

Pharmaco hf.

Interim consolidated financial statements

Six months ended 30 June 2003

Euro

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Endorsement by the board of directors and the managing director

The interim financial statements include the consolidated financial statements of Pharmaco hf. and its subsidiaries. In the beginning of the year the Company acquired a 68,6% share in the Serbian pharmaceutical company Zdravlje. The effects of that subsidiary are included in the statements for the whole period. At the end of June the Company invested 800.000 eur. in the Danish pharmaceutical development company Colotech A/S, bringing the total ownership up to 77,2%. Colotech A/S is not included in the Company's interim consolidated financial statements. Due to last years mergers the functional currency of the Company changed to euro and the consolidated financial statements are now prepared in euro.

The accounting principles applied in preparing the Group's interim financial statements are consistent with those used in the previous year except for the amortization of goodwill arising from the purchases of other companies. The management has decided to change from straight line amortization to impairment tests. Impairment tests will be performed annually and all reduction in goodwill resulting from such tests will be amortized fully when incurred. Due to these changes net profit for the period is increased by 4,7 million euro. This change is consistent with that of many other companies in the same line of business.

Net profit, according to the income statement amounted to 31,2 million euro for the period. Stockholders' equity, according to the balance sheet, amounted to 251,2 million euro at the end of the period.

The board of directors and the managing director of Pharmaco hf. hereby confirm the Company's consolidated interim financial statements for the six months ended 30 June 2003 by means of their signatures.

Hafnarfjordur, 12 August 2003.

Board of directors:

Bjorgolfur Gudmundsson

Sindri Sindrason

Karl Wernersson

Managing director:

Robert Wessman

Auditors' review report

Board of Directors of Pharmaco hf.

We have reviewed the accompanying Interim consolidated balance sheet of Pharmaco hf. and its subsidiaries as of June 30, 2003, and the related consolidated income statement and consolidated statement of cash flows for the six months then ended, in accordance with standards. The Interim Financial Statements are based on Company data and information from its management.

A review consists principally of a review of the documents on which the interim consolidated financial statements are based, inquiries of company personnel and analytical procedures applied to financial data and ratios. It is substantially less in scope than an audit performed in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the interim consolidated financial statements in order for them to conform with generally accepted accounting principles in Iceland.

Without qualifying our report we draw attention to the changes in accounting principles concerning the amortisation of goodwill. The change from straight line amortisation to applying impairment tests is further explained in note one. The impairment test is a new method and the change has the effect that net earnings for the period are increased by 4,7 million eur.

Hafnarfjordur, 12 August 2003.

Alexander G. Edvardsson

Sigridur Armannsdottir

KPMG Endurskoðun hf.

Consolidated income statement

for six months ended 30 June, 2003

	Notes	Current quarter		Six months	
		1 April to 30 June		1 January to 30 June	
		2003	2002	2003	2002
Operating revenue:					
Sales		77.722	37.830	156.874	80.297
Other revenue		(1.317)	623	4.207	1.275
		<u>76.405</u>	<u>38.453</u>	<u>161.081</u>	<u>81.572</u>
Operating expenses:					
Direct production expenses / cost of sales		43.091	24.531	90.649	51.121
Sales and marketing expenses		4.901	2.775	9.116	5.828
General and administrative expenses		7.103	2.217	13.088	4.768
Other operating expenses		1.700	1.174	4.706	1.822
Depreciation and amortization	17	3.752	1.621	8.325	3.303
		<u>60.547</u>	<u>32.318</u>	<u>125.884</u>	<u>66.842</u>
Profit from operations		15.858	6.135	35.197	14.730
Net financial income	13	544	(3.855)	1.189	2.962
Profit before income tax		16.402	2.280	36.386	17.692
Income tax		(1.405)	(1.608)	(3.863)	(4.165)
Profit before minority interest		14.997	672	32.523	13.527
Minority interest		(687)	(269)	(1.326)	(432)
Net profit		<u>14.310</u>	<u>403</u>	<u>31.197</u>	<u>13.095</u>

