

Corporate Report

a report by

Biogen Idec

James C. Mullen, President and Chief Executive Officer

TYSABRI dominated the media coverage in 2005. The business of Biogen Idec is much larger than any single product or event, and we took a series of bold and disciplined actions to position the company for continued superior growth over the long term.

Revenues grew to more than \$2.42 billion in 2005 — an increase of approximately 10% over the prior year. As was the case in 2004, this revenue growth resulted primarily from the performance of AVONEX® (Interferon beta-1a) and RITUXAN® (rituximab), two therapies that continue to rank among the top 10 biotechnology products sold worldwide. Revenues for AVONEX, the number-one prescribed therapy for multiple sclerosis (MS), rose 9% to \$1.54 billion as compared to 2004. Co-promotion profits for RITUXAN, the world's leading therapy for certain types of B-cell non-Hodgkin's lymphoma (NHL), grew by 15% to \$709 million. We market RITUXAN in the United States in collaboration with Genentech, Inc.

Over our long history, Biogen Idec has pioneered important new therapies that have helped address major unmet medical needs. Moreover, during this time, we have established a global business known for its strengths in clinical trial design and execution, protein sciences and manufacturing. Today, our world-class commercial organization competes effectively against some of the biggest names in specialty markets across the globe.

In the near term, our core business is anticipated to remain robust, led by sales of RITUXAN and AVONEX. Continued strong cash flow — our business generated operating cash flow of more than \$800 million in 2005 — and solid balance sheet are expected to provide an excellent foundation going forward. In addition, our immediate growth prospects are promising, reflecting the introduction of RITUXAN in rheumatoid arthritis (RA), and the anticipated return of TYSABRI® (natalizumab) in MS. Finally, we are moving forward more than a dozen candidates in the immunology portfolio and several programs in our oncology pipeline.

As good as our prospects are expected to be for the next few years, we recognize the need to best position Biogen Idec for long-term growth and to deliver additional value for patients, shareholders and employees. Consequently, early in 2005, we began the process of looking at the scope and structure of our business, and determining how to significantly augment the number of programs in our mid- to late-stage pipeline. We considered every activity in the company and its potential to create value in the future.

In early September, we announced several initiatives to achieve economic flexibility and greater financial discipline, with the purpose of reinvesting these savings for accelerated growth through external opportunities. The initiatives included reducing our global workforce by 17%, divesting our psoriasis product AMEVIVE® (alefacept), and sell several other assets.

Importantly, we expect to commit approximately \$200 million a year for business development and external research opportunities beginning in 2006, compared to the approximately \$50 million we earmarked for partnerships and collaborations in 2005. With this strong financial position and our global reach in over 70 countries, we are poised to expand our business through licensing, collaborations and acquisitions.

We began to execute on the external growth strategy in the third quarter, as we formally commenced a collaboration with PDL BioPharma that encompasses the joint development and joint commercialization of three Phase II antibodies. This partnership will expand our oncology presence in solid tumors, while strengthening our position as a leader in MS research and development. The alliance enables both companies to share costs and risks of developing products that may address large market opportunities, while leveraging our respective development, manufacturing and commercial strengths. Through our very active business development efforts we hope to initiate a number of similar programs in 2006.

Biogen Idec's resiliency was demonstrated in 2005. We opened the year with a strong market launch of



TYSABRI, a new therapy for the treatment of relapsing forms of MS to reduce the frequency of clinical relapses. Within the first three months, approximately 5,000 patients were receiving the drug; another 15,000 patients were queued awaiting insurance verification and scheduling of their first dose.

However, on February 28, 2005, we and Elan, with whom we had jointly developed the product, announced the voluntarily suspension of TYSABRI from the U.S. market and all ongoing clinical trials based on two reports of progressive multifocal leukoencephalopathy (PML), a rare and potentially fatal, demyelinating disease of the central nervous system. Until we could better understand the potential link between TYSABRI and PML, we concluded it was in the best interest of patients to suspend commercial and clinical distribution of the product.

Our companies immediately went to work with clinical investigators on a safety analysis reviewing patient cases for patients involved in clinical trials in MS, Crohn's disease and RA. Throughout the period, we worked closely with the FDA, the National Institutes of Health and the European Medicines Agency (EMA).

