recently, in collaboration with DNH (ph), with positive (ph) clinical trial where we combine the fifth (inaudible) and the second (inaudible) of HIV vaccine development into a new (inaudible). So we're using - we are targeting antibodies and (inaudible) cells for the first time.

The vaccine you're working with is - contains the envelope (inaudible) of HIV, (inaudible) and is delivered into two sets. We're finding new system with a DNA (ph) vaccine, targeted (ph) by (inaudible). And then we put - with proteins, which is (inaudible), the combinant protein of the envelope or the divider. So the prime boost (ph) technology and is - what differentiates our approach from Manuel Dallio (ph).

As a (inaudible) vaccine is in clinical trials, and comes out to be a very collaboration with DNH (ph).

What's different and why are we excited about the - our HIV program. Here we try to represent the global population of HIV worldwide. The (inaudible) can divide the viruses, the (inaudible) into those who are very (inaudible) by antibodies. Those were (inaudible) difficult to neutralize (ph) by antibodies, and the advice of the population would be in between.

These are the (inaudible) of the envelope (ph) (inaudible) which have been used in the (inaudible) section (ph) vaccine is the GP (ph) classical, GPI (ph) vaccine. As you can see (inaudible) and when you look at neutralizing antibodies, this vaccine will induce antibodies and neutralize very few (inaudible). It's no surprise that the Phase III trials failed.

This is the envelope which we have just put (inaudible) clinical trials. As you can see it's not (inaudible) it's (inaudible). At exactly the same (inaudible) that you get on the surface of the bible. There's no method.

In addition to that, we have engineered the program in such a way that it reduces more (inaudible) an neutralizing antibodies. And our (inaudible) now we get neutralization induced by this new product of more (inaudible) the same initial one.

The first time in 20 years of vaccine development in HIV that this arrow (ph) been pushed more on the right than this - than was figured and (inaudible) one thing (inaudible).

Are we satisfied? No. The sales reps tried to push this to the end. We're like, when we get there, we know we're going to have a final vaccine. For the moment, we'll just move in the right direction, but if we move for the first time in 20 years.

So that's where we had - that's where we're doing increase in (inaudible) right now. And it's no surprise that this vaccine that
that's in (inaudible) climate (ph) and they're like many other vaccines. But what we expect from the (inaudible) principle that we have established and bringing us value is good, and that we are introducing more broad and (inaudible) antibodies.

The last thing I want to mention is our HAV (ph) program. As you will know, in Chiron, we've discovered the Hepatitis C virus, and we have been using the knowledge that (inaudible) from the gentleman (ph) to already have a big insight on the global health by making the test available to maybe just the blood supply safe. And you heard a lot about that.

Nevertheless, despite of the fact now there are less people that get infected. There are still globally under 70 million people worldwide that (inaudible) is forced Hepatitis C (ph).

There are three 25,000 new infections in the United States alone every year. So we've been working hard, but only to prevent new infections, but basically to provide a therapy and a prophylactic (ph) measure for the - for the understanding to million people that (inaudible) but for the 25,000 people you still get to see.

Does Lung and ...

UNIDENTIFIED SPEAKER

Difficult of search. For the first time, we got ourselves a makeup very fast. We believe are very excited. We've been working the only (ph) anyone (ph) model that is available so - Hepatitis C, which is an anyone (ph) model which is really complicated because you have to use chimpanzee, expensive, very difficult to get in large numbers.

But here we're so concerned with you (inaudible) gives us confidence in this that we have something that's really interesting. And basically, this model that confirms (ph) that I'm not vaccinated, they'll all get infected and they all - most of them just lead to chronic infection like humans do.

On the other hand, a group that has been vaccinated with a recombinant and (inaudible) a combination of (inaudible) they get the (inaudible) of yeast (ph) infection, but within a few months, they (inaudible) and they don't proceed to chronic infection.

So this is what (inaudible) that many new mothers who believe it's relevant, and there is, on the confidence that we have in (inaudible) we started to do things in trials and two things. One was a prophylactic (ph) vaccine and the other one was a therapeutic vaccine.

The number of trials we are doing, some of them have been already (inaudible) others are ongoing. Again, (inaudible) field of a big and large unmet medical need. We are doing this in collaboration with (inaudible) heavily supported our development here. So we have two prophylactic (ph) vaccine (inaudible) and two therapeutic vaccine (inaudible) that which have either started or about to start.

(inaudible) able to say how these things organize (ph) for now, it's the (inaudible) very good. I want to share just with you, one of the (inaudible) that we got from the (inaudible) Phase I trial, and other people that (inaudible) vaccine. If (inaudible) in the (inaudible) in collaboration with CSL (ph), which provides an antigen, which is the (inaudible).

And what you'll see here is that two out of the 10 patients that were immunized, we got a set of boxes (ph) (inaudible) against the (inaudible). One, we're very excited about it. This is the first time ever that by immunizing the probing in Agilent (ph). You can get a (inaudible) box of two sales of (inaudible) in men (ph). It's never been done before.

And since this (inaudible) is believed to be important for - to live in the (inaudible) once you were infected, we believe this is a very encouraging thing because we've got to see that the same things that we saw in chimpanzees start to happen in humans.

We have to wait and see whether (inaudible) retrieve (ph) a better logo, clear the infection, but so far so good. And it was also very exciting.

Well, this are the things I wanted to share with you about this three (inaudible). And I think it's - I was just going to conclude. trying to summarize what I think I tried to (inaudible) with you.

Physically, tired and confused (inaudible) advance pioneering (inaudible) and vaccinology. Let's continue with there, and we'll try to change the field continuously with new innovation.

I think I showed you that we have meeting opportunities with terrific and value in meningococcal B, HIV and HAV. And also, that we had a multiple approach of our standard value creation until we tie it on the (inaudible).

That's what I wanted to share with you today, and I think now we can go to John Rodriguez (ph) who's going to talk to you about the single that your mom mentioned, which is our influenza programs, which I also - gives you an excitement. John.

JOHN RODRIGUEZ - CHIRON CORPORATION

Thanks, Rino.

Thank you. Good afternoon. I'll be reviewing with you on commercial operations as well as (inaudible) just to give a brief background on influenza, manufacturing, and some of the market dynamics.
The influence of (inaudible) have a typical viral structure, and it surrounded by outer membrane and (inaudible) membrane approaches. Two approaches from (inaudible) are (inaudible) base and hemoglobin.

Now these are at a number of proteins I'll refer to as subtypes in the (inaudible). And in fact, some virus are actually known by their subtypes are - a really good example would be like (inaudible) flu or bird flu (ph). Sometimes you'll see in the press is H5N1. And H3N1 means is that it's actually the subtype.

Now the degree and changes to these outer membrane proteins that occur from single to single helps determine if that flu season is going to be mild or severe. Now when a gradual change in these outer membrane (ph) proteins occur, is what we call "addressed" (ph). Now the back scene changes each year to (inaudible) the invitations, and that's why the back scene has to be produced every single year. But sometimes, these outer membrane (ph) proteins have a profound variation. They change dramatically. And when that happens, we call that a "shift". And when that shift happens, the potential exists to have a severe flu season or a pandemic (ph).

So the question is - for a pandemic (ph) it's not if, but when? And these are some reason (ph) estimates for about what a (inaudible) could mean for the United States? In fact, the influenza (inaudible) deadly. The (inaudible) result or death in the upper range of 200,000; hospital ratios of 700,000; and total infected, roughly 100 million.

The economic costs associated with such a (inaudible) are also quite staggering.

So whether a pandemic (ph) occurs or a interpandemic (ph) year, because (inaudible) really is activation. And vaccine kind of evolved over time. It first started to be used as giving the whole cell in terms of developing the vaccine. Later, move on to split cell, and now as the sub-unit. So we'll see (inaudible) back to - they're all very effected vaccines against influenza.

So how do we make influenza vaccine? Well, traditionally, it was a vaccine from (inaudible). And the production cost (inaudible) is rather complex, so I'd like to just briefly walk you through the process.

The process actually starts out in early January. For the first five months, several things occur. First, the (inaudible) are selected. And there's actually three (inaudible) this year that are selected. Those strains (ph) or viruses are then injected to eggs. The virus is allowed to grow. It is then harvested and then activated, meaning killed.

Following that process of five months, the vaccine is purified, it's tested for potency. Let me combine the three strains into one vaccine. That's why you always hear for a flu vaccine at the (inaudible) vaccine, so it covers three hours.

Following that progress, we still and package the products as for ready for delivery in September. But as you can see, it says, "the year long process to enjoy our flu vaccine". But there's two critical factors. l mean, when you manufacture a flu vaccine (inaudible).

The first is the egg supply (inaudible). During the height of our manufacturing, we used 500,000 eggs a day. So the complexity of getting that many eggs is quite staggering.

And in addition, if the virus or the (inaudible) virus that you've happened to be an influenza strain, I'm sorry, I maybe (inaudible) and actually 11 weeks might be necessary to entuate or to modify a virus so that it would not be able to grow in the egg.

By definition, an egg (ph) in virus (ph) is lethal to eggs and hence (ph) to chickens. So as you can see, the egg supply as well as if you had an (inaudible) in strain, can be problematic if we challenge it to the production.

So for that reason via the future as well as the production, really is your cell culture. And conceptually the manufacturing is possibly the same. The only difference is instead of using eggs to replicate and to grow the virus, you are using cells.

And so it's the same process. The strain is still selected. It's (inaudible) egg for these viruses. The virus (inaudible) cells, the cells are then effected with the virus in the same purification and activation process occurs.

So what does the throughput (ph)? Well, this process provides a shorter manufacturing time, enabling us to get our product to the market faster. And it also allows us to better prepare for our (inaudible).

John (ph) mentioned earlier, the sooner that we can get a product to market (inaudible) the more lives that we will face. And it does live simply, because we're also dependent on a night supply, and if we do have an egg (ph) in strain, there's no random weeks or so is not needed to (inaudible) the virus.

So what about Chiron's cell culture vaccine? Well, clinical data suggests that the park is very efficacious, so relative to traditional egg-based vaccines. And which begs the question, then where are we within our development and lasting new cell culture vaccine?

Currently we are in Phase III trials in Europe. We expect to file in Europe in 2006. And for the U.S., the registration plan is underway and we (inaudible) the house in fog.

But whether you (inaudible) vaccine or are you using a full cell culture vaccine, the commercial opportunity is there.

And that's what I wanted to talk a little bit about now.
The global flu market is very public and focused. They have developed several key growth drivers for the market. The first is, why do a adoption of age and risk groups based on vaccinations and recommendations. This is the pool of people who should be (inaudible). The pool keeps growing and growing through recommendation.

The second, believe it or not, is pandemic preparedness. The best way to prepare the world for a pandemic, is to increase the vaccination rates that occur in the interepidemic years.

And finally another driver is the increasing prices that are coming from injectable influenza vaccines.

If you like walking (ph) and particularly very attractive, when I mentioned the use of recommendations to drive the market for those of us, I mean, U.S. is no exception to that. The ATIP (ph) has dramatically extended the recommendation previously with only those 65 years and older who do that for you. We now have adults between 60 and 64, children age six to 23 months; and all close contacts associated with those risk, is now recommended to relax (inaudible) country.

In fact the PDC (ph) has suffered (ph) (inaudible). They publicly stated that when they wanted to measure themselves again, say that by the year 2010, they would like 150 million Americans (inaudible) a year.

Reduced competition is also making a bit market attractive. Currently, there are only two manufacturers for influenza injectable vaccine, and I did mention about prices. List prices are really to provide (inaudible) end users. And just so the four years, the pricing at the suites. I'm a little over four dollars to just under eight dollars.

So as a result, we expected to man the influenza vaccine to - you'll continue to grow. From 83 million in 2003 to over 130 million in just six short years.

Well, what about the pricing? Well, we see a strong pricing trend. In that four years, the prices for end users had increased 80%. We believe that the market dynamics are such that is likely to continue.

One thing you have to look at is where is the flu vaccine administered? We hear a lot about government involvement, and overall, the majority - overall majority of vaccine is still administered in the private (ph) setting (ph). The public setting, in this case, has merely helped us out (inaudible). And we see this trend continually.

But despite that no such giving in the private sector, the Government can't increase that it's vaccination ever. And what we're doing this year? Well, we're implementing their Pediatric Stat file, that's 440 million (inaudible) allocated for this year.

They've increased their number of doses that they ordered under conditional CDC contract. We have contracts like those of the health department. And we're continuing aggressive promotion about. Again it's all pointing (ph) that to their goal of 150 million Americas to evacuate (ph) annually.

There are a couple of key drivers for the U.S. business. They have the recommendation that I - that I just spoke about, expanding the pool (ph) if you can evacuate it. There's also increasing value in the marketplace. It's demonstrating value of the influenza vaccine, and thus allowing increased prices. And also targeted direct distribution for certain segments. And what this allows us to do is to increase our margin for those segments.

And finally, the improved reimbursement by government impaired. The Government is creating an environment that encourages vaccination. Positioned, you know, you don't lose money when they evacuate their patients. In fact, depending upon what part of the country you're from, the net cash flow that you get is literally between six and $23 per person vaccinated.

So let's talk about the potential in the market. And I talked a little bit about the recommendations and what they can do. And the growth for (inaudible) is clearly driven by market expansion, and market expansion is coming from the recommendations. And this is a (inaudible) up here, looking at different age (inaudible) so we're in 2003, and where we're likely to be in a couple of years.

In all (inaudible) see an increase in vaccinations, but I just wanted to point out one. And that is a segment of 50 to 64-year olds, which is what the ATIP is now also recommending in addition to the 65 plus. And what does that really mean? That means that 54 million Americans are now in this pool who should be vaccinated. And currently, only 21 million of them are being vaccinated. So again, an amazing opportunity for market growth and market expansion.

And I just wanted to point out one more, and this was really surprising when I learned this, and, you know, when you look at healthcare workers as an opportunity to get vaccinated, the fact is that only 36% of them are currently vaccinated. These are the people that are working in the hospitals, the nurses, the doctors, the staff. And so, that 64% roughly has a huge opportunity for market expansion. And that 64% also, by the way, is a major call to influence outbreaks or health care settings.

Well, that's a little bit about the market potential. And I just also want to discuss, you know, where vaccination occurred, and how the product actually gets to the end user, and what are some opportunities that we have at Chiron if we begin to shape our distribution (inaudible)?

First, a little background on purchasing. Some of your are (inaudible) to influenza. Once that cools for when they're actually ordered and strain (ph), while the Florida vaccine go to (inaudible)
because the owners are in place, and the demand gives us a pretty good idea what the demand is.

And it's such a unique opportunity or unique characteristic here is that one of the vaccines are finally delivered in the fall. All the vaccine cartridges are all non-returnable basis. And partly this is because of (inaudible) be used for one season.

Let's talk about how the vaccine gets to the provider. The providers will (inaudible) be positions. They could be hospitals or in the lunch base setting. And you know, manufacturer's cheap to get to the - to these providers in many different ways. And that, for example, pretty much goes on a direct basis. They sell right directly to the providers.

Chiron, on the other hand, (inaudible) has used distributors. And, you know, the distributors then end up selling to providers. And I just wanted to talk a little bit about (inaudible) very highly specialized. They know their customers really well. Sometimes they specialize just in pediatrics. Sometimes they specialize in just (inaudible) or group (inaudible) innovation. They know these customers inside and out. They know what they've ordered in the past, they also supply all of their other needs. And they're very effective in pushing the vaccines down to those providers. They also have pretty extensive sales and marketing organizations to help supply them.

So what is our current distribution strategy? Currently, Chiron distributes to southern distributors. And for the very (inaudible) I just mentioned that they can do for us, that is why we do that. But in addition, they have several thousand sales reps, and what these sales reps do is be able to (inaudible). And the ones that we contract for, they are actually pushing (inaudible) to all those end users that we just discussed. So that was the logic behind using those distributors.

But the question that frequently comes up is, historically you have used distributors. Now what do you plan on doing in the future?

I'm willing to expect that we have Chiron, like I said, historically going through distributors. On the other hand, you have Aventis going strictly or mainly to our direct business.

What we could call (inaudible) is we see them honoring their (inaudible) distributors for the reasons I described, but also strategically taking selective business direct. And by taking that business direct, we can increase our margins for this segment.