Consolidated balance sheet

Assets

	Notes	30.6.2003	31.12.2002
Fixed assets:			
Intangible assets:			
Development expenditure and pharmaceutical know-how	14	18.105	15.575
Goodwill	15	189.609	191.739
	5,6	207.714	207.314
Property and equipment:			
Property and plant		54.689	50.263
Machinery and equipment		51.404	51.695
	7,16	106.093	101.958
Investments:			
Investments in subsidiaries	19	2.435	0
Investments in associated companies	8	6.869	8.512
Investments in other companies	8	3.055	2.415
Securities		1.825	1.836
Deferred tax assets	12,23	4.888	3.217
		19.072	15.980
Total fixed assets		332.879	325.252
Current assets:			
Inventories	9,20	55.600	55.932
Receivables:			
Trade receivables	10	68.565	56.203
Other receivables	10	15.252	12.355
Cash		9.026	8.863
Total current assets		148.443	133.353
Total assets		481.322	458.605

30 June 2003

Stockholders' equity and liabilities

	Notes	30.6.2003	31.12.2002
Stockholders' equity:			
Capital stock	11,21	36.793	7.419
Share premium		128.281	162.240
Translation reserve		(18.741)	(8.223)
Statutory reserve		950	950
Retained earnings		103.913	73.389
Total stockholders' equity	22	251.196	235.775
Provisions:			
Minority interest		6.951	3.218
Deferred tax liabilities	12,23	3.807	3.722
		10.758	6.940
Long-term liabilities:			
Bonds	24	160.834	74.946
Current liabilities:			
Bank loans		3.882	61.389
Accounts payable		26.369	26.701
Current maturities of long-term liabilities		0	31.732
Accrued liabilities and expenses		28.283	21.122
		58.534	140.944
Total liabilities and provisions		230.126	222.830
Total stockholders' equity and liabilities		481.322	458.605

Consolidated statement of cash flows

for six months ended 30 June 2003

	Notes	2003	2002
		1.1-30.6	1.1-30.6
Cash flows from operating activities:			
Net profit		31.197	13.095
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation and amortization	17	8.325	3.304
Currency fluctuations and indexation .....	(	5.116)	3.623
Changes in deferred taxes .....	(	1.423)	1.319
Other changes		3.672	(3.475)
Working capital provided by operating activities		36.655	17.866
Changes in operating assets and liabilities:			
Inventories, decrease		2.989	4.093
Receivables, increase .....	(	12.954)	(3.454)
Short-term liabilities, (decrease) .....	(	2.694)	(5.496)
Changes in operating assets and liabilities	(	12.659)	(4.857)
Net cash provided by operating activities		23.996	13.009
Cash flows to investing activities:			
Increase in intangible assets .....	(	5.717)	(196)
Investment in property and equipment .....	(	8.891)	(10.991)
Proceeds from sale of property and equipment		1.222	9.689
Investments in other companies net of cash acquired .....	(	4.013)	1.074
Securities, change .....	(	60)	(1.400)
Other changes		0	(136)
	(	17.459)	(1.960)
Cash flows (to) from financing activities:			
Changes in capital stock .....	(	4.452)	(21.175)
Dividend paid .....	(	673)	(479)
Changes in minority interest		0	(1.058)
Proceeds from long-term borrowings		69.397	6.055
Payments of long-term debt .....	(	10.002)	(5.527)
Bank loans, (decrease) increase .....	(	60.057)	33.854
	(	5.787)	11.670
Increase in cash		750	22.719
Cash at beginning of year		8.863	9.617
Effects of exchange rate changes on beginning balances .....	(	587)	(667)
Cash at period-end		9.026	31.669

Notes to consolidated interim financial statements

Summary of accounting principles

Basis of preparation

1. Pharmaco hf. (the Company) is a company domiciled in Iceland. The consolidated interim financial statements are prepared in accordance with the Icelandic financial statements act and regulation on the presentation and contents of financial statements and consolidated financial statements. The interim financial statements are presented in euro rounded to the nearest thousand. They are prepared on historical cost basis and are, in all main respects, based on the same accounting principles as in the previous year except for the change in the amortization of goodwill. Previously goodwill has been amortized by using the straight line method. From the beginning of the year 2003 the Company will use annual impairment tests to evaluate goodwill. If, as a result of impairment tests, the value of goodwill has decreased the reduction will be fully amortized in the period in question. This change in accounting for goodwill results in a 4,7 million euro higher net profit for the six months ended 30 June 2003 than would have been if consistent rules had been applied.

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Foreign currencies

2. Transactions in foreign currencies are translated to euro at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to euro at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to euro at foreign exchange rates ruling at the dates the values are determined.

Financial statements of foreign subsidiaries

3. The Group's foreign operations are not considered an integral part of the Company's operations. Accordingly, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to euro at exchange rates ruling at the balance sheet date. The revenue and expenses of foreign operations are translated to euro at the average conversion rates for the period. Foreign exchange differences arising on translation are recognized directly in equity.