By the end of the third quarter, we completed a comprehensive safety evaluation of more than 3,000 TYSABRI patients in collaboration with leading experts in PML and MS. The results yielded no new confirmed cases of PML beyond those previously reported. We then submitted to the FDA a supplemental Biologics License Application (sBLA) for TYSABRI that included two-year data from the Phase III AFFIRM monotherapy trial and SENTINEL add-on trial with AVONEX in MS, a revised label and risk management plan, and an integrated safety assessment of TYSABRI clinical trial patients. On March 8, 2006, the Peripheral and Central Nervous System Drugs Advisory Committee unanimously recommended, with a 12-0 vote, the reintroduction of TYSABRI for the treatment of relapsing forms of MS.

As indicated by the clinical studies, TYSABRI is an extraordinarily efficacious agent in MS. The two-year data from the AFFIRM trial showed a 42% reduction in risk of disability progression. These compelling efficacy data are among the many reasons we are pursuing this compound so diligently to make it available again to the MS community. At the same time, of course, it remains our paramount goal to ensure that patients and physicians understand the risks of TYSABRI treatment for MS, and know that we have a process in place for rapid recognition of any new important safety signals

once the product re-enters the commercial space.

While TYSABRI presented challenges in 2005, it did not limit the significant progress the company made in other areas. For example, we explored new indications for RITUXAN, such as RA, where B-cell directed strategies may be applicable. Biogen Idec and our RITUXAN development partners, Genentech and F. Hoffman-LaRoche, in November announced the successful outcome of our phase III trials for RITUXAN for patients with RA who are inadequate responders to anti-TNF therapy. The results of the trials determined that RITUXAN had highly significant efficacy, and based on these data we filed an sBLA in August 2005 and were granted priority review of the sBLA in the fall of 2005. On February 28, 2006, the FDA approved RITUXAN in combination with methotrexate for the treatment of adult patients with active RA who have had an inadequate response to one or anti-TNF therapies.

Separately, in August, we filed an sBLA for use of RITUXAN in front line aggressive non-Hodgkin's lymphoma. The FDA granted priority review status, suggesting recognition of the significant improvement in survival that RITUXAN may offer patients with aggressive forms of lymphoma. The FDA approved RITUXAN on February 10, 2006 for the treatment of diffuse large B-cell CD20-positive NHL in combination with CHOP (cyclophosphamide, doxorubicin, vincristine and prednisone) chemotherapy or other anthracycline-based chemotherapy regimens in previously untreated patients.

Outlook for 2006 and Beyond

In 2006, we are aiming to achieve several patient milestones. First, we plan to successfully market RITUXAN in rheumatoid arthritis. Further, we hope to achieve the re-launch of TYSABRI for MS patients in U.S. and, separately, obtain market authorization in the EU.

We also intend to advance several early stage programs in neurology, autoimmune disease and oncology. Fifteen products currently are in clinical trials, and several more are expected to enter the clinic shortly.

At the top of our agenda for 2006 will be expanding our oncology R&D efforts, attracting top talent, developing early stage partnerships with academic centers, entering R&D collaborations with other companies, building opportunities in the solid tumor market and expanding our pipeline to include small molecules. Furthermore, while oncology is a market with significant competition, it is one in which the

unmet need for patients is truly staggering. It is our goal to make the leap from being a top U.S. company in hematologic tumors to being viewed as a true global leader in oncology across the board — from discovery to development to commercialization.

We also expect to lay the groundwork for initial progress in areas of neurology beyond MS. There is considerable unmet need in Parkinson's disease, Alzheimer's disease, stroke and neuropathic pain.

On a final note, 2005 also marked the retirement of Bill Rastetter as Executive Chairman. Bill's contributions have been integral to the growth and success of Biogen Idec. He was a driving force behind the merger in 2003 and, from early on, saw that combining the two companies would allow us to do more for our patients, shareholders and employees. We owe a debt of gratitude to Bill for his dedication, vision and leadership.

We welcome Bruce Ross as non-executive chairman of the Board of Directors. Bruce is president of Cancer Rx, a healthcare consulting firm and was previously Chief Executive Officer of the National Comprehensive Cancer Network, an association of 19 of the largest cancer centers in the United States. Bruce has, and will continue to be, supportive of our ambitious plans and goals for 2006 and beyond.

In summary, 2005 was a complex period during which Biogen Idec made several bold decisions to drive our growth in the mid-term and beyond the current decade. The long-term growth strategy we are now implementing builds upon Biogen Idec's core neurology and oncology franchises and our expectations that TYSABRI will also be an important contributor to the company's next stage. ■

This article is a reprint of the 2005 annual report to investors.