So Paul will do the blended approach.

So what is our pricing and distribution strategies for this year? Well, we're going to renegotiate our contract to our distributors. All but - all but one of the contract comes up at the end of this year to our distributors. We're also going to be able to do things direct distribution to certain segments. In a matter of fact, she's going to be done this year. It allows us to have a transparent price of (inaudible) in the marketplace.

Now there are a couple of key accounts that are actually taking direct this year. The (inaudible) and the regular (inaudible) business will be direct with Chiron. We're taking collect businesses and follow up on little change for those drugs this year.

We are also looking at improving margin on our target (inaudible). The only segment already to get - it's (inaudible) as a vaccine from (inaudible). We receive (ph) to look at taking this business direct. Therefore, increasing our main to that segment of the business.

So what about in 2004? Well, we're on track to sell at least (inaudible) at least 48 million doses for the U.S. market. However, we have taken orders in excess of 50 million doses for the U.S. market this year. And we're only the destroying opportunities of how we can increase our revenue, government contracts, direct distribution opportunities I talked about to increase our margin, and certainly selling potential doses that are - that are (inaudible).

And beyond 2004? Well, walking expansion was a (inaudible). We would increase our capacity to meet that our demand. We'll improve our margins and we're confident in our (inaudible) that the majority of our distribution contracts are up for renewal in '05.

And finally, we will continue to optimize our distribution channels therefore to try to increase revenues.

So in short, ARM (ph) for this year into next year. We're looking for the future very bright. And on that note, I'd like to bring out John Lambert back up just first (inaudible) and closing comments.

UNIDENTIFIED SPEAKER

Thank you.

UNIDENTIFIED SPEAKER

John and Kevin, the (inaudible) and presentations today, which I hope will give you a touch of the passion that we have for vaccines within Chiron. I'm sure also it's raised a number of questions that you'd like to ask. David and Howard are joining us now (inaudible) to the question session.

UNIDENTIFIED SPEAKER

Could you apply (ph) a little bit more color or granularity on distribution of the flu market? You talked about Adventis going primarily direct and you primarily using distributors. Can you talk a little bit about the next couple of years? Can you talk about most of your distributors other than one coming up for renewal. Can you give us a revenue idea as we move towards (inaudible) maybe at
home if you'd be going direct and what kind of infrastructure you plan on building here to support that market?

UNIDENTIFIED SPEAKER

I think today we can't (inaudible) much rather than John has already explained. And we're working on our strategy. We feel our strategy going forward will be through (inaudible) looking at its own entire channels as well. We haven't - we haven't (inaudible) number of (inaudible).

UNIDENTIFIED SPEAKER

Thanks. I had a question about the manufacturing expansion process that was a pool (ph). Can you give us an update on where you stand there, and what the increase in capacity will be over the next few years. And then also on the issue of going direct, given the fact that a lot of price increases and the market has been captured by the distributors, should we think about the margin there that you're giving away at the distributor level to be greater than that on a typical pharmaceutical agent?

UNIDENTIFIED SPEAKER

So I'll tackle first of all, the questions on (inaudible) pool (ph), and I'll refer to John and the translating issue and going direct. And Liverpool is all planned. Their shirt is up. We're expecting to see on line producing (inaudible) 2007. There will be an increased capacity there to fulfill the U.S. market, not (inaudible) Europe. And there are other markets around the world with where we'd be able to share through (inaudible).

The main purpose for Liverpool and the new (inaudible) was really a matter of compliance. When you - or when their client (inaudible) the existing facilities, if I had the food, it would have to b replaced. And for the main purpose of what we call it, South Port (ph) and is to replace all facilities.

UNIDENTIFIED SPEAKER

Just a follow up to that, can you give us a sense to what the target capacity is on that? And when you say 2007, you mean, for the '06/07 or for the '07/08?

UNIDENTIFIED SPEAKER

(inaudible) capacity through (inaudible) should appear from now through to the new plant (ph) being available. So we expect the yields to increase year on year. David, I don't think we give the numbers for (inaudible). No.

UNIDENTIFIED SPEAKER

For the other business...

UNIDENTIFIED SPEAKER

I'm sorry, we didn't answer the second part of the question. I'm sorry. SMITH (?): The rational behind going and taking selected business direct obviously is to increase our margins to end (ph) segments. And there are area segments that we can take our direct. It's not just going after the entire market. So obviously, if we were to take that and if we were successful, it would increase our margins.

Your question relative to other manufacturers without a degree of the magnitude of their margins, I can't (inaudible) to answer. Does that answer your question?

I don't - I, larger (ph) to a company they're proprietary, so I wouldn't have no basis for comparison.

UNIDENTIFIED SPEAKER

(inaudible) which should at least go up. Then the amount of - on a percentage wise basis we would get to keep. So at the same percentage margin basis, we're going to get more and more obviously, and that's part of the calculation as we're still negotiating the contracts for the next season. I think John (inaudible) can't really say how soon the (inaudible) be reached, or actually to duplicate this distribution capability, the (INAUDIBLE) sales force. Way back incidentally as to market conditions plays out, which, of course, is more and more safety as (inaudible).

UNIDENTIFIED SPEAKER

For the other businesses, you mentioned the 2008 target for vaccines, we haven't seen that so far. Can you comment on that as number one? Number two, can you talk about the competition on the cell culture flu vaccine as well as safety wise of the vaccines?

UNIDENTIFIED SPEAKER

Can you repeat the first part of the question again, please?

UNIDENTIFIED SPEAKER

What are your 2008 targets for the vaccines?
(inaudible) David? What's the 2008 (inaudible)?

UNIDENTIFIED SPEAKER

Actually, I'll chime in. David, you're going to cover that in your presentation.

UNIDENTIFIED SPEAKER

(inaudible) and say that we expect it to be more than a billion dollars in 2008.

UNIDENTIFIED SPEAKER

In terms of the competitive situation (inaudible) meningitis (ph), I think one of the concerns that I have is I'm a little bit (inaudible) living in (inaudible) so many (inaudible) manufacturers disappear (inaudible) consolidate.

So we're in a situation now that for many of the countries in the world, including the U.S., many of these key vaccines which are needed (inaudible) just take a look at the pediatric sector, you have (inaudible) and I really think that's very healthy. So I think as a general point, I think there is room for more (inaudible).

As far as meningitis is concerned, there is competition from Adventis (inaudible) GSK. We believe we're in a good position. We have our product very strong (inaudible) have a product with a strong (inaudible). You've seen the excellent results of (inaudible). And with regards to the results, we would expect to have good results in (inaudible). So I think we have a very competitive products.

So in linked to (inaudible) your comments about it's healthy to have more competition in the (inaudible) I think we're in a very good (inaudible) position.

On flu cell culture, remember companies who understand to be in the field, we (inaudible) follow our programs diligently. We believe we're in a good position, and we have our manufacturing facilities in place for (inaudible) business.

One of the biggest issues, one that didn't really sell (ph) (inaudible) which we're using, is the actual scaling up of the manufacturing process. We've achieved the scaling up so we know that we can produce an effective product and in good quantity.

Now I didn't really want to talk about the specifics of the program (inaudible) or the other people or (inaudible), and we believe we're in a strong competitive position.

UNIDENTIFIED SPEAKER

Just a follow up question on this year's production. Are you able to give us any updates on where you are in the process relative to the timeline that you outlined and what sort of yields you're getting on the strains? Have there been any surprises on the upside or the top line?

UNIDENTIFIED SPEAKER

What we'll commit to the moment is that when you're interest (ph) points of mid-June, which is a point where you've had the (inaudible) the manufacturing process, you think you could probably - well, you can be very confident and live on a minimum quantities that you'll be able to produce. Especially when we're extremely confident now that we'll be able to produce the 50 million doses that (inaudible) necessary. It's too early to say (inaudible) any upside from that.

So one more question.

UNIDENTIFIED SPEAKER

Can you give us an idea of the percentage of flu vaccines that you think might be booked in the fourth quarter of 2004 and the first quarter of 2005 as a percentage of the total amount?

UNIDENTIFIED SPEAKER

I think between Q3 and Q4, because (inaudible) between September and October because (inaudible) and I think it's a good (inaudible) of that (inaudible) ninety-five% of our total business for the (inaudible).

UNIDENTIFIED SPEAKER

It's hard to break it down between the third and fourth quarter (inaudible) reason that the third and fourth quarter simply strattles (ph) (inaudible). So it's the amount of time it takes to clear a (inaudible) and then how many of the (inaudible) are shipped into the market.

So you're asking a modeling question I'm sure, but we're not going to give you great satisfaction unfortunately.

JOHN LAMBERT - CHIRON VACCINES - PRESIDENT

In terms if you - if you in terms of (inaudible) at the U.S., but if you look at the world's flu market, we start shipping flu from July.

OK. So thank you for your attention. To conclude, I would like to just go back to the four messages I said at the beginning. The Vaccines business is unique. Chiron is in a great position. Our
R&D is really cutting edge and our new vaccines are significant and really (inaudible) money on it.

So with that, I'd like to hand it over to David Smith to conclude today's event.

DAVID SMITH - CHIRON CORPORATION - CFO

Thanks, John. Good afternoon, everybody. I've been up here all - you know, quite a bit this afternoon. It's my first time I'm actually going to say anything.

What I'd like to do is give you the perspective that I have as Chief Financial Officer for Chiron and how we're going to turn these strategies and translate them into revenue growth and shareholder value creation. I'll frame this a bit in terms of what's going to happen in the near term, the medium term, as well as then in the longer term.

Really there were four objectives today when we started the first one, to convey to you the growth plan for each one of our businesses. Second, what management actually talked to you about what those growth plans are and let you see their commitment, their capabilities, and the excitement that they have. And third, go through the details and timelines of both our development and commercial programs that we consider to be principle. And fourth, to take a look at and convey what the vision is in order to create shareholder value.

We've been successful today, and I think you'll share the confidence that I have that Chiron's multiple business unit model is unique and its diversity is something that has power that's going to allow us to meet our near-term earnings goals, and at the same time as we invest for the future, have a significant value proposition.

Let me reiterate a bit about our vision and how we're going to create that significant growth. We talked about our vision and the strategic drivers during the course of the day. But we've also talked about approaches.

What the team that transcends those approaches are the fact that the returns that we will generate through them, we believe, significantly outweigh the incremental investment that we're going to be making.

Now let me talk about each one of these in some detail. The first is execution. Execution is key. Execution is something that we need to do and any company needs to do extraordinarily well. And we're obviously at the starting point in many of these activities. We laid out for you significant goals today, goals for 2004, which many of you have seen before. But at the same time, goals and milestones that go out beyond 2004 into the future, those goals are significant, they're challenging. Obviously we believe we're up for that challenge, and those are goals that we will judge ourselves by and we expect you to do the same thing.

Now I'm confident that if you look at our systems, our resources, and importantly, the culture at Chiron, that we have what it takes in order to execute effectively. The next item, in terms of our approach, relates to the acquisition of adjacent technologies.

We've talked about this today in terms of fortifying value. Let me remind you the Gen-Probe relationship, our relationship with Schering, and the Ortho relationship are prime examples in the past where we have fortified value within our business.

We are entering into and have entered into a series of alliances. You've seen most of them up there today in terms of what we will create new platforms, new franchises, and new revenue opportunities that will continue to add value to the company.

Nektar's a significant example of augmenting our pulmonary franchise with TOBI. And if you take a look of what we're doing with XOMA and increasing our capabilities I the monoclonal antibody spaces as it relates to oncology, those are significant examples of value creation propositions.

The next item then is leveraging commercial platforms for additional resources. We talked about the NAT business today. We talked about how we're adding new instrumentation, new eSAs, and new geographies, which are adding value and adding revenue obviously to the customer.

Two more visible examples of that are Cubicin as well as CPI, cyclosporine for inhalation. Those are examples for little investment that we're going to be able to drop into our existing infrastructure around the world and create tangible value from those particular businesses.

This is an example of both financial and strategic level that the company continues to exploit. An area of significant interest to all of us in the room are Blockbusters and the bets that we're taking.

These items are risky, but we're up to the task. We understand the areas that we're playing and we have the expertise there. If you look at these opportunities, they would represent between north or $5 billion of revenue opportunity, significant and we're pretty excited about what we see there. These obviously would generate enormous returns for the company.

To frame this and take a look a bit at this particular slide, lets talk about the core business for a second. We haven't spent - or I haven't spend much time on it, the core business is strong. We're seeing growth you've heard about flu. It seems like a vision for NAT as well as items like TOBI. And there are other growth propositions within Chiron's base business. We expect growth to be good, to be strong over time.
We're augmenting in the near term. Take that for 2006 or so, with the launching of Cubicin bacterial detection. Moving into the medium term, into 2008, the ECO blood that we talked about a little bit earlier, as well as then all Proleukin in combination plus plus plus.

Get out for a longer-term, and you can see the blockbuster potential for the meningococcal franchise as well as the opportunities then that you can see coming from Tifocogin and our small molecule and monoclonal antibody space. These are significant opportunities and significant dynamics for the company.

Now to frame that back into implementation and execution, we’ve put these activities to the right revenue by 2006 and beyond into the framework for each one of the approaches that we've talked about.

We have significant commercial activity coming up here over the next few years. And to put this into a bit of a framework then in terms of - the next slide, please. We can put this into a framework then - our aspirations are being north of $3 billion. I commented earlier that we expect that seems to be north of a billion dollars. The Blood Testing group, we expect it to be slightly south of a billion and the BioPharmaceuticals business somewhere between two-thirds of a billion and just south of a billion dollars. With our royalties, obviously adding value in that timeframe as well.

You can see that this is a very significant opportunity, a very significant growth proposition that the company has. And we have a discipline to make this happen on our execution Platform.

So the theme for the day has been Strategy into action. We have articulated our vision, our strategies, and our approaches to make this happen. We've articulated the goals and the milestones. The things that are of importance to Chiron and importance to our investors on how we execute.

You've seen the pathways that we have, you've seen the opportunities for growth and we believe it's very dynamic. We also see this is being a very compelling investment proposition that we call Chiron.

That concludes our remarks for the day. I want to thank you very much for participating over this last five hours or so. I hope you found it very useful. Again, we really appreciate it and have a good afternoon.
Chiron Reports 2004 Second-Quarter Pro-Forma Results of 25 Cents Per Share

12 Percent Increase in Revenues Over Second-Quarter 2003

20 Percent Growth in Product Sales Over Second-Quarter 2003

EMERYVILLE, Calif., July 21 /PRNewswire-FirstCall/ -- Chiron Corporation (Nasdaq: CHIR) today reported pro-forma income from continuing operations of $48 million, or $0.25 per share, for the second quarter of 2004, compared to $67 million, or $0.35 per share, for the second quarter of 2003. Product sales grew 20 percent over the second quarter of 2003, contributing to an increase in revenues of 12 percent. For the quarter, foreign exchange rates resulted in a 2 percent increase in total revenues. The decrease in earnings per share for the second quarter of 2004 as compared to the second quarter of 2003 was primarily due to two factors: the effect of the company's acquisition of PowderJect and the decline in the Betaseron(R) interferon beta-1b royalty rate. The impact of these factors was an approximate $0.11 decrease in pro-forma earnings per share, or a $0.16 decrease in GAAP earnings per share. On a GAAP basis, Chiron reported income from continuing operations of $32 million, or $0.17 per share, for the second quarter of 2004, compared to income from continuing operations of $61 million, or $0.32 per share, for the second quarter of 2003.

As noted last quarter, the PowderJect acquisition has a seasonal impact on earnings per share. Revenues of the primary product acquired with PowderJect, Fluvirin(R) influenza vaccine, are recognized primarily in the second half of the year; however, costs associated with PowderJect are incurred throughout the year. Because of this seasonality, Chiron expects that earnings per share for the second half of 2004, as a proportion of earnings per share for the year, will be substantially higher than they were for the second half of 2003.

Chiron management uses pro-forma financial statements to gain an understanding of the company's operating performance on a comparative basis. Pro-forma results exclude special items relating to certain acquisitions and revenues, which may not be indicative of the company's trends or potential future performance. Please refer to the attached tables at the end of this document for more detail on these items and a reconciliation to GAAP financial statements. All references to per-share amounts are per diluted share.