Derivative financial instruments

4. The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities.

Intangible assets

5. Development expenditure is capitalized in the balance sheet as development expenditure and pharmaceutical know-how. If the development leads to a marketable drug being produced, capitalized costs are amortised over a period of five years. Development expenditure, that turns out to be unfruitful, is recognized in the income statement when that becomes evident.

Notes - cont.:

6. Goodwill arising on acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less amortization to year-end 2002. From the beginning of the year 2003 impairment tests will be used to calculate the value of goodwill instead of yearly amortization based on the straight line method. The first impairment test is scheduled to be conducted before year-end 2003.

Property, plant and equipment

7. Property and equipment are valued at cost less depreciation. Depreciation is calculated as a fixed annual percentage based on the asset's expected economic life and its salvage value. Expected economic life is specified as follows:

Property and plant	14 - 50 years
Equipment	3 - 10 years

Investments

8. Investment in associated companies and other companies are valued at cost.

Inventories

9. Manufactured products are valued at their average production cost, consisting of both direct and indirect production expenses. Inventories of purchased goods and materials are valued at the latest purchase price.

Accounts receivable and other receivables

10. Accounts receivable and securities are reduced by an allowance for doubtful accounts. This allowance is not a final write-off, but a reserve to meet possible future losses. The allowance is deducted from appropriate balance sheet items. Receivables amounting to 84 million euro at period-end have been written down by 7 million euro in the balance sheet.

Repurchase of share capital

11. When treasury shares are repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Treasury shares are classified as a deduction from total equity. Possible gains or losses on buying or selling treasury shares are not reported in the income statement.

Deferred tax assets and liabilities

12. Deferred tax liability amounted to 3,8 million euro at period-end, while deferred tax asset amounted to 4,9 million euro. Its calculation is based on the difference between balance sheet items as reported in the Group's financial statements on one hand and tax returns of all the companies within the Group on the other. This difference is caused by tax assessment being based on different prerequisites than the financial statements. Expenses, especially depreciation and amortization, are generally posted over a shorter period of time according to tax laws, than in the accounting methods used.

Income tax presented in the income statement is comprised of taxes payable and deferred tax liability.

Notes - cont.:

Net financial income

13. Net financial income is specified as follows:

	2003	2002
	1.1-30.6	1.1-30.6
Interest earned	188	241
Interest expenses and indexation	(4.370)	(2.158)
Currency fluctuations	5.208	(2.152)
Gain on sale of investments.....	162	7.014
Changes in market value of marketable securities and dividend received	1	17
	<u>1.189</u>	<u>2.962</u>

Intangible assets

14. Development cost for new products is capitalized in the balance sheet among intangible assets. Those assets are amortized over a period of five years. Changes during the period are specified as follows:

Balance at 1 January 2003	15.492
Additions due to acquisition	50
Additions during the period	5.563
Currency adjustments during the period	(550)
Sales and disposals during the period	(99)
Amortized during the period	(2.351)
Balance at 30 June 2003	<u>18.105</u>

15. Capitalized goodwill in the balance sheet is derived from the purchase of other companies. The goodwill is not amortized. Changes in goodwill during the period are specified as follows:

Balance at 1 January 2003	191.739
Difference due to purchase of subsidiary	(1.301)
Currency adjustments during the period	(829)
Balance at 30 June 2003	<u>189.609</u>

Notes - cont.:

Fixed assets

16. Fixed assets and depreciation, which is calculated on a straight line basis, are specified as follows:

	Property and plant	Machinery and equipment	Total
Cost			
Balance at 1 January 2003	65.410	115.069	180.479
Additions due to acquisition	15.000	13.900	28.900
Additions during the period	4.975	5.037	10.012
Currency adjustments during the period	(4.895)	(8.479)	(13.374)
Sales and disposals during the period	(2.019)	(6.160)	(8.179)
Balance at 30 June 2003	<u>78.471</u>	<u>119.367</u>	<u>197.838</u>
Amortization and impairment losses			
Balance at 1 January 2003	15.144	63.365	78.509
Additions during the period	7.502	11.006	18.508
Depreciated during the period	2.927	3.047	5.974
Currency adjustments during the period	(1.601)	(5.057)	(6.658)
Depreciation of asset disposals	(190)	(4.398)	(4.588)
Balance at 30 June 2003	<u>23.782</u>	<u>67.963</u>	<u>91.745</u>
Carrying amount at 30 June 2003	<u>54.689</u>	<u>51.404</u>	<u>106.093</u>
Depreciation ratios	2 - 7%	10 - 33%	