"Chiron has delivered solid financial results and made substantial progress toward completing our 2004 milestones," said Howard Pien, Chiron's president, chief executive officer and chairman of the board. "The second half of the year will yield further progress. We expect to deliver beyond our initial estimates for the 2004-2005 influenza season, bringing an additional 2 million doses of Fluvirin to the U.S. market as well as contributing to a CDC stockpile.

"Our excellent performance reflects not only the strength of our growth drivers but also the application of our four powerful principles of value creation: acquiring adjacent technologies; leveraging our platforms, products and skills into new geographies; taking calculated risks that have the potential to pay great rewards; and consistently executing to turn our strategy into results."

Overall Revenues

Total revenues were $394 million for the second quarter of 2004, compared to $350 million for the second quarter of 2003. Net product sales were $295 million for the second quarter of 2004, compared to $246 million for the second quarter of 2003.

Blood Testing

Total Blood Testing revenues were $115 million for the second quarter of 2004, compared to $108 million for the second quarter of 2003. Blood Testing revenues primarily include revenues from the sales of products related to Chiron's Procleix(R) HIV-1/HCV Assay; revenues related to Chiron's joint business arrangement for immunodiagnostics with Ortho-Clinical Diagnostics Inc. (Ortho), a Johnson & Johnson company; and royalties paid by F. Hoffmann-La Roche (Roche) related to nucleic acid testing (NAT) blood screening. As expected, the gross profit margin on blood-testing products was 42 percent for the second quarter of 2004, compared to 46 percent for the second quarter of 2003.

-- Sales related to the Procleix(R) System were $61 million for the second quarter of 2004, compared to sales of $46 million for the second quarter of 2003. The increase was primarily due to revenues from the investigation-only use of the Procleix(R) West Nile Virus Assay in the United States, market share gains in the United States for product sales and continued penetration into several markets abroad.
-- Revenues from Chiron's joint business arrangement with Ortho were $29 million for the second quarter of 2004, compared to $27 million for the second quarter of 2003.
-- Royalties paid by Roche related to NAT blood screening were $15 million.

for the second quarter of 2004, compared to $14 million for the second quarter of 2003.

Vaccines

Vaccines net product sales were $101 million for the second quarter of 2004, compared to $86 million for the second quarter of 2003. The increase was primarily due to increased sales of travel, influenza, pediatric and other vaccines, partially offset by a decrease in sales of Menjugate(R) conjugate vaccine against meningococcal C disease. The gross profit margin on vaccine products was 42 percent for the second quarter of 2004, compared to 56 percent for the second quarter of 2003. The decrease was primarily due to additional product reserves in the second quarter of 2004 as well as product mix.

-- Sales of influenza vaccines were $8 million for the second quarter of 2004, compared to $4 million for the second quarter of 2003. The increase was primarily due to sales to South Korea.
-- Sales of Menjugate were $5 million for the second quarter of 2004, compared to $14 million for the second quarter of 2003. The decrease was primarily due to the timing of tenders, vaccination programs in various geographies, and increased price competition.
-- Sales of Chiron's travel vaccines were $40 million for the second quarter of 2004, compared to $23 million for the second quarter of 2003. Travel vaccines include Encepur(TM) vaccine for tick-borne encephalitis, Arilvax(TM) vaccine for yellow fever, Dukoral(TM) vaccine for cholera, and RabAvert(R) and Rabipur(R) vaccines for rabies. The increase was driven largely by increased sales of RabAvert in the United States and increased sales of Encepur.
-- Sales of Chiron's pediatric and other vaccines products were $48 million for the second quarter of 2004, compared to $45 million for the second quarter of 2003.

BioPharmaceuticals

BioPharmaceuticals net product sales and Betaferon(R) interferon beta-1b royalties were $139 million for the second quarter of 2004, compared to $124 million for the second quarter of 2003. The gross profit margin on bio/pharmaceutical products was 74 percent for the second quarter of 2004, compared to 71 percent for the second quarter of 2003. The increase was due to price increases and improved efficiencies in production, partially offset by the contractual change in the royalty rate related to the sale of Betaseron(R) interferon beta-1b and the increased costs associated with the new Betaseron pre-filled diluent syringe.

-- Sales of TOBI(R) tobramycin solution for inhalation were $51 million for the second quarter of 2004, compared to $39 million for the second quarter of 2003. The increase was primarily due to wholesale ordering patterns, increased patient demand in the United States, price increases and the benefit of foreign exchange rates.
-- Sales of Proleukin(R) (aldesleukin) interleukin-2 were $35 million for the second quarter of 2004, compared to $29 million for the second quarter of 2003. The increase was primarily due to wholesaler ordering patterns and price increases.
-- Sales of Betaseron, marketed in Europe as Betaferon, to Berlex Inc. (and its parent company Schering AG) for marketing and resale were $32 million for the second quarter of 2004, compared to $30 million for the second quarter of 2003. The increase was primarily due to price and demand increases and increased sales of clinical materials. This increase was partially offset by a decline in the royalty rate pursuant to Chiron's contractual agreement with Schering and changes in ordering patterns. Royalties from Schering AG's European sales of Betaseron were $11 million for the second quarter of 2004, compared to $17 million for the second quarter of 2003. Royalties declined pursuant to Chiron's contractual agreement with Schering. This decrease was partially offset by increased patient demand, price increases and the benefit of foreign exchange rates.

Pipeline and Products Update

Chiron has seen recent advances in franchises across all three of its business units and expects continued progress

Blood Testing

Chiron Blood Testing expects to expand its leadership through new assays, new geographies, greater market penetration and expansion into blood safety.

-- Chiron presented data at the recent International Society of Blood Transfusion meeting in Edinburgh, Scotland, detailing a study conducted at the Italian Blood Transfusion Service that indicated that the Procleix(R) Ultrio(TM) Assay detected a hepatitis B-positive blood donation that would otherwise have gone undetected by previously approved blood-testing assays.

-- Earlier this week, Chiron and its collaborator Gen-Probe Incorporated announced the initiation of the formal clinical trial of the Procleix(R) West Nile Virus Assay. Since the start of this year's mosquito season in May, ongoing screening of the U.S. blood supply with the assay has detected 20 West Nile virus-infected donations that could otherwise have been transfused into nearly 60 blood recipients.

Vaccines

Influenza vaccines are the cornerstone of Chiron Vaccines commercial operations, and development is focused on the meningococcal franchise and flu cell-culture technology.

-- Chiron is on track to deliver an estimated 50 million doses of Fluvirin(R) influenza vaccine to the United States as well as an additional 2 million late-season doses for the Centers for Disease Control and Prevention (CDC) stockpile.

-- Chiron won a contract from the National Institute of Allergy and Infectious Diseases (NIAID), a part of the U.S. National Institutes of Health (NIH), to produce 8,000 doses of an investigational vaccine designed to protect against the H5N1 strain of avian influenza, which recently circulated in the Far East and Southeast Asia.

-- This week, vaccination began in New Zealand with Chiron's new meningococcal B vaccine for New Zealand, MeNZB(TM). Chiron developed the vaccine, in close collaboration with the New Zealand Ministry of Health and the Norwegian Institute of Public Health, to protect against the specific meningococcal B strain responsible for a 13-year epidemic in the country.

-- At its recent Analyst Day, Chiron discussed positive early results from the Phase II study of its meningococcal ACWY vaccine, which support further development in toddlers and older age groups.

-- Chiron has completed enrollment for its Phase I study of a broad-coverage meningococcal B vaccine.

BioPharmaceuticals: Infectious Disease

Chiron continues to build its portfolio of products to treat and prevent infectious disease. This franchise leverages a significant global commercial infrastructure.

-- In May, Chiron met with the U.S. Food and Drug Administration (FDA) to discuss the registration path for cyclosporine solution for inhalation (CSI) as a potential treatment for lung transplant rejection. Chiron plans to file a new drug application (NDA) this year.

-- By the end of 2004, Chiron expects to submit a marketing authorization application (MAA) to the European Medicines Agency (EMEA) for approval to market Cubicin(R) (dapytomycin) for the indication of complicated skin and soft-tissue infections where the presence of susceptible Gram-positive bacteria is confirmed or suspected.

-- Chiron initiated its Phase III trial for tifacogin as a treatment for severe community-acquired pneumonia, which affects approximately 300,000 patients in the United States annually, of which approximately...
30 percent die.

BioPharmaceuticals: Oncology

Chiron's oncology franchise has three dimensions: immune-based therapies, monoclonal antibodies and novel cancer agents.

-- At the American Society of Clinical Oncology (ASCO) meeting in New Orleans, Chiron presented preliminary data from its ongoing Phase II study of Proleukin(R) (aldesleukin) interleukin-2 (subcutaneous 14 MIU thrice weekly) plus rituximab in low-grade non-Hodgkin's lymphoma (NHL) patients who have failed rituximab therapy. The data support the ability of a well-tolerated, outpatient Proleukin regimen to restore responses in NHL patients who are refractory or unresponsive to prior rituximab therapy and who exhibit a specific variant in the Fc gamma RIIIa receptor.

-- Chiron initiated a new Phase II study of Proleukin plus rituximab in rituximab-naive patients with low-grade NHL to determine the combination's potential in patients receiving rituximab for the first time. This large, randomized, controlled multinational study is using the same regimen as the ongoing Phase II trial and is employing translational medicine to determine the Fc gamma RIIIa genotypes of patients to identify those who are more likely to respond to treatment.

-- At its recent Analyst Day, Chiron discussed promising pharmacokinetic and target modulation data for CHIR258, supporting the continued progress of this growth factor kinase inhibitor, Chiron's first small-molecule oncology compound, into further clinical trials.

-- Chiron recently increased both the quantity and quality of in vivo validated targets available for development through its acquisition of Sagres Discovery, a privately held company that focuses on the discovery and validation of targets with potential application to the development of cancer therapeutics. With the targets from Sagres, Chiron expects to maximize the value of its collaboration with Xoma Ltd. and its small-molecule drug-discovery program.

Other Recent Business Milestones

Other recent business activities underline the value of Chiron's products and intellectual property and the strength of its leadership.

-- Chiron granted a nonexclusive license to Prosetta Corporation for the research, development and commercialization of therapeutics against certain hepatitis C virus (HCV) drug targets. The licensing agreement is the first to provide a "no entry cost" option for use of the company's HCV technology and is intended to provide flexibility to licensees by confirming the availability of no up-front or annual payments.

-- The Chiron Foundation designated 11 organizations as the recipients of the foundation's inaugural grants. The foundation was established earlier this year to advance Chiron's commitment to transform the practice of medicine, improve human health and enhance the quality of life in the communities where the company has a presence.

-- The Sabin Vaccine Institute awarded Chiron its Global Corporate Philanthropy Award.

-- Chiron held an Analyst Day in New York City, providing detail regarding its research, clinical development programs and commercialization milestone achievements in each of its three business units.

-- Chiron held its Annual Meeting of Stockholders, where Howard Pien was named chairman of the board upon the retirement of chairman and former president and CEO Sean Lance.

-- Chiron spun out the powder-injection DNA vaccine programs it acquired as part of its 2003 acquisition of PowderJect to the newly formed therapeutic vaccine company PowderMed Ltd.

Chiron will hold a conference call and webcast on Wednesday, July 21, 2004, at 4:45 p.m. EDT to review its second-quarter 2004 results of operations and business highlights. In addition, the company may address forward-looking questions concerning business, financial matters and trends affecting the company.

To access either the live call or the one-week archive, please log on to www.chiron.com/webcast. Please connect to the website at least 15 minutes prior to the call to ensure adequate time to download any necessary software. Alternatively, please call 800-819-7026 from the United States or Canada or 706-643-7768 from other locations. Replay is available approximately two hours after the completion of the call through 11:55 p.m. EDT, Wednesday, July 28, 2004. To access the replay, please call 800-642-1687 from the United States or Canada or 706-645-9291 from other locations. The conference ID number is 8481492.

About Chiron

Through its global Blood Testing, Vaccines and BioPharmaceuticals businesses, Chiron Corporation addresses human suffering with more than 50 diverse products to detect, prevent and treat disease worldwide. The company's consistent success has come from its pioneering science, skill in delivering innovations in biotechnology and disciplined business approach. Chiron believes that science has the power to improve people's lives and harnesses that power to transform human health. For more information, visit www.chiron.com.

This year, Chiron Vaccines celebrates 100 years of advancing medicine with the anniversary of two founding companies. In 1904, Emil von Behring and Achille Sclavo independently started companies in Germany and Italy, respectively, dedicated to the research, development and manufacture of vaccines to protect humanity from infectious disease. As the fifth-largest vaccine manufacturer in the world, Chiron remains dedicated to the legacies of von Behring and Sclavo to prevent disease and develop new vaccines to improve human health globally.

This news release contains forward-looking statements, including statements regarding sales growth, product development initiatives, new product indications, new product marketing, acquisitions, and in- and out-licensing activities, that involve risks and uncertainties and are subject to change. A full discussion of the company's operations and financial condition, including factors that may affect its business and future prospects, is contained in documents the company has filed with the SEC, including the form 10-K for the year ended December 31, 2003, and the form 10-Q for the quarter ended March 31, 2004, and will be contained in all subsequent periodic filings made with the SEC. These documents identify important factors that could cause the company's actual performance to differ from current expectations, including the outcome of clinical trials, regulatory review and approvals, manufacturing capabilities, intellectual property protections and defenses, stock-price and interest-rate volatility, and marketing effectiveness. In particular, there can be no assurance that Chiron will increase sales of existing products, successfully develop and receive approval to market new products, or achieve market acceptance for such new products. There can be no assurance that Chiron's out-licensing activities will generate significant revenue nor that its in-licensing activities will fully protect it from claims of infringement by third parties. In addition, the company may engage in business opportunities, the successful completion of which are subject to certain risks, including shareholder and regulatory approvals and the integration of operations.

Consistent with SEC Regulation FD, Chiron does not undertake an obligation to update the forward-looking information the company is giving today.

NOTE: Arilvax, Dukoral, Encepur, Fluvirin, Menjugate, MeNZB, Procleix, Proleukin, RabAvert, Rabipur, TOBi and Ultro are trademarks of Chiron Corporation. Betaseron and Betaferon are trademarks of Schering AG.