17. Depreciation and amortization according to the income statement are specified as follows:

Amortization of intangible assets according to note 14	2.351
Depreciation of fixed assets according to note 16	<u>5.974</u>
	<u>8.325</u>

Investments

18. At period-end the Company owned ten subsidiaries that are included in the consolidation. The Company acquired 68,6% share in the Serbian pharmaceutical factory Zdravlje at the beginning of the year for 3,5 million euro. The Company is further committed to purchase additional 15% share over the next three years. The subsidiaries at period-end are as follows:

Balkanpharma Holdings, Cyprus	Medís ehf., Iceland
Dansk Lægemediel Forsyning AS, Denmark	NM Pharma ehf., Iceland
Delta ehf., Iceland	Omega Farma ehf., Iceland
Medis Holland BV, Netherland	United Nordic Pharma AS, Denmark
Medis Ltd., Isle of Man	Zdravlje, Serbia

Notes - cont.:

19. At the end of June the Company invested 800.000 euro in the Danish pharmaceutical research company Colotech A/S. The Company's ownership after the new investment and other changes in the subsidiary's equity amounts to 77,2%. The Company is committed to invest further 4 million euro in the subsidiary during the next four years. The subsidiary is not included in the consolidated financial statements.

Inventories

20. Inventories are specified as follows:

	30.6.2003	31.12.2002
Raw materials and consumables	22.454	27.769
Work in progress	12.897	12.945
Finished goods	20.249	15.218
Inventories at end of period	<u>55.600</u>	<u>55.932</u>

Stockholders' equity

21. Outstanding capital stock amounted to ISK 574 million at the beginning of the year. The Company's annual meeting agreed to increase the nominal value of the capital stock by issuing bonus shares. The annual meeting also agreed to increase the capital stock to meet stock options to employees. Changes in the nominal value of capital stock during the period are as follows in thousands of isk and thousands of euro:

	isk	euro
Outstanding capital stock at 1 January 2003	574.192	7.419
Bonus shares issued	2.268.768	29.339
New shares issued	8.410	98
Purchase of treasury shares	(7.000)	(84)
Sale of treasury shares	1.780	21
Outstanding capital stock at 30 June 2003	<u>2.846.150</u>	<u>36.793</u>

Total capital stock is as follows:

Total capital stock issued	2.993.781	38.522
Treasury stock	(147.631)	(1.729)
Outstanding capital stock at 30 June 2003	<u>2.846.150</u>	<u>36.793</u>

Notes - cont.:

22. Reconciliation of movement in capital and reserves

	Capital stock	Share premium	Translation reserve	Statutory reserve	Retained earnings	Total
Balance at 1 January 2003	7.419	162.240	(8.223)	950	73.389	235.775
Bonus issue	29.339	(29.339)				0
Treasury shares acquired ..... (	84)	(6.811)			(	6.895)
Treasury shares sold	21	383				404
New shares issued	98	1.808				1.906
Acc. currency adjustment			(10.518)		(	10.518)
Dividends to shareholders					(673)	(673)
Net earnings					31.197	31.197
Balance at 30 June 2003	<u>36.793</u>	<u>128.281</u>	<u>(18.741)</u>	<u>950</u>	<u>103.913</u>	<u>251.196</u>

Deferred income-tax liabilities

23. The Groups' deferred tax liabilities and deferred tax assets are specified as follows:

	Assets	Liabilities
Balance at 1 January 2003	3.217	3.722
Income tax posted to income statement	1.504	5.367
Income tax payable	208	(5.078)
Other changes	(41)	(204)
Balance at 30 June 2003.....	<u>4.888</u>	<u>3.807</u>

Long-term liabilities

24. Annual maturities of long-term liabilities are specified as follows:

In the year 2004.....	10.663
In the year 2005.....	17.991
In the year 2006.....	28.932
In the year 2007.....	23.127
In the year 2008	18.048
Subsequent payments	<u>62.073</u>
Total	<u>160.834</u>

Notes - cont.:

Financial ratios

25. The main financial ratios for the Group are as follows:

	2003 1.1.-30.6	2002 1.1.-31.12
Equity ratio.....	0,52	0,52
Current ratio.....	2,54	0,95
Return on equity.....	26,5%	26,0%
EBITDA	43.522	45.609
EBITDA as a percentage of sales	28,2%	21,7%
Working capital provided by operating activities.....	36.655	41.302