CHIRON CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except per share data)

<table>
<thead>
<tr>
<th></th>
<th>Pro Forma</th>
<th>Pro Forma Adjusted (1)</th>
<th>Actual</th>
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</thead>
<tbody>
<tr>
<td>Revenues:</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Product sales, net</td>
<td>$295,092</td>
<td>$295,092</td>
<td>$295,092</td>
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</table>
Revenues from joint business arrangement 28,532 -- 28,532
Collaborative agreement revenues 3,828 -- 3,828
Royalty and license fee revenues 55,196 -- 55,196
Other revenues 10,975 -- 10,975

Total revenues 393,623 -- 393,623

Operating expenses:
Cost of sales 130,725 -- 130,725
Research and development 100,326 -- 100,326
Selling, general and administrative 106,857 -- 106,857
Amortization expense -- (21,179) 21,179
Other operating expenses 4,643 -- 4,643

Total operating expenses 342,551 (21,179) 363,730

Income from operations 51,072 21,179 29,893

Interest expense (6,452) -- (6,452)
Interest and other income, net 19,809 -- 19,809
Minority interest (459) -- (459)

Income from continuing operations before income taxes 63,970 21,179 42,791
Provision for income taxes 15,993 5,295 10,698

Income from continuing operations 47,977 15,884 32,093

Gain from discontinued operations 12,459 -- 12,459

Net income $60,436 $15,884 $44,552

Basic earnings per share:
Income from continuing operations $0.25 $0.17
Net income $0.32 $0.24

Diluted earnings per share:
Income from continuing operations $0.25 $0.17
Net income $0.32 $0.23

Shares used in calculating basic earnings per share 188,275 188,275

Shares used in calculating diluted earnings per share 190,985 190,985

Three Months Ended
June 30, 2003

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<td>Revenues from joint business arrangement</td>
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<td>Collaborative agreement revenues</td>
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<td>Royalty and license fee revenues</td>
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<td>Other revenues</td>
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<td>Total revenues</td>
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Operating expenses:

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<th>Description</th>
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<tr>
<td>Research and development</td>
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<td>Selling, general and administrative</td>
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<tr>
<td>Amortization expense</td>
<td>--</td>
<td>(7,701)</td>
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<tr>
<td>Other operating expenses</td>
<td>1,259</td>
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<tr>
<td><strong>Total operating expenses</strong></td>
<td>268,820</td>
<td>(7,701)</td>
<td>276,521</td>
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</table>

Income from operations 81,452 7,701 73,751

Interest expense (2,839) -- (2,839)

Interest and other income, net 11,613 -- 11,613

Minority interest (581) -- (581)

Income from continuing operations before income taxes 89,645 7,701 81,944

Provision for income taxes 22,412 1,927 20,485

Income from continuing operations 67,233 5,774 61,459

Gain from discontinued operations 538 -- 538

Net income $67,771 $5,774 $61,997

Basic earnings per share:

<table>
<thead>
<tr>
<th>Description</th>
<th>Income from continuing operations</th>
<th>Net income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income from continuing operations</td>
<td>$0.36</td>
<td>$0.33</td>
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<tr>
<td>Net income</td>
<td>$0.36</td>
<td>$0.33</td>
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Diluted earnings per share:

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<tr>
<th>Description</th>
<th>Income from continuing operations</th>
<th>Net income</th>
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</thead>
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<tr>
<td>Income from continuing operations</td>
<td>$0.35</td>
<td>$0.32</td>
</tr>
<tr>
<td>Net income</td>
<td>$0.36</td>
<td>$0.33</td>
</tr>
</tbody>
</table>

Shares used in calculating basic earnings per share 186,408 186,408

Shares used in calculating diluted earnings per share 195,191 189,963

(1) Pro Forma Adjusted amounts exclude the amortization expense on acquired intangible assets related to the acquisitions of PathoGenesis, Chiron Behring, Pulmopharm and PowderJect Pharmaceuticals.

(2) Pro Forma Adjusted amounts exclude the amortization expense on acquired intangible assets related to the acquisitions of PathoGenesis, Chiron Behring and Pulmopharm.
Revenues from joint business arrangement  58,893  --  58,893
Collaborative agreement revenues  10,343  --  10,343
Royalty and license fee revenues  109,988  --  109,988
Other revenues  17,913  --  17,913
Total revenues  773,295  --  773,295

Operating expenses:
Cost of sales  257,426  --  257,426
Research and development  198,736  --  198,736
Selling, general and administrative  211,597  --  211,597
Amortization expense  --  (42,511)  42,511
Other operating expenses  6,759  --  6,759
Total operating expenses  674,518  (42,511)  717,029

Income from operations  98,777  42,511  56,266
Interest expense  (12,377)  --  (12,377)
Interest and other income, net  35,883  --  35,883
Minority interest  (1,079)  --  (1,079)
Income from continuing operations before income taxes  121,204  42,511  78,693
Provision for income taxes  30,301  10,628  19,673
Income from continuing operations  90,903  31,883  59,020
Gain from discontinued operations  25,304  --  25,304
Net income  $116,207  $31,883  $84,324

Basic earnings per share:
Income from continuing operations  $0.48  $0.31
Net income  $0.62  $0.45

Diluted earnings per share:
Income from continuing operations  $0.47  $0.31
Net income  $0.61  $0.44

Shares used in calculating basic earnings per share  187,952  187,952
Shares used in calculating diluted earnings per share  191,402  191,402

Year to Date
June 30, 2003

Pro Forma  Adjusted (4)  Pro Forma Adjustments  Actual
Revenues:
Product sales, net  $464,548  $--  $464,548
Revenues from joint business arrangement  53,927  --  53,927
Collaborative agreement revenues  7,738  --  7,738
Royalty and license fee revenues  120,300  --  120,300
Other revenues  10,381  (14,413)  24,794
Total revenues  656,894  (14,413)  671,307
Operating expenses:

<table>
<thead>
<tr>
<th>Category</th>
<th>June 30, 2004</th>
<th>December 31, 2003</th>
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</thead>
<tbody>
<tr>
<td>Cost of sales</td>
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<tr>
<td>Research and development</td>
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<tr>
<td>Selling, general and administrative</td>
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<tr>
<td>Amortization expense</td>
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<tr>
<td>Other operating expenses</td>
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<tr>
<td><strong>Total operating expenses</strong></td>
<td><strong>511,272</strong></td>
<td><strong>526,586</strong></td>
</tr>
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Income from operations: 145,622

Interest expense: 144,721

Interest and other income, net: 901

Minority interest: 144,721

Income from continuing operations before income taxes: 164,271

Provision for income taxes: 901

Income from continuing operations: 163,370

Gain from discontinued operations: 122,528

Net income: $125,166

Basic earnings per share:
- Income from continuing operations: $0.66
- Net income: $0.67

Diluted earnings per share:
- Income from continuing operations: $0.65
- Net income: $0.66

Shares used in calculating basic earnings per share: 186,584

Shares used in calculating diluted earnings per share: 189,881

(3) Pro Forma Adjusted amounts exclude the amortization expense on acquired intangible assets related to the acquisitions of PathoGenesis, Chiron Behring, Pulmopharm and PowderJect Pharmaceuticals.

(4) Pro Forma Adjusted amounts exclude: (a) the amortization expense on acquired intangible assets related to the acquisitions of PathoGenesis, Chiron Behring and Pulmopharm and (b) the Biogen and Serono settlements in connection with the McCormick patents owned by Schering's U.S. subsidiary, Berlex Laboratories.

CHIRON CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands)

<table>
<thead>
<tr>
<th></th>
<th>June 30, 2004</th>
<th>December 31, 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and short-term investments</td>
<td>$830,987</td>
<td>$538,482</td>
</tr>
<tr>
<td>Accounts receivable, net</td>
<td>329,856</td>
<td>382,933</td>
</tr>
</tbody>
</table>

Current portion of notes receivable 500 1,479
Inventories, net 275,574 199,625
Other current assets 145,124 135,130
Total current assets 1,582,041 1,257,649
Noncurrent investments in marketable debt securities 202,979 560,292
Property, plant, equipment and leasehold improvements, net 728,667 689,750
Other noncurrent assets 1,671,804 1,687,478
Total assets $4,185,491 $4,195,169

Liabilities and stockholders' equity
Current liabilities $378,784 $436,913
Long-term debt 938,087 926,709
Capital lease 157,075 157,677
Noncurrent unearned revenue 35,330 45,564
Other noncurrent liabilities 180,301 176,944
Minority interest 7,984 7,002
Stockholders' equity 2,487,930 2,444,360
Total liabilities and stockholders' equity $4,185,491 $4,195,169

CHIRON CORPORATION
SUPPLEMENTAL SCHEDULE OF COMPUTATION OF EARNINGS PER SHARE
(Unaudited)
(In thousands, except per share data)

Three Months Ended June 30,
2004 2003

Computation for earnings per share - continuing operations
Income (Numerator):
Income from continuing operations $47,977 $32,093 $67,233 $61,459
Plus: Interest on Liquid Yield Option Notes, net of taxes -- -- 1,742 --
Income from continuing operations, plus impact from assumed conversions $47,977 $32,093 $68,975 $61,459

Shares (Denominator):
Weighted-average common shares outstanding 188,275 188,275 186,408 186,408
Effect of dilutive securities:
Stock options and equivalents 2,710 2,710 3,550 3,550
Put warrants -- -- 5 5
Liquid Yield Option Notes -- -- 5,228 --
Weighted-average common shares outstanding, plus impact from assumed conversions 190,985 190,985 195,191 189,963

Basic earnings per share from continuing operations $0.25 $0.17 $0.36 $0.33
Diluted earnings per share from continuing operations $0.25 $0.17 $0.35 $0.32

Computation for earnings per share - net income
Income (Numerator):
Net income $60,436 $44,552 $67,771 $61,997

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Chiron News</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Plus: Interest on Liquid Yield</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Option Notes, net of taxes</td>
<td>--</td>
<td>--</td>
<td>1,742</td>
<td>--</td>
</tr>
<tr>
<td><strong>Net income, plus impact from assumed conversions</strong></td>
<td>$60,436</td>
<td>$44,552</td>
<td>$69,513</td>
<td>$61,997</td>
</tr>
<tr>
<td>Shares (Denominator):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weighted-average common shares outstanding</td>
<td>188,275</td>
<td>188,275</td>
<td>186,408</td>
<td>186,408</td>
</tr>
<tr>
<td><strong>Effect of dilutive securities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock options and equivalents</td>
<td>2,710</td>
<td>2,710</td>
<td>3,550</td>
<td>3,550</td>
</tr>
<tr>
<td>Put warrants</td>
<td>--</td>
<td>--</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Liquid Yield Option Notes</td>
<td>--</td>
<td>--</td>
<td>5,228</td>
<td>--</td>
</tr>
<tr>
<td>Weighted-average common shares outstanding, plus impact from assumed conversions</td>
<td>190,985</td>
<td>190,985</td>
<td>195,191</td>
<td>189,963</td>
</tr>
<tr>
<td>Basic earnings per share</td>
<td>$0.32</td>
<td>$0.24</td>
<td>$0.36</td>
<td>$0.33</td>
</tr>
<tr>
<td>Diluted earnings per share</td>
<td>$0.32</td>
<td>$0.23</td>
<td>$0.36</td>
<td>$0.33</td>
</tr>
</tbody>
</table>

**CHIRON CORPORATION**

**SUPPLEMENTAL SCHEDULE OF COMPUTATION OF EARNINGS PER SHARE**

(Unaudited)

(In thousands, except per share data)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>2004</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Computation for earnings per share</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- continuing operations</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income (Numerator):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income from continuing operations</td>
<td>$90,903</td>
<td>$59,020</td>
<td>$123,202</td>
<td>$122,528</td>
</tr>
<tr>
<td>Shares (Denominator):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weighted-average common shares outstanding</td>
<td>187,952</td>
<td>187,952</td>
<td>186,584</td>
<td>186,584</td>
</tr>
<tr>
<td><strong>Effect of dilutive securities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock options and equivalents</td>
<td>3,450</td>
<td>3,450</td>
<td>3,294</td>
<td>3,294</td>
</tr>
<tr>
<td>Put options</td>
<td>--</td>
<td>--</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Weighted-average common shares outstanding, plus impact from assumed conversions</td>
<td>191,402</td>
<td>191,402</td>
<td>189,881</td>
<td>189,881</td>
</tr>
<tr>
<td>Basic earnings per share from continuing operations</td>
<td>$0.48</td>
<td>$0.31</td>
<td>$0.66</td>
<td>$0.66</td>
</tr>
<tr>
<td>Diluted earnings per share from continuing operations</td>
<td>$0.47</td>
<td>$0.31</td>
<td>$0.65</td>
<td>$0.65</td>
</tr>
<tr>
<td><strong>Computation for earnings per share</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- net income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Income (Numerator):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td>$116,207</td>
<td>$84,324</td>
<td>$125,166</td>
<td>$124,492</td>
</tr>
<tr>
<td>Shares (Denominator):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Weighted-average common shares outstanding</td>
<td>187,952</td>
<td>187,952</td>
<td>186,584</td>
<td>186,584</td>
</tr>
<tr>
<td><strong>Effect of dilutive securities:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock options and equivalents</td>
<td>3,450</td>
<td>3,450</td>
<td>3,294</td>
<td>3,294</td>
</tr>
<tr>
<td>Put options</td>
<td>--</td>
<td>--</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>
| Weighted-average common shares outstanding, plus impact from...
<table>
<thead>
<tr>
<th></th>
<th>Current Quarter Q2 2004</th>
<th>Prior Quarter Q1 2004</th>
<th>Change from Prior QTR</th>
<th>Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product Sales</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blood Testing</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ortho</td>
<td>$6,608</td>
<td>$6,234</td>
<td>$374</td>
<td>6.0%</td>
</tr>
<tr>
<td>NAT</td>
<td>60,589</td>
<td>61,886</td>
<td>(1,297)</td>
<td>(2.1%)</td>
</tr>
<tr>
<td>Total Blood Testing</td>
<td>67,197</td>
<td>68,120</td>
<td>(923)</td>
<td>(1.4%)</td>
</tr>
<tr>
<td>Vaccines</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flu Vaccines</td>
<td>8,207</td>
<td>7,705</td>
<td>502</td>
<td>6.5%</td>
</tr>
<tr>
<td>Meningococcus Vaccines</td>
<td>5,016</td>
<td>4,549</td>
<td>467</td>
<td>10.3%</td>
</tr>
<tr>
<td>Travel Vaccines (TBE, Rabies,</td>
<td>40,132</td>
<td>23,010</td>
<td>17,122</td>
<td>74.4%</td>
</tr>
<tr>
<td>Arlivax and Dukoral)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pediatric/Other Vaccines</td>
<td>47,619</td>
<td>51,182</td>
<td>(3,563)</td>
<td>(7.0%)</td>
</tr>
<tr>
<td>Total Vaccines</td>
<td>100,974</td>
<td>86,446</td>
<td>14,528</td>
<td>16.8%</td>
</tr>
<tr>
<td>Biopharmaceuticals</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proleukin</td>
<td>35,057</td>
<td>31,868</td>
<td>3,189</td>
<td>10.0%</td>
</tr>
<tr>
<td>TOBI</td>
<td>51,342</td>
<td>52,524</td>
<td>(1,182)</td>
<td>(2.3%)</td>
</tr>
<tr>
<td>Betaseron*</td>
<td>31,626</td>
<td>30,136</td>
<td>1,490</td>
<td>4.9%</td>
</tr>
<tr>
<td>Other</td>
<td>8,896</td>
<td>11,972</td>
<td>(3,076)</td>
<td>(25.7%)</td>
</tr>
<tr>
<td>Total Biopharmaceuticals</td>
<td>126,921</td>
<td>126,500</td>
<td>421</td>
<td>0.3%</td>
</tr>
<tr>
<td><strong>TOTAL PRODUCT SALES</strong></td>
<td>$295,092</td>
<td>$281,066</td>
<td>$14,026</td>
<td>5.0%</td>
</tr>
<tr>
<td><strong>Revenues From Joint Business</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Arrangement</td>
<td>$28,532</td>
<td>$30,361</td>
<td>$(1,829)</td>
<td>(6.0)%</td>
</tr>
<tr>
<td>Collaborative Agreement Revenues</td>
<td>3,828</td>
<td>6,515</td>
<td>(2,687)</td>
<td>(41.2)%</td>
</tr>
<tr>
<td>Royalty and License Fees</td>
<td>55,196</td>
<td>54,792</td>
<td>404</td>
<td>0.7%</td>
</tr>
<tr>
<td>Other Revenues</td>
<td>10,975</td>
<td>6,938</td>
<td>4,037</td>
<td>58.2%</td>
</tr>
<tr>
<td><strong>TOTAL REVENUES</strong></td>
<td>$393,623</td>
<td>$379,672</td>
<td>$13,951</td>
<td>3.7%</td>
</tr>
<tr>
<td><strong>Gross Margins</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blood Testing</td>
<td>42%</td>
<td>43%</td>
<td>(1)%</td>
<td>(1)%</td>
</tr>
<tr>
<td>Vaccines</td>
<td>42%</td>
<td>33%</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>Biopharmaceuticals</td>
<td>74%</td>
<td>76%</td>
<td>(2)%</td>
<td>(2)%</td>
</tr>
<tr>
<td><strong>TOTAL GROSS MARGINS</strong></td>
<td>56%</td>
<td>55%</td>
<td>1%</td>
<td></td>
</tr>
<tr>
<td>* Excludes Betaferon Royalty</td>
<td>$11,585</td>
<td>$13,807</td>
<td>$(2,222)</td>
<td>(16.1)%</td>
</tr>
</tbody>
</table>

Year Ago Change from Change
| Product Sales                  | Year Ago Quarter Q2 2003 | Change from Prior Year | Change % |
| Blood Testing                  |                         |                       |          |
| Ortho                          | $7,123                  | $(515)                | (7.2)%   |
| NAT                            | 45,981                  | 14,608                | 31.8%    |
| Total Blood Testing            | 53,104                  | 14,093                | 26.5%    |
| Vaccines                       |                         |                       |          |
| Flu Vaccines                   | 3,783                   | 4,424                 | 116.9%   |

### Meningococcus Vaccines

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>13,696</td>
<td>8,680</td>
<td>(63.4)%</td>
</tr>
</tbody>
</table>

### Travel Vaccines (TBE, Rabies, Arilvax and Dukoral)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>23,052</td>
<td>17,080</td>
<td>74.1%</td>
</tr>
</tbody>
</table>

### Pediatric/Other Vaccines

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>45,026</td>
<td>2,593</td>
<td>5.8%</td>
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</tbody>
</table>

### Total Vaccines

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>85,557</td>
<td>15,417</td>
<td>18.0%</td>
</tr>
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</table>

### Biopharmaceuticals

#### Proleukin

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>29,381</td>
<td>5,676</td>
<td>19.3%</td>
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</table>

#### TOBI

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>38,984</td>
<td>12,358</td>
<td>31.7%</td>
</tr>
</tbody>
</table>

#### Betaseron*

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>30,478</td>
<td>1,148</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

#### Other

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>8,424</td>
<td>472</td>
<td>5.6%</td>
</tr>
</tbody>
</table>

### Total Biopharmaceuticals

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>107,267</td>
<td>19,654</td>
<td>18.3%</td>
</tr>
</tbody>
</table>

### TOTAL PRODUCT SALES

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$245,928</td>
<td>$49,164</td>
<td>20.0%</td>
</tr>
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</table>

### Revenues From Joint Business Arrangement

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>27,475</td>
<td>1,057</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

### Collaboration Agreement Revenues

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3,624</td>
<td>204</td>
<td>5.6%</td>
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</table>

### Royalty and License Fees

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>66,876</td>
<td>(11,680)</td>
<td>(17.5)%</td>
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</tbody>
</table>

### Other Revenues

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>6,369</td>
<td>4,606</td>
<td>72.3%</td>
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</table>

### TOTAL REVENUES

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>350,272</td>
<td>$43,351</td>
<td>12.4%</td>
</tr>
</tbody>
</table>

### Gross Margins

#### Blood Testing

|                | 46%    | (4)%  |

#### Vaccines

|                | 56%    | (14)% |

#### Biopharmaceuticals

|                | 71%    | 3%    |

### TOTAL GROSS MARGINS

|                | 60%    | (4)%  |

*Excludes Betaferon Royalty

|                | $17,174 | $(5,589) | (32.5)% |

---

### CHIRON CORPORATION

#### Supplemental YTD Revenue Summary (Pro Forma)

#### USD $(in thousands)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Six Months Ended June 30,</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>2004</strong></td>
<td><strong>2003</strong></td>
<td><strong>Prior Year</strong></td>
<td><strong>Change</strong></td>
</tr>
<tr>
<td><strong>Product Sales</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Blood Testing</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ortho</td>
<td>$12,842</td>
<td>$13,531</td>
<td>$(689)</td>
</tr>
<tr>
<td>NAT</td>
<td>122,475</td>
<td>88,104</td>
<td>34,371</td>
</tr>
<tr>
<td><strong>Total Blood Testing</strong></td>
<td>135,317</td>
<td>101,635</td>
<td>33,682</td>
</tr>
<tr>
<td><strong>Vaccines</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flu Vaccines</td>
<td>15,912</td>
<td>8,036</td>
<td>7,876</td>
</tr>
<tr>
<td>Meningococcus Vaccines</td>
<td>9,565</td>
<td>21,234</td>
<td>(11,669)</td>
</tr>
<tr>
<td>Travel Vaccines (TBE, Rabies, Arilvax and Dukoral)</td>
<td>63,142</td>
<td>48,752</td>
<td>14,390</td>
</tr>
<tr>
<td>Pediatric/Other Vaccines</td>
<td>98,801</td>
<td>75,939</td>
<td>22,862</td>
</tr>
<tr>
<td><strong>Total Vaccines</strong></td>
<td>187,420</td>
<td>153,961</td>
<td>33,459</td>
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<tr>
<td><strong>Biopharmaceuticals</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proleukin</td>
<td>66,925</td>
<td>55,364</td>
<td>11,561</td>
</tr>
<tr>
<td>TOBI</td>
<td>103,866</td>
<td>79,718</td>
<td>24,148</td>
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<tr>
<td>Betaseron*</td>
<td>61,762</td>
<td>59,778</td>
<td>1,984</td>
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<tr>
<td>Other</td>
<td>20,868</td>
<td>14,092</td>
<td>6,776</td>
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<tr>
<td><strong>Total Biopharmaceuticals</strong></td>
<td>253,421</td>
<td>208,952</td>
<td>44,469</td>
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<td><strong>TOTAL PRODUCT SALES</strong></td>
<td><strong>$576,158</strong></td>
<td><strong>$464,548</strong></td>
<td><strong>$111,610</strong></td>
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<tr>
<td><strong>Revenues From Joint Business Arrangement</strong></td>
<td><strong>$58,893</strong></td>
<td><strong>$53,927</strong></td>
<td><strong>$4,966</strong></td>
</tr>
<tr>
<td>Section</td>
<td>2005</td>
<td>2004</td>
<td>Change</td>
</tr>
<tr>
<td>--------------------------</td>
<td>------</td>
<td>------</td>
<td>----------</td>
</tr>
<tr>
<td>Collaborative Agreement Revenues</td>
<td>10,343</td>
<td>7,738</td>
<td>2,605</td>
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<tr>
<td>Royalty and License Fees</td>
<td>109,988</td>
<td>120,300</td>
<td>(10,312)</td>
</tr>
<tr>
<td>Other Revenues</td>
<td>17,913</td>
<td>10,381</td>
<td>7,532</td>
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<tr>
<td><strong>TOTAL REVENUES</strong></td>
<td>$773,295</td>
<td>$656,894</td>
<td>$116,401</td>
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<tr>
<td>Gross Margins</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Blood Testing</td>
<td>42%</td>
<td>44%</td>
<td>(2)%</td>
</tr>
<tr>
<td>Vaccines</td>
<td>38%</td>
<td>52%</td>
<td>(14)%</td>
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<tr>
<td>Biopharmaceuticals</td>
<td>75%</td>
<td>75%</td>
<td>0%</td>
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<tr>
<td>TOTAL GROSS MARGINS</td>
<td>55%</td>
<td>61%</td>
<td>(6)%</td>
</tr>
<tr>
<td>*Excludes Betaferon Royalty</td>
<td>$25,392</td>
<td>$31,140</td>
<td>$(5,748)</td>
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</table>

SOURCE Chiron Corporation
EXHIBIT T
Operator: Good afternoon, my name is Tracy and I will be your conference facilitator today. At this time, I would like to welcome every one to the Chiron Second Quarter 2004 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question and answer period. If you would like to ask a question during this time, simply press "+" then the number "1" on your telephone keypad. If you would like to withdraw your question, press "*" then the number "2" on your telephone keypad. Thank you. I would now like to turn the conference over to Martin Forrest, Vice President of Corporate Communications. Please go ahead sir.

Martin Forrest, Vice President of Corporate Communications and Investor Relations

Thank you Tracy. Good afternoon everyone and welcome to Chiron's second quarter 2004 conference call. On behalf of the Chiron's team, I would like to introduce you to our principal speaker, Howard Pien, Chiron's CEO and President and David Smith, Chiron's CFO. I'm Martin Forrest from the Corporate Communications and Investor Relations group. I and the rest of the Investor Relations team will be available after the call to answer your questions.

Before I turn the call over to Howard for his discussion of Chiron's results, I would like to remind you that our remarks today will include forward-looking statements relating to future events and the financial performance of the company. Actual events and performance may differ materially from our expectations. We refer you to documents that the company has filed with the Securities and Exchange Commission including our most recent 10-K and 10-Q for discussion of important factors that could cause the company's actual performance to differ from those expressed or implied in today's remarks. We do not undertake any obligations to update the forward-looking information we are giving today. Please note that where we indicate a number to be pro forma in today's discussion, we have made available a reconciliation of pro forma to GAAP in the condensed consolidated statement of operations attached to our press release issued today and on our website in investor section under financial reports. Finally, please note that this call is being electronically recorded and is copyrighted by Chiron. No reproductions, retransmissions, transcripts, or copies of this conference call can be made without the written permission of Chiron. With that as a preface, I will turn the call over to you Howard.

Howard H. Pien, President, Chief Executive Officer, Director

Thanks Martin. Good afternoon and welcome to our call. Today, Chiron announced our second quarter earnings results, and in this call I will talk to you about progress we have made over the past quarter and provide you with a preview of the progress that we intend to achieve in the quarter to come. We believe that a picture of Chiron as a successful and rising company will continue within hand. Let me begin by briefly highlighting our analyst day held in the New York a few weeks back. We described [indiscernible] detailed Chiron strategy for value creations and our plans for turning that strategy into results. We thank everyone who attended either in person or wireless act. We are especially grateful for the many of you who gave us pieces of feedback on how we have to get and how we should progress further in attaining our goals. On the analyst day our theme was value creation and we believe they are first acquiring adjacent technology that complements our existing strength and pyostatically [ph] the PowderJect [ph] acquisition announced since analyst day was an example of this achievement. And secondly, leveraging our platforms, products, and skills into new geographies [indiscernible] the PowderJect acquisition we enter the US markets exemplified the scene and I had some remarks on the upcoming flu season in a few minutes. And
third taking calculated risks that have the potential to pay great rewards. And finally fourth, implementation that is advancing our strategies through consistent execution.

The analyst day was also the opportunity for us to disclose some specific information on several important programs. Along with the partner ZymeQuest we provided the outlines of the registration plan for the technology and system [indiscernible] in type A and Type B and type AB red blood cells to universal donor type O. We also disclosed the preliminary findings from our Phase II meningitis ACWY vaccine study that suggests the high [indiscernible] efficacy in toddlers and older age groups. We also showed the pharmacokinetic and titer modulation data for Chiron 258, a growth factor kinase inhibitor that gives us increased confidence that we will have a very positive benefit where live range of cancers. I need to remind the since the analyst day we have seen additional progress. Our blood testing business have continued to demonstrate our ability to execute on the geographic expansion team [ph].

The first phase of our marketing approach would be Procleix, Ultrio Assay, is to converge at least 30% of our install base particularly in the 7 European countries as quickly as we can. We are moving towards our goal with 13 customers, with 4 major European countries having [indiscernible] in Italy, in Germany, in Spain, and in Portugal. Vaccine has also marked a milestone in the past month with the start of a polyimmunization [ph] program for the men B vaccine in New Zealand. The program, which will initially target the areas of the highest prevalence of men B with 80 and more than 1 million children and young adults age 6 months to 20 years, 1/5th of the country's population, that is creating the potential impact of the men B vaccine to address a significant public health challenge.

Let me now turn to the flu vaccine business in US. As you know, last season flu vaccination rates in US hit a record level. The flu season began early and hit hard. As a result, American saw protection from flu waxing at an unprecedented rate. With more than 80 million doses sold in October. More people were vaccinated than ever before in major public health markets. I know there is an important fact towards the CDC's goal of a 150 million people receiving flu vaccinations by the year 2010. Because of the heightened awareness from last year's flu season, we believe that the upcoming season will generate strong interest. People increasingly recognize the value of vaccination in preventing influenza and it's a pendant very serious complications. This is true not only for those individuals who wish to avoid the flu themselves, but also for those who have regular contact with small children, with the elderly, older with high risk groups and who wish to reduce the chances of transmitting infection to these groups. This month [indiscernible] one-year anniversary of the completion of our acquisition of PowderJect. In this year, we have made great stride towards enhancing the value of the opportunity represented by the flu vaccine business.

Based on the experience over the past 3 months of manufacturing this season's vaccine, we now project, we can exceed the total by about 8% relative to our previous expectation. When we had previously expected that we will produce 60 million doses of Fluvirin of which about 48 million doses will be shipped to the US, we now anticipate that for the US we can deliver 50 million doses of Fluvirin during the season and furthermore we expect to produce another 2 million doses for CNC stockpile at the end of the season. This will allow the CDC to prepare with a possibility of another dramatic flu season.

For Chiron, all of this would represent an increase of about 1/3rd in the number of doses over last year's production. This flu season will also mark the inauguration of our direct marketing capability in the US vaccine business. Our strategy is to go towards a blend of sales capability both through the distributors and through our own direct marketing in an effort to increase our flexibility on the commercialization of Fluvirin. Our intent is to work largely with distributors with whom we have build a great success. At the same time, our own direct marketing capability will allow us to develop the rich market segment including selective states, some pharmacy change, and the CDC, thereby capturing an increase in margin.
While we have orders for the entirety week of our 2004 projection supply, all but one of the contract was distributed in families at the PowderJect will expire at the end of this season. So we have begun to negotiate a new contract. Negotiations are going well. We decide [ph] that we will have new contracts finalized by this fall and these contracts will bear prices that will be higher than those in the expiring ones. Striving to fulfill the responsibility of a vaccine manufacture as a cooperative citizen we have been active in the multilateral [indiscernible] for emerging influenza pandemic threat.

In May, we won a contract from the National Institute of Allergy of Infectious Disease to produce and invest traditional vaccine designed to protect against avian influenza. The avian flu [indiscernible] in Asia, although unfortunately North America was not entirely fair highlighted in real threat posed by a potential pandemic. We have availed our expertise in flu vaccine production to produce approximately 1000 doses of investigational vaccine for NIAID as it has taken on the enormous reason for the leadership role in US to develop a range of solutions to the potential pandemic threat.

Amidst all this [indiscernible] at Chiron, we had a second quarter that turns out to be completely consistent with our expectation. We saw a strong sales across all 3 of our businesses details of which will be described by David Smith. For now, let me just say that the 40% top line growth beyond year is a good indication of our strong underlying performance. I will also add that we have been and we remain confident that we are on course for our 2004 guidance of $1.80 to $1.90 pro forma EPS. And certainly as the flu season in the US shapes up, our confidence is even more fortified.

As we demonstrated to you at the analyst day the story of Chiron is not if one of predictable earnings growth any longer. It is also steady progress towards milestones that will lead to long-term value growth. So, as in [indiscernible] away as earnings growth, these milestones are any growth of our communications to you our investors. They illustrate our focus on execution and our willingness to hold our sales accountable. We know many of you have begun to examine the connection between those milestones pointing [ph] in all in 2004 and how they translate into value.

In this regard, the creation of the US Vaccine Commercial Organization is one of those corridors is worthy of a remark. Without that capability, we would not have advanced the value enhancement of the PowderJect acquisition as much as we have. With it, we grow ever more confident that the eventual size of the meningococcal vaccines franchise will be substantial. As for the rest of the market, in the past three months we have checked off following: Starting the polyimmunization [ph] campaign from Men B vaccine in New Zealand, increasing enrollment in a Phase I trial for our broad coverage from Men B vaccine, starting clinical trials for Procleix West Nile Virus Assay, initiating the trial for IL-2 rituximab in rituximab-naive patients with low-grade non-Hodgkin’s lymphoma, and starting the Phase III trials of tifacogin in severe community-acquired pneumonia. These five are on top of the previous four that we have already checked. Formation of the US Vaccine Commercial Organization, additional flu vaccine capacity for US, Ultro launch in the European Union, blood testing expansion into the Pacific Rowe. So, 9 down, 11 to go. We expect to have an exciting and productive year. Now I would like to turn the call over to David for detailed discussion of the second quarter financial results.

David Smith, Chief Financial Officer

Thanks Howard. I'll begin with a review of the results for the quarter, which were released today approximately 1 p.m. Pacific Daylight Time. All earnings per share amounts discussed today refer to the pro forma diluted per share earning. As we discussed previously, we present our financial results on both an as reported GAAP basis and a pro forma basis. The adjustments we made this quarter and in the second quarter of 2003 to arrive at a pro forma earnings consists of the amortization expense on acquired identifiable intangible assets related to acquisitions and
For the second quarter of 2004, Chiron reported pro forma income from continuing operations of $48 million or $0.25 per share, which was inline with our expectations. Chiron reported pro forma earnings per share of $0.35 in the second quarter of 2003. The decrease in earnings per share for the second quarter of 2004 as compared to the second quarter of 2003 was primarily due to the following 2 factors, the aspect of our acquisition of PowderJect and the decline in the Betaseron royalty rates. The impact of these factors was an approximate $0.11 decrease in our pro forma earnings per share. Total revenues for the second quarter of 2004 increased 12% to $394 million from $350 million for the same period in 2003.

Product sales increased 20% to $295 million from $246 million. Foreign exchange rates resulted in a 2% effect on total revenue. Increases in sales was seen primarily in Procleix, TOBI travel vaccines and Proleukin. Revenues from the joint business arrangement were up primarily due to increased profitability of the business. Collaborative agreement revenues, royalty and license fees, and other revenues decreased 9% primarily due to the decline in the Betaseron royalty rates and the timing of license fees of our intellectual property portfolio partially offset by increased contract manufacturing activity.

Gross margins decreased to 56% from last year's gross margins of 60% primarily driven by a decline in the gross margin for the vaccines business along with reduction in the royalty rates related to Betaseron and the increased cost of producing Betaseron prefilled diluent syringe.

Research and development expenses for the second quarter of 2004 totaled a $100 million up 12% from the second quarter of 2003. The increase reflects the movements of our investment agenda and is primarily related to the development of [indiscernible] meningococcal franchise and flu cell-culture. These increases were partially offset by a decline in spending with the [indiscernible] development of [indiscernible] TA 2794 and higher development cost in the second quarter of 2003 associated with Betaseron.

SG&A expenses for the second quarter of 2004 followed a $107 million, up 33% from the second quarter of 2003. With PowderJect and the associated integration related expenses contributing approximately 1/3rd of the increase for the current quarter.

Integration related expenses were approximately $1 million for the current quarter. For future quarters, we do not expect integration expenses will be material. Excluding, PowderJect, increased SG&A expenses reflects the increase in sales across our businesses, investment and geographic penetration, and defense of our patents and technology.

Now I'd like to move to review the business unit financial results starting with our blood-testing unit. Blood testing total revenues including product sales, Chiron share of the revenues from our joint business arrangement with Ortho, collaborative agreement revenues, and royalty and license fees increased to $115 million in the second quarter of 2004 from $106 million in a year ago period, an 8% increase. This increase was primarily due to higher product sales of Procleix over a year ago, as well as our increased revenues associated with the increased profitability from our joint business arrangement with Ortho offset by a decline in royalty and license fees. Driving the Procleix growth were 3 factors: First, the West Nile Virus Assay available on an investigational use-only basis in United States. Second, market share gains in the US for product sales of Procleix. And third, continued penetration into several markets abroad. Royalty and license fees in the second quarter of 2003 included license fees for our HIV and HCV technology for use in Europe for Plasma Fractionation.

Turning now to vaccine. In the second quarter of 2004, total product sales for the vaccines business were $101 million versus $86 million in the same period last year. We saw increases in
travel vaccine, flu vaccine, and pediatric and other vaccines. The increases were partially offset by a decline in Menjugate sales. Sales of our travel vaccines were $40 million in the second quarter, up 74% from the year ago period. The increase was driven largely by increased sales of our rabies vaccine in the US, and increased sales of our TBE vaccine. Sales of flu vaccines were $8 million in the second quarter of 2004, up 117% from the year ago period. The increase was driven largely by sales to South Korea. Sales of pediatric and other vaccines were $48 million in the second quarter of 2004, up 6% from a year ago period. Our second quarter Menjugate sales were $5 million, down 63% from a year ago period. This decrease was primarily driven by the timing of tenders, vaccination programs in various geographies, and increased price competition. Gross profit for vaccines decreased to 42% from last year’s gross margins of 56%. This was the result of additional product reserves in the second quarter of 2004 as well as product mix.

Moving to our third business, Biopharmaceuticals. Total biopharmaceuticals product revenues including Betaferon royalties were $139 million in the second quarter of 2004, up from $124 million over the year ago quarter, an 11% increase. We saw increases in TOBI and Proleukin sales, while sales of Betaseron including the royalty earned from the sale of Betaseron by Schering in Europe declined. Our second quarter TOBI sales were $51 million, up 32% from a year ago period due to wholesale ordering pattern, increased patient demand in the US, price increases, and a benefit of foreign exchange rates. Second quarter sales of Proleukin were $35 million, up 19% from a year ago period primarily due to wholesale ordering pattern and price increases. Second quarter sales of Betaseron including the royalty earned from the sale of Betaseron by Schering in Europe were $42 million, down 9% from a year ago period. The decrease is primarily driven by a decline in product sales and Betaseron royalties pursuant to our agreement with Schering and ordering pattern. These decreases were partially offset by increased patient demand, price increases, benefit of foreign exchange rates, and increased sales of clinical materials.

Gross margins in the BioPharmaceutical segment increased to 74% from last year’s gross margin of 71%. The increase was due to price increases and improved efficiencies in production, partially offset by the contractual change in the royalty rates related to the sale of Betaseron and increased cost associated with the new Betaseron pre-filled diluent syringe.

Now, I would like to bring to your attention one matter of housekeeping related to the timing of the company’s annual guidance. For the past several year’s, Chiron is providing guidance for the following year during our third quarter earnings call in October, 3 months before our full year results. We plan to move our guidance review to the full year earnings call in January. This move will allow us to base our guidance on actual results from the prior year and bring us in line with industry norms.

Let me take a moment to provide some highlights for Q2. Sales were up 20% reflecting strong showings from all 3 business units. Expenses were in line with expectations and consistent with our investment agenda. We made excellent progress on flu vaccine production and now expect total US doses to total 50 million for the 2004-2005 seasons with an additional 2 million doses for the CDC’s stockpile. We continue to advance our milestone, the men B, resilient vaccine, started the immunization campaign, the men B, resilient vaccine, started the phase III trial for Tifacogin and severe community-acquired pneumonia and initiation of the West Nile virus pivotal trial. As we noted in both the Q4 and Q1 call, Chiron’s earnings have taken on a seasonal flavor for the past few years. And we acknowledge that 2004 will be even more significant in terms of earnings seasonality.

We provided guidance that we will deliver pro forma earnings in the 20% to 25% range of total year earnings for the first half of the year and our first half earnings confirmed this as we came in at the upper end of that range. We continue to reaffirm our full year guidance of a $1.80 to a $1.90 with ever increase in confidence as the year unfolds. Our core businesses are delivering the earnings that we expect and that are consistent with our compounded earnings growth goal. This healthy core business creates the currency to execute on programs that we believe will create significant shareholder value over the long term. At this point I’ll turn the call over to Martin for Q&A.
Martin Forrest, VP of Corporate Communications and Investor Relations

Thanks David. That concludes our prepared remarks. Now I'd like to open up the call for questions. We are joined for the Q&A session by Jack Goldstein, President of Chiron Blood Testing; John Lambert, President of Chiron Vaccine; Craig Wheeler, President of Chiron Biopharmaceuticals; Stephen Dilly, Senior Vice President of Biopharmaceuticals Development; and Bruce Scharschmidt, Vice President, Corporate Scientific Affairs. As a reminder we ask you that each caller ask one question at a time and reenter the queue with additional questions. That way we'll take all questions on the line. Thank you. We will have our first question.
QUESTION AND ANSWER SECTION

Operator: At this time I would like to remind everyone in order to ask a question, please press "*" then the number "1" on your telephone keypad. We will pause for just a moment to compile the Q&A roster. Your first question comes from the line of Michael King with Banc of America Securities.

<Q - Michael King>: Good afternoon and congratulations on a nice quarter. I was wondering if you might be able to breakdown the components of the TOBI growth in a little bit more detail because I noticed you got a number of things working in your favor so I'll just love to know a little bit more about what happened there?

<A - David Smith>: Yeah Mike, it's David. I'll take a cut at that. What we had was obviously we talk about demand, we've seen demand come up given some of the marketing programs that we've put in place, and it's running in line with our expectations. We also had a price increase, which was taken earlier this year up in 5% range.

<Q - Michael King>: When was that David?

<A - David Smith>: Pardon me.

<Q - Michael King>: When was that?

<A - David Smith>: That was in January I believe.

<Q - Michael King>: Okay.

<A - David Smith>: And there was a bit of that fact. We did have some wholesale ordering, which you got to look at kind of this quarter versus the prior year's quarter. Prior year's quarter orders were slightly under demand, were running under demand and this is more approximate to where orders being closer to demand. So that's really what the component pieces are.

<Q - Michael King>: Okay. Could you break down US versus Europe?

<A - David Smith>: We actually don't provide that level of detail Mike.

<Q - Michael King>: Thanks.

Operator: Thank you. Your next question comes from the line of May-Kin Ho of Goldman Sachs.

<Q - May-Kin Ho>: Hi, can you tell us a little bit about the pricing of the additional doses of flu vaccines, how that works for the $2 million during the season and then [indiscernible] stockpiling by the CTC?

<A - David Smith>: John would you like to take a crack at that?

Operator: Mr Lambert if you would please press "*" "6" to un-mute your line.

<A - Howard Pien>: John you are on the line, we can't hear you. Okay, let me take a stab. This if Howard Pien. The 2 million doses are generally higher price than the preexisting contracts, which we talked about a while back. The preexisting contracts were 2 year commitments type tied [indiscernible] quantity, is the excess quantity to allow us some pricing freedom and indeed the specifics were uncomfortable yet to discuss for the reason that some of the 2 million doses are sold at a price that is in conjunction with our negotiation for 2005, and as we renew terms of the contract as we mentioned in our script. The 2 million doses of stockpile of CDC tender, we submitted a
price. We have indication that we are likely to win that tender and when that is formalized we'll make an announcement, but the price is higher than the prevailing average selling price of the 48 million doses for the overall market.

<Q – May-Kin Ho>: And so making sure I understand it so for the 48 million doses previously you had projected a price I think 750 immediately if I remember correctly.

<A – Howard Pien>: I think the 750 make is the projected price from the distributors to the physician offices and the other direct allies. We have I don't believe ever disclosed this specifically our price to the distributors.

<Q – May-Kin Ho>: Okay, but lets assume the facts, then the 2 million extra doses during the season would be higher than X

<A – Howard Pien>: Higher than X yes.

<Q – May-Kin Ho>: And the 2 million for the stockpiling was that even higher than the first 2 million doses.

<A – Howard Pien>: It's higher than X, and we are not yet ready to disclose whether or not it's higher than X plus Y.

<Q – May-Kin Ho>: And

<A – Howard Pien>: That will be public, very soon it will be public.

<Q – May-Kin Ho>: Okay all right.

<A – Howard Pien>: And just as you know there is the possibility that it may straddle the 2004-2005 fiscal year, because it's the end of the season. The CDC is taking, issuing this tender for the reason that they want to have some products on hand in the event that the flu season is more severe and all of the vaccines in the marketplace have been used up, so the CDC tender is issued to be the end of the season, manufacturing and they are taking possession. And so, there is some uncertainty as to whether or not of that 3 million doses will be booked in 2004 revenue as some of it may spill over into 2005.

<Q – May-Kin Ho>: You meant the CDC part of it, but the additional 2 million doses meaning 50 million doses most of them will be booked in 2004?

<A – Howard Pien>: All of that will be booked 2004. The 2 million stockpile, that's right, you understand it correctly.

<Q – May-Kin Ho>: But the 2 million doses that's on top of the 48 million, the price for those, I mean, you said it's in conjunction with the 2005 contract?

<A – Howard Pien>: No, it's a special tender, it's a special tender for the stockpile, but when we finish making and they take possessions, some of those 2 million doses will fall in 2004 fiscal year, but some of it may fall into 2005 fiscal year.

<Q – May-Kin Ho>: Yeah, for the CDC?

<A – Howard Pien>: For the CDC yeah, the last 2 million doses are stockpile.

<Q – May-Kin Ho>: Got it. But in terms of magnitude, I mean, the first 40 million doses is x, the extra 2 million would be 2x or higher?
<A - Howard Pien>: No, no it will not be 2x, the second quarter [indiscernible] you put to replace on our capability.

<Q - May-Kin Ho>: Thank you very much.

Operator: Thank you. Your next question comes from the line of Alex Hittle with A. G. Edwards.

<Q - Alex Hittle>: Thanks for taking my question and a nice quarter. My question is on Betaseron and you referenced to clinical materials. Could you explain what that is, and also, in the mix on international sales, is there in that an increase in materials manufactured by Chiron? Thank you.

<A - Howard Pien>: Sure Alex. The clinical shipments are provided to Schering for the trials that they are running for instance the BEYOND trial. So, this is a standard we have been supplying and booking top line for the clinical shipments for the past several quarters. We just happened to have more in this particular quarter than we had in the prior year. And, I am sorry, I blanked on your part of your question?

<Q - Alex Hittle>: In terms of Chiron manufactured products it’s been sold overseas, is that a factor in the sales figure?

<A - Howard Pien>: We do provide some to overseas, but it is not significantly higher than lets say the previous quarters.

<Q - Alex Hittle>: Thank you.

Operator: Thank you. Your next question comes from the line Geoffrey Porges with Sanford Bernstein.

<Q - Geoffrey Porges>: Thanks for taking my question, follow-up question on the flu season. I was just wondering if you can give us the sense of how you see the competitive landscape for flu vaccine in the US this season, particularly how much you anticipate Aventis supply. What they can do to the CDC and what they have done with their pricing in contract and then finally what is likely Q3, Q4 split in your supply to the market? Thanks.

<A>: Okay, we will try this again John. Are you on the line?

<A - John Lambert>: Can you hear me.

<A>: Yes.

<A - John Lambert>: Okay. Clearly don’t know how many dose is Aventis going to put on to the market, but we expect this year that the supply, they won’t be greater than excess supply and as you know our business and through the contracts those are all doses are sold. So we are basically sold out for this year. For flu [indiscernible] quoted as 500,000 doses are being put on the market by [indiscernible] reasons the markets for healthy adults and that sales leads of the product and Aventis’s products are primarily targeted at the average population. And I think that the basic recommendation without and Aventis’s out there creating awareness for flu, we now see a very good season. Even if you just look at the to the expanded recommendations, 50 to 64 year old that gives a potential for 53 million additional vaccines this year, which currently are in the figure of 20 million and currently being vaccinated. So I think there is plenty of room for market expansion. It is very difficult I think to [indiscernible] between Q3 Q4, depends on a stable release. Currently this is as it stands, we expect some of the delivery packings to last year, everything is in place, and it’s really very difficult to be precise on the number of [indiscernible] in Q4.
<Q - Geoffrey Porges>: John just a follow up on that are you any closer to having the under 5 label for Fluvirin?

<A - John Lambert>: Yeah we've got so many initiatives ongoing this year on Fluvirin. We have increased the production tremendously to stomach the pandemic threat responding to RFP [ph]. The fact that we've, we expect to be sold out of capacity for this year for the years to come, it's not a great priority for us and so there is nothing really exceptional [ph] to report on that.

<Q - Geoffrey Porges>: Okay thanks very much.

Operator: Thank you. Your next question comes from the line of Thomas Wei from Piper Jaffray.

<Q - Thomas Wei>: Thanks very much. I just wanted to ask on, David, you had reminded us that the first half guidance represented about 20% to 25% of EPS for the year. So, based on the $0.47 that you've reported year-to-date, that would imply that even at the high-end of that range 2004 EPS should be at least $1.88. Can you help us understand that why you didn't narrow the guidance range at this time? Whether or not, there is the potential for upside there? And what would need to happen in order for you to fall towards the lower end of that guidance range on annual EPS? Thanks.

<A - Howard Pien>: Okay, I won't try and do the math and figure out, it's a $1.88. We came in essentially at what we said is the high end of the we call it 20% to 25% number, so $0.25 being right at the top end of that. This is a company you know very positively positioned with multiple business units, so there are a lot of moving parts. So, at this point as we look forward, we are very confident in being within that range, but at this point given where we are this part of the flu season, and I don't think it's appropriate for us to try and narrow that range right now. If we do it all during the course of the year, and yeah there are lots of things again with moving parts that can cause you to move up and down the scale between $1.80 and $1.90. [Indiscernible] Thomas, but of course the shape of the investment agenda, as certain projects go faster and go more aggressively it is possible that you will find them worthy candidates to receive more investments than our previous budgets. I mean we are running a business as we try to say repeatedly and we hope that you have gradually incorporated. We are running an agenda, a business, a company that is both looking to deliver a reliability of earnings in the longer term and growth of earnings as we are looking to invest in long things that will create value in the course of the year or [Indiscernible] in the course of 6 months. Because there's a large number of projects accustomed to our investment agenda that our evaluation of their risk profile, our evaluation of their success probability they evolve, and we may decide that it is the right thing to do for a long term value creation that we invest a little bit more self. So, I simply amplify David's point that as we look to a business that's increasingly concentrated in the second half of the year, in revenue therefore in profits, our ability to stay with precision based on the first 2 quarters, what's going to happen in the second two quarters, go down a bit, we are comfortable as we said with our ability to [Indiscernible] strength of the flu season, we can make that range, but it is possible we may invest some of the upsides in the projects [Indiscernible]. We have one of those projects turning out to the prospects that we thought they would, they would simply drop their earnings to the bottom line, so it's just that six months is actually relatively short a period of time into the year than the shape of our agenda, the shape of our revenue.

Operator: Thank you. Your next question comes from the line of Eric Schmidt with SG Cowen.

<Q - Eric Schmidt>: Good afternoon. A question on the meningococcal vaccine franchise, I'm familiar with all your mix generation products in development, but could you update us on the near-term outlook, you mentioned sales were down year-over-year in the first half. I am just wondering if there is any Menjugate tender offers that are coming up or if you're looking at down year-over-year there?
<A>: John.

<A - John Lambert>: Yes sir. The market at the moment is pretty aggressive and the fact [indiscernible] amount of pricing pressures. It's kind of difficult to do a year-on-year comparison, because both depend on when tenders are being issued, and we do expect the sales to increase in the next quarter, because you got in the September period where kids were going to school and there is much more demand for the project, so one of the biggest issues we are facing, because there is very competitive from pricing at the moment.

<Q - Eric Schmidt>: Okay, thanks a lot.

<A - John Lambert>: But we have a product which is very competitive and we expect to be successful.

<Q - Eric Schmidt>: Right, thank you.

Operator: Your next question comes from the line of Tom Shrader with Harris Nesbitt.

<Q - Tom Shrader>: Good afternoon. I understand you are working on flu contract that were signed sometime in the past. You expect to get exactly the same things per dose that you got last year, are there price increases built into you there?

<A>: John.

<A - John Lambert>: If I heard the question correctly, are we expecting prices to the distributors to increase in the contract renegotiation?

<Q - Tom Shrader>: No, no, I mean from last year. I know it's an old contract, but is it absolutely a flat price from last year that you get this year?

<A - John Lambert>: Correct.

<Q - Tom Shrader>: And when were those contracts signed?

<A - John Lambert>: It was during the PowderJect dose prior to the acquisition.

<Q - Tom Shrader>: So 3 years ago.

<A - John Lambert>: I think you're correct, [indiscernible] they might be 2 year contract.

<A>: PowderJect, John as I understand it correctly, if I don't [indiscernible] at the end of 2002, the 2-year contracts were signed by PowderJect with the American distributors. Almost entirely of those contracts were 2 year contracts one of them turned out to be a 3 year contract, and the contract was tied to an allocation of quantity and the size and the quantity projection at the time was about 38 million doses, which turned out to true for 2003 year. The upside that we have in 2004 experienced in the extra delivery, we now have 48 million doses since the outline, so there is some upward pricing relative to the contracts that were signed 2 years ago by PowderJect on 10 million extra doses business. We are starting to negotiate 2005-2006 contracts with 6 of the 7 distributors. The 7 distributors is the one with the 3 year contract. Their price of the quantity that they agreed to will be true still for 2005 season, but we are trying to negotiate a right kind of price and volume for the next 2 years with contract with six of those distributors and there is a little bit of a give and take as to how much price we take in the 10 million doses of extra doses that are coming to market this year.

<Q - Tom Shrader>: Okay, thank you, very helpful.
Operator: Your next question comes from the line of Craig Parker with Lehman Brothers.

<Q - Craig Parker>: Hi, 2 questions. That first, David, can you tell me what the effects on both the top-line and expenses were sequentially from currency?

<A - David Smith>: From currency on the top-line was about 2% on a year-over-year basis and down about 1% sequentially.

<Q - Craig Parker>: And I know you, I don’t think you calculated before but the impact on expenses?

<A - David Smith>: We actually haven’t talked about that. Obviously, when you’ve got an uplift in your currency, you are going to have an uplift in your expenses. And don’t forget, we are in a net short position against the pound, so on an overall basis, we were hurt by currency about 1 penny in this quarter.

<Q - Craig Parker>: Okay, that’s very helpful. And then a question about travel vaccine, that was actually the source of nearly all of your sequential revenue growth, and this is the first time we’ve seen a second quarter of travel vaccine sales and the range has been now quite large from, if I have my numbers right a $11.3 million in the third quarter last year, now it is $40 million a quarter, can you just talk about the seasonality there and what affects contribute to the increase in sales?

<A - John Lambert>: Okay, there are 2 elements really. One is, the particularly on the [indiscernible] market in Germany, I remember we had a very good quarter and also the other element was rabies vaccine. I know [indiscernible] Aventis has had some supply difficulties with Aventis vaccine particularly in the US. And we are going to position that we are able to solely [indiscernible] it came as a boost to our sales.

<Q - Craig Parker>: So, would you characterize those as one-time events or did they tend to happen in other geographies with some recurring or some predictability?

<A - John Lambert>: Yeah actually the European [indiscernible] should be regulated them and manufacturer having supply difficulties, this happens sometimes to them where if you’re in a position where you got stock so you can supply, you are in a position to supply. You know we have to [indiscernible] this business.

<Q - Craig Parker>: Thank you.

Operator: Your next question comes from the line of Elise Wang with Smith Barney.

<Q - Elise Wang>: Hi, thanks for taking my question. Just to get clarification again on how we can look at this upcoming flu season. If I look back on some for your filed documents, I did see that Fluvirin represented about 12% of revenues last year and correct me if I’m wrong but my math indicate that’s about $210 million and given the 38 million doses that would imply pricing at about $5.50 on average and I gather as you said you have contracts in place that will still support that kind of pricing, but if you can elaborate you said with the additional supply you have some ability to increase pricing is that correct?

<A>: Yes, the answer is yes we do. At this point we are not prepared to comment in terms of what that uplift might be.

<Q - Elise Wang>: Okay. Okay was my math correction in terms of [indiscernible] interpreting last season at least?
<A>: Well, I suppose there would be. We talked about sales in the $210 million to $219 million range in [indiscernible] dosing.

<Q – Elise Wang>: Right okay. All right. And so are the one distribute for next season you indicated that only one of the distributors was locked up for another season, what percentage of the estimated supply or other doses does that of the new contracts of the negotiated contract we should discuss now with, would that represent?

<A>: Alise we were done with the negotiation, when we are done with the negotiation, which we have indicated would not be the case until the fall, probably the end of the fall, we’re in the better position to tell you that.

<Q – Elise Wang>: Okay.

<A>: And the fact is I don’t think any discussions are ongoing and you can imagine the dynamics there, that is this flu season is as good as from the standpoint of the distributors as good as last year, the upward pressure on pricing will be greater and therefore and depending our ability to extend our sales on [indiscernible] with quantity for next year, which is part of the negotiation. We can then characterize the distribution much better at that time.

<Q – Elise Wang>: Okay, and can you also comment perhaps on what potential improvements there are on the margin side?

<A>: We cannot yet.

<Q – Elise Wang>: Okay, all right. Thank you very much.

Operator: The next question comes from the line of Benner Ulrich [ph] with UBS.

<Q – Benner Ulrich [ph]>: Yeah, hi, just a quick question on the blood testing business. I noticed that on sequential basis, it looked like there was a slight decline in the Procleix revenue and obviously assuming that you didn’t lose any customers, I was wondering if that was perhaps a reflection of a lower number of donations in the quarter. In addition, I was wondering if you could give me a sense for what the instrumental sales were as a component of that total Procleix number and whether they were similar to the first quarter levels?

<A – Jack Goldstein>: Okay this is Jack Goldstein. You’re correct, while quarter-to-quarter the revenues were basically flat. We had particular good quarter in the US. Donations were up in the first quarter in the US and they were down a little bit in the second quarter in the US. Instrument sales were slightly higher in the first quarter than the second quarter. I don’t have the exact breakout. But, I think the issue for us is that, some of our geographic expansions in Korea et cetera hasn’t really kicked in yet and so we are looking through the third and fourth quarter in order for increases in revenues quarter-to-quarter.

<Q – Benner Ulrich [ph]>: Okay, fair enough, that makes sense, and then in terms of the number of donations or just the level of donations on a quarter-to-quarter basis, I mean, clearly that fluctuates. How can, is there a way to look at that, is there any seasonality in that number?

A – Jack Goldstein>: Generally not, generally it’s fairly constant. I mean we just, there was an anomaly in the US, and for some reason donations were up in the first quarter.

<Q – Benner Ulrich [ph]>: Okay thank you.

Operator: Your next question comes from the line of Joseph [indiscernible] with Deutsche Bank.
<A>: Hello.

<Q – Jennifer Chao>: Yes, hi actually it’s Jen Chao. Just a quick question on Fluvirin, you said Howard, what is the maximum amount of Fluvirin that you are able to manufacture this year, you did give us a number for last year? And then the second is, with regard to the meningococcal B vaccine in New Zealand, are you expecting to be able to distribute that in the third and fourth quarter, can you maybe give us a proportion of what is expected in each and just back of the envelope that looks like it could be at least a couple of cents upside and I wanted to know if that was part of your original $1.80 to a $1.90 guidance? Thanks.

<A – Howard Pien>: I'll answer the second question first. The men B New Zealand was in our expectations. It does not represent an upside vis-a-vis our expectation when we gave guidance. Of course, we saw that the sales would come in the second half [indiscernible]. So, there is actually we want us to be very proud, very proud to find that we are able to make a significant contribution towards the nations, what will amount to be a [indiscernible] program in it's full course, but it's not financially a major driver. We have quite a bit of development cost and the price that we get relative to both the manufacturing cost and the development cost that is actually put as charitable. So, it's not a driver on the EPS at all. The US Fluvirin situation is just review the bidding. We thought it was going to be $48 million doses for the year. We now have just outlined what we think the situation is going to be. We can get a 48 becomes 50, on top we have 2 more million doses of CDC stockpile for a total of 52. Just to let you know if you are wondering about some other numbers you heard about [indiscernible], for example, 50 bits, 48 Fluvirin [indiscernible] Fluvirin for the US. It is out of the Liverpool plant that makes Fluvirin those 2 more million doses of Fluvirin that would be great but that's for the UK market. So, originally it's 48 plus 2, 48 US and UK, now it's 50 for corresponding to the 48, plus 2 that is the UK, plus 2 at the end of the season with CDC stockpile.

<Q – Jennifer Chao>: Okay, thanks for the clarification.

Operator: Your next question comes from the line of Michael King with Banc of America Securities.

<Q – Michael King>: Yeah, thanks for taking my follow up. I was going to rip on the earlier question about Procleix and Jack you mentioned that some of the geographic expansion hadn’t kick in, I was wondering if you could be more specific on what are the key drivers for the remainder of 2004 that you should point us to for Procleix?

<A – Jack Goldstein>: Well certainly the continued movement of Ultro into the European market, although as Howard said in his initial comments that we have started to move toward our 30%. We are not quite there yet. The 13 centers are using Ultro with that there are 13 centers that are either using Ultro or have contracted, some of them are winding down their duplex inventory. So again, we should see some increases in pricing as we move into the third and fourth quarter. Korea just hasn’t started that screening yet. They should sometime in the third or fourth quarter. We are not exactly sure when they will be. They are up and running with Procleix, but they are not up and running in their other centers and they want to, they are using a competitive test and so they want to be testing the entire country all at the same time. So that will happen soon but we don't exactly know when, and we continue to make advances in other geographic extension countries in Poland, sales are going very well. We are up to about 225,000 donations that are being tested using Procleix. That will continue in Greece. We’ll add about a 130,000 units that will continue. And in Thailand, we’ll add about a 110,000 units and that’s moving to 350,000 units. In addition, we are doing filings of Ultro in the US as well as we have some other conversions of Ultro in other countries in for example, Singapore and New Zealand, that will be happening towards the end of the year as well. So we are still clicking away, but as you know it's kind of a stepwise center-by-center type of phenomenon.

<Q – Michael King>: Thank you.
<A>: Tracy, we are nearing end of our hour, so we have time for one more question.

Operator: Your final question comes from the line of [indiscernible] with Robert W. Baird.

<Q>: Hi, nice quarter. I just wanted to get an update on the Sagres acquisition and how is that going to fit into your oncology program?

<A – Craig Wheeler>: [indiscernible] this is Craig Wheeler. We were quite excited about the opportunity to purchase Sagres. It really is a great definition of accretive technology for us. As you may know Sagres is a platform that is an oncology platform looking at a evaluating targets based on an insertional mitogenesis [ph] technology. When we looked at that technology [indiscernible] it fit extremely well with our internal technology that we had in Genomics for express RNA and really if you look at this deal as brining a technology and a platform in house that enables us to accelerate the validation of our target and some of the targets we’re looking at, we believe it will have the potential to take a year to year and a half of target validation and then bringing it forward into potential clinical program. We anticipate the first value will be to bring higher quality targets for our antibody program and the collaboration with Xoma.

<A – Martin Forrest>: That concludes our question and answer period. I’ll now turn the call back to Howard for our closing remarks.

Howard Pien, Chief Executive Officer

Thank you Martin. Our success this quarter underscores Chiron’s ability to execute on our visions for the future. We have a great set of drivers for growth. We have a clear understanding on how we can augment value creation for the strategy. We have articulated and have implemented. We are investing for the future while intending to maintain the strong financial results that are now a hallmark of Chiron’s reputation. Our result is to turn this set of strategy into action and action into results. We look forward to updating you on our progress in the quarters to come. Thank you very much for joining us today.

Operator: This concludes today’s conference call. You may now disconnect.
Influenza, a contagious disease caused by the influenza virus, affects the respiratory tract, often resulting in symptoms in the

About Influenza and Influenza Vaccines

including lost work days, of a severe flu epidemic are at least $12 billion. Total direct and indirect costs, as much as $4.6 billion. According to the National Foundation for Infectious Diseases (NFID), the annual direct medical costs of influenza are estimated at as much as $4.6 billion. Total direct and indirect costs, including lost work days, of a severe flu epidemic are at least $12 billion.

As part of the annual preparation for the influenza season, the U.S. Food and Drug Administration's Center for Biologics Evaluation and Research (CBER) tests samples from each batch of influenza vaccine. Upon passing this regulatory testing step, CBER officially releases the vaccine. CBER has begun this process and released the first million doses of Fluvirin. In the coming days, Chiron will complete its internal release procedures, allowing distributors to begin shipping the vaccines to customers.

According to the CDC, about 10 to 20 percent of the U.S. population contracts influenza each year. Vaccination not only decreases the risk of illness for the vaccine recipient but also helps prevent the spread of the influenza virus and limits its role in the potential development of life-threatening complications. The Advisory Committee on Immunization Practices (ACIP) recommends the initiation of influenza vaccination in September for those at high risk for serious complications.

CDC statistics show that, in an average year in the United States, influenza causes 114,000 hospitalizations and kills 36,000 people, primarily in the over-65 population. Together, influenza and pneumonia are the seventh-leading cause of death in the country, killing more people than any other infectious disease. According to the National Foundation for Infectious Diseases (NFID), the annual direct medical costs of influenza are estimated at as much as $4.6 billion. Total direct and indirect costs, including lost work days, of a severe flu epidemic are at least $12 billion.

About Chiron

EMERYVILLE, Calif., Jul 23, 2004 /PRNewswire-FirstCall via COMTEX/ -- Chiron Corporation (Nasdaq: CHIR) today announced that it has delivered the first one million doses of its Fluvirin(R) influenza vaccine to U.S. distributors in preparation for the upcoming influenza season. The company expects to deliver a total of 52 million doses of Fluvirin to the U.S. market this season through regular shipments over the next few months, including 2 million doses later in the season for a national stockpile held by the U.S. Centers for Disease Control and Prevention (CDC). This record level of supply represents an increase of more than one third compared with Fluvirin deliveries during the last influenza season.

"Chiron is committed to protecting millions of people against influenza by increasing the availability of Fluvirin, and vaccine delivery early in the season is an important step in fulfilling this pledge," said Howard Pien, president and chief executive officer of Chiron. "Last influenza season hit early and hit hard. As a result, people increasingly recognized the value of vaccination and sought it at unprecedented rates, leading to a public health milestone of approximately 83 million Americans immunized against influenza. To meet the growing demand for vaccine, our manufacturing teams have worked hard to increase production to record levels and to deliver the vaccine to market as quickly as possible, allowing people to act early to protect themselves and their families this coming influenza season."

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About Influenza and Influenza Vaccines

Influenza, a contagious disease caused by the influenza virus, affects the respiratory tract, often resulting in symptoms in the nose, throat and lungs, as well as fever, headache, tiredness and body aches. It can also lead to complications such as pneumonia, bronchitis, or sinus and ear infections or exacerbate chronic conditions.

Influenza vaccination provides protection from influenza within about two weeks of administration and may last for as long as a year. The vaccine protects 70 to 90 percent of vaccinated people from contracting influenza, and vaccinated people who do contract influenza generally develop milder cases than unvaccinated people. Influenza vaccines, the majority of which are made from inactivated (killed) influenza strains, are updated each year to address changes in the viruses. People who are allergic to eggs, who have had a severe reaction to an influenza shot in the past, or who have previously developed Guillain-Barre syndrome in the six weeks after receiving an influenza vaccination should consult their doctors before receiving influenza vaccination.

Important Safety Information for Fluvirin(R) Influenza Vaccine

The most common side effect of vaccination with Fluvirin is soreness at the injection site. Less common side effects include fever, malaise, myalgia and allergic reactions. Fluvirin should not be administered to anyone with a history of hypersensitivity to any component of the vaccine, including eggs, egg products or thimerosal. As is the case with most drugs and vaccines, there is a chance that a serious allergic reaction, serious illness or even death could occur as a result of vaccination with Fluvirin. Generally, persons should not be vaccinated during an acute febrile illness. Persons should consult with their healthcare providers if they are pregnant and/or are taking other medications. Fluvirin may not protect 100 percent of individuals who are susceptible to influenza. Before administering Fluvirin, please see full prescribing information.

About Chiron
Through its global Blood Testing, Vaccines and BioPharmaceuticals businesses, Chiron Corporation addresses human suffering with more than 50 diverse products to detect, prevent and treat disease worldwide. The company's consistent success has come from its pioneering science, skill in delivering innovations in biotechnology and disciplined business approach. Chiron believes that science has the power to improve people's lives and harnesses that power to transform human health. For more information about Chiron, please visit www.chiron.com.

About Chiron Vaccines

Chiron Vaccines, the world's fifth-largest vaccines business, is headquartered in Oxford, United Kingdom, and has facilities located throughout Europe, the United States and Asia. Chiron Vaccines is the world's second-largest manufacturer of influenza vaccines and has important meningitis, pediatric and travel vaccine franchises. Chiron Vaccines is the leading vaccine manufacturer in the United Kingdom, Germany and Italy. The company's portfolio of products includes vaccines for influenza, meningitis C, rabies, tick-borne encephalitis, yellow fever, haemophilus influenzae B (Hib), polio, mumps, measles and rubella (MMR) and diphtheria, tetanus and pertussis (whooping cough).

This year, Chiron Vaccines celebrates 100 years of advancing medicine with the anniversary of two founding companies. In 1904, Emil von Behring and Achille Sclavo independently started companies in Germany and Italy, respectively, dedicated to the research, development and manufacture of vaccines to protect humanity from infectious disease. As the fifth-largest vaccine manufacturer in the world, Chiron remains dedicated to the legacies of von Behring and Sclavo to prevent disease and develop new vaccines to improve human health globally.

This news release contains forward-looking statements, including statements regarding sales growth, product development initiatives and new product marketing, that involve risks and uncertainties and are subject to change. A full discussion of the company's operations and financial condition, including factors that may affect its business and future prospects, is contained in documents the company has filed with the SEC, including the form 10-Q for the quarter ended March 31, 2004, and the form 10-K for the year ended December 31, 2003, and will be contained in all subsequent periodic filings made with the SEC. These documents identify important factors that could cause the company's actual performance to differ from current expectations, including the outcome of clinical trials, regulatory review and approvals, manufacturing capabilities, intellectual property protections and defenses, stock-price and interest-rate volatility, and marketing effectiveness. In particular, there can be no assurance that Chiron will increase sales of existing products, successfully develop and receive approval to market new products, or achieve market acceptance for such new products. In addition, the company may engage in business opportunities, the successful completion of which are subject to certain risks, including shareholder and regulatory approvals and the integration of operations.

Consistent with SEC Regulation FD, we do not undertake an obligation to update the forward-looking information we are giving today.

NOTE: Fluvirin is a trademark of Chiron Corporation.

SOURCE Chiron Corporation
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Chiron Delays Fluvirin(R) Influenza Virus Vaccine Shipments

Vaccine Doses Expected to Be Available in October Pending Additional Tests

EMERYVILLE, Calif., Aug 26, 2004 /PRNewswire-FirstCall via COMTEX/ -- Chiron Corporation (Nasdaq: CHIR) today announced that, in conducting final internal release procedures for its Fluvirin(R) influenza virus vaccine, the company's quality systems have identified a small number of lots that do not meet product sterility specifications. While ongoing internal investigations into the root cause of the variance indicate no widespread issues with the manufacturing process, Chiron has delayed releasing any Fluvirin doses until it has completed additional release tests. Chiron currently expects that the additional tests will delay product release until early October. Because of the delay in shipment, Chiron does not expect to record any sales of Fluvirin in the third quarter of 2004. Assuming timely release of Fluvirin in October, Chiron expects to be within the range of its previous full-year 2004 pro-forma earnings guidance of $1.80-$1.90 per share but at the low end of this range (a range of $1.50-$1.60 per share on a GAAP basis). A reconciliation is provided below.

"Chiron is committed to protecting people. These extra checks will ensure that the quality, safety and effectiveness of our product meet our rigorous standards," said John Lambert, president of Chiron Vaccines. "In our role as a key supplier of an important public health product, we are working with the FDA, the U.S. Department of Health and Human Services, and the CDC to meet the projected demand for the upcoming influenza season. We currently expect Fluvirin doses to be available in early October, in time to meet public health needs for this influenza season, and we expect to provide even more Fluvirin doses this season than last season."

In July, Chiron announced that it was on track to deliver an estimated total of 50 million doses of Fluvirin to the U.S. market this season, an increase from earlier projections, and that it had delivered its first 1 million doses to U.S. distributors. Assuming satisfactory results from ongoing release testing, Chiron now expects to deliver between 46 million and 48 million Fluvirin doses to the U.S. market beginning in October. The vaccine doses held at distributors are subject to the same internal release criteria as those held at Chiron's FDA-licensed Liverpool manufacturing facility, with release anticipated in October. The planned late-season delivery of 2 million Fluvirin doses for a national stockpile held by the U.S. Centers for Disease Control and Prevention (CDC), not included in the totals above, remains on schedule.

Chiron's full-year 2004 pro-forma earnings per share guidance of $1.80-$1.90 per share excludes amortization expense on acquired intangible assets related to the acquisitions of PathoGenesis, Chiron Behring, Pulmopharm and Powderject of approximately $0.30 per share. Chiron management uses pro-forma financial statements to gain an understanding of the company's operating performance on a comparative basis. Pro-forma amounts exclude special items relating to certain acquisitions, which may not be indicative of the company's trends or potential future performance. All references to per-share amounts are per diluted share.

About Influenza and Influenza Vaccines

According to the CDC, about 10 to 20 percent of the U.S. population contracts influenza each year. Vaccination not only decreases the risk of illness for the vaccine recipient but also helps prevent the spread of the influenza virus and limits its role in the potential development of life-threatening complications. CDC statistics show that, in an average year in the United States, influenza causes 114,000 hospitalizations and kills 36,000 people, primarily in persons 65 and older.

Influenza, a contagious disease caused by the influenza virus, affects the respiratory tract, often resulting in symptoms in the nose, throat and lungs, as well as fever, headache, tiredness and body aches. It can also lead to complications such as pneumonia, bronchitis, or sinus and ear infections or exacerbate chronic conditions.

Influenza vaccination provides protection from influenza within about two weeks of administration and may last for as long as a year. The vaccine protects 70 to 90 percent of vaccinated people from contracting influenza, and vaccinated people who do contract influenza generally develop milder cases than unvaccinated people. Influenza vaccines, the majority of which are made from inactivated (killed) influenza strains, are updated each year to address changes in the viruses. People who are allergic to eggs, who have had a severe reaction to an influenza shot in the past, or who have previously developed Guillain-Barre syndrome in the six weeks after receiving an influenza vaccination should consult their doctors before receiving influenza vaccination.

Important Safety Information for Fluvirin(R) Influenza Virus Vaccine

The most common side effect of vaccination with Fluvirin is soreness at the injection site. Less common side effects include fever, malaise, myalgia and allergic reactions. Fluvirin should not be administered to anyone with a history of hypersensitivity to any component of the vaccine, including eggs, egg products or thimerosal. As is the case with most drugs and vaccines, there is a chance that a serious allergic reaction, serious illness or even death could occur as a result of vaccination with Fluvirin. Generally, persons should not be vaccinated during an acute febrile illness. Fluvirin is not indicated for children under 4 years of age. Persons should consult with their healthcare providers if they are pregnant and/or are taking other
medications. Fluvirin may not protect 100 percent of individuals who are susceptible to influenza. Before administering Fluvirin, please see full prescribing information. For more information about Fluvirin, please visit www.chiron.com/fluvirin or call 800-200-4278.

About Chiron

Through its global Blood Testing, Vaccines and BioPharmaceuticals businesses, Chiron Corporation addresses human suffering with more than 50 diverse products to detect, prevent and treat disease worldwide. The company's consistent success has come from its pioneering science, skill in delivering innovations in biotechnology and disciplined business approach. Chiron believes that science has the power to improve people's lives and harnesses that power to transform human health. For more information about Chiron, please visit www.chiron.com.

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Chiron Vaccines, the world's fifth-largest vaccines business, is headquartered in Oxford, United Kingdom, and has facilities located throughout Europe, the United States and Asia. Chiron Vaccines is the world's second-largest manufacturer of influenza vaccines and has important meningitis, pediatric and travel vaccine franchises. Chiron Vaccines is the leading vaccine manufacturer in the United Kingdom, Germany and Italy. The company's portfolio of products includes vaccines for influenza, meningitis C, rabies, tick-borne encephalitis, yellow fever, haemophilus influenzae B (Hib), polio, mumps, measles and rubella (MMR) and diphtheria, tetanus and pertussis (whooping cough).

This year, Chiron Vaccines celebrates 100 years of advancing medicine with the anniversary of two founding companies. In 1904, Emil von Behring and Achille Sclavo independently started companies in Germany and Italy, respectively, dedicated to the research, development and manufacture of vaccines to protect humanity from infectious disease. As the fifth-largest vaccine manufacturer in the world, Chiron remains dedicated to the legacies of von Behring and Sclavo to prevent disease and develop new vaccines to improve human health globally.

This news release contains forward-looking statements, including statements regarding the amount of doses of Fluvirin that Chiron expects to deliver to the U.S. market and the timing of the delivery of those doses both in aggregate and with respect to the doses for the CDC's national stockpile, Chiron's expected earnings per share, sales growth over prior periods, product development initiatives, and new product marketing. These forward-looking statements involve risks and uncertainties and are subject to change. No assurances can be given that additional tests on Fluvirin will yield satisfactory results or that Chiron will be able to release Fluvirin this season. Many factors could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including, among others, additional adverse developments resulting from the completion of Chiron's additional tests and investigation or discussions with or actions taken or required by the FDA, U.S. Department of Health and Human Services, or CDC. In addition, a full discussion of the company's operations and financial condition, including factors that may affect its business and future prospects, is contained in documents the company has filed with the SEC, including the form 10-Q for the quarter ended June 30, 2004, and the form 10-K for the year ended December 31, 2003, and will be contained in all subsequent periodic filings made with the SEC. These documents identify other important factors that could cause the company's actual performance to differ from the expectation expressed or implied by these forward-looking statements, including the outcome of clinical trials, regulatory review and approvals, manufacturing and testing capabilities, pricing pressures, intellectual property protections and defenses, litigation, stock-price volatility, and marketing effectiveness. In particular, there can be no assurance that Chiron will timely conclude testing or release of Fluvirin, maintain anticipated levels of profitability, increase sales of existing products, successfully develop and receive approval to market new products, or achieve market acceptance for such new products. In addition, the company may engage in business opportunities, the successful completion of which are subject to certain risks, including shareholder and regulatory approvals and the integration of operations.

Consistent with SEC Regulation FD, we do not undertake an obligation to update the forward-looking information we are giving today.

NOTE: Fluvirin is a trademark of Chiron Corporation.

SOURCE Chiron Corporation
Chiron to Testify Today to the Value of Influenza Vaccination Before U.S. Senate Special Committee on Aging

EMERYVILLE, Calif.--(BUSINESS WIRE)--Sept. 28, 2004-- President and CEO Howard Pien Reiterates Supply Expectations Of Fluvirin(R) Influenza Virus Vaccine as Stated in August

Chiron Corporation (Nasdaq:CHIR) announced that president and chief executive officer Howard Pien will appear before the U.S. Senate Special Committee on Aging in Washington, D.C., today in a hearing titled, "Combating the Flu: Keeping Seniors Alive." Mr. Pien will speak on the value of influenza vaccine in protecting health, the importance of raising awareness of the benefits of vaccination, and the need to prepare for an influenza pandemic.

Mr. Pien will also reiterate Chiron's expectation, as stated in the company's August 26, 2004, press release, that it will supply between 46 million and 48 million Fluvirin(R) influenza virus vaccine doses to the U.S. market for the 2004-2005 influenza season, beginning in early October. The planned late-season delivery of 2 million Fluvirin doses for a national stockpile held by the U.S. Centers for Disease Control and Prevention (CDC), not included in the totals above, remains on schedule as well. Since its August announcement, Chiron has worked closely with government agencies to keep them informed of its retesting process. The results of the confirmatory testing to date are consistent with the company's shipping expectations. Following compilation and formal sign-off of its test data, Chiron expects to complete its discussions with regulatory authorities and proceed with releasing Fluvirin to the U.S. market in early October.

A Committee announcement of today's hearing states that the CDC estimates that 6 of every 10 seniors received a flu shot last year, and that federal health officials have established a goal of vaccinating at least 90 percent of seniors by 2010. The hearing coincides with National Adult Immunization Awareness Week, which runs from September 26 through October 2.

In submitted testimony to the Committee, Mr. Pien stated, "Chiron has invested heavily in ensuring that the United States has a supply of influenza vaccine in interpandemic years, which will contribute to protecting the elderly against morbidity and mortality due to the disease. Chiron is committed to the U.S. influenza market and working with government to protect the population, as it continues to age, against influenza as well as to position the United States for preparedness for a global influenza pandemic."

As October and November are the primary months when influenza vaccine is given, the impact of Chiron's shipment delay on the 2004-2005 influenza vaccination season should be minimal. Furthermore, as in past years, the CDC urges continuation of influenza vaccination into December and beyond, given vaccine availability.

To learn more about the hearing, view it via webcast, or read the testimony, please visit http://aging.senate.gov. A live audiocast of the hearing may also be available on the C-SPAN website at http://www.capitolhearings.org. Mr. Pien's testimony will follow that of witnesses representing the CDC and the National Institute of Allergies and Infectious Disease, among others.

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CONTACT: Chiron Corporate Communications & Investor Relations
Media, 510-923-6500
Investors, 510-923-2300

SOURCE: Chiron