

Pharmaco hf.

Consolidated financial statements
Year ended 31 December 2003
Euro

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Endorsement by the board of directors and the managing director

The Group's financial statements include the consolidated financial statements of Pharmaco hf. and its subsidiaries. At the beginning of the year the Company acquired 68,6% share in the Serbian pharmaceutical company Zdravlje AD. The effects of that subsidiary are included in the income statement for the whole year. In late December the Company purchased 89% share in two Turkish pharmaceutical companies Fako İlaçları AS and Abfar İlaç Sanayi ve Ticaret AS that are included in the consolidated balance sheet at year end. This acquisition has no effect on the income statement for the year 2003. The total investment in the aforementioned companies amounted to €53.7 million. Due to last years mergers the functional currency of the Company has changed to euro (€) and the consolidated financial statements are now presented in thousands of euros.

The accounting principles applied in preparing the Group's financial statements are consistent with those used in the previous year except for the amortization of goodwill arising from the purchases of subsidiaries. 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 €9 million. This new method is consistent with provisions set forth in an exposure draft to international accounting standards which is expected to be issued within few weeks.

In the third quarter a special impairment loss on fixed assets amounting to €18 million euro is charged to expenses. This impairment loss is mainly due to reevaluation of a raw material factory in Razgrad that produces raw material for veterinary pharmaceuticals. This operation is not in line with the Groups main line of business and therefore the book value of the assets is reduced to expected sales value. During the year the Group has been setting new goals for all business units. The aforementioned impairment loss is a result of this work.

Also in this quarter a special reserve amounting to 3,7 million euro is made to the book value of investment in unlisted companies that are not in line with the Group's main line of business. The Group's investment policy is focused on investment in line with the Group's main line of business.

Net earnings for the year amounted to €40.5 million for the Group, according to the income statement. Stockholders' equity amounted to €220.5 million at year-end according to the balance sheet. Changes in stockholder's equity and appropriation of net profits are further explained in the financial statements. Outstanding capital stock was 574,192 thousand shares at beginning of year. Each share has a nominal value of one Icelandic krona. During the year capital stock was increased by 2,268,768 thousand shares due to issue of bonus shares. Taking into consideration other changes in capital stock, outstanding shares at year-end were 2,846,150 thousand which had a book value of €36.1 million. The number of stockholders at year-end was 3,045, increasing by 624 from 2,421 at the beginning of the year. Two stockholders owned more than 10% share in the Company at year end, Amber International Ltd. with 28.9% ownership and Landsbanki Luxemburg S.A. with 15.5% share.

The board of directors proposes a payment of 10% dividend on the nominal value of capital stock to stockholders in the year 2004 which corresponds to 7,8% of net profit.

The board of directors and the managing director of Pharmaco hf. hereby confirm the Group's financial statements for the year 2003 with their signatures.

Hafnarfjörður, 4 March 2004.

Board of directors:

Björgolfur Thor Björgolfsson
Björgolfur Guðmundsson
Sindri Sindrason

Managing director:

Robert Wessman

Auditors' report

Board of directors of Pharmaco hf.

We have audited the accompanying consolidated balance sheet of Pharmaco hf. as of 31 December 2003 and the related consolidated income statement and consolidated statement of cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Pharmaco hf. as of 31 December 2003, and the results of its operations and its cash flows for the year then ended, in accordance with law and generally accepted accounting principles in Iceland.

Without qualifying our report we draw attention to the changes in accounting principles concerning the amortization of goodwill. The change from straight-line amortization to applying impairment tests is further explained in note 18. This change has the effect that net earnings for the year is increased by €9 million. The Company's equity is €9 million higher than would have been if consistent accounting principles had been applied.

Hafnarfjordur, 4 March 2004.

Alexander G. Edvardsson

Sigríður Armannsdóttir

KPMG Endurskodun hf.

Consolidated income statement

for the year ended 31 December 2003

	Notes	2003	2002
Operating revenue:			
Sales		293.525	210.000
Other revenue		22.626	6.043
		316.151	216.043
Operating expenses:			
Direct production expenses / cost of sales		173.124	132.788
Sales and marketing expenses		21.279	14.912
General and administrative expenses		23.247	16.579
Other operating expenses		14.442	6.046
Depreciation and amortization	32	13.604	14.722
Impairment losses on fixed assets	32,33	18.336	0
		264.032	185.047
Profit from operations		52.119	30.996
Net financial (expenses) income	26	(1.642)	6.025
Special reserve on investment		(3.689)	0
Profit before income tax		46.788	37.021
Income tax	27	(4.434)	(3.899)
Profit before minority interest		42.354	33.122
Minority interest		(1.814)	(538)
Net profit		40.540	32.584
Earnings per share:			
	7,28		
Basic earnings per share (€)		0,0143	0,0132
Diluted earnings per share (€)		0,0142	0,0132

Consolidated balance sheet

Assets

	Notes	2003	2002
Fixed assets:			
Intangible assets:	8,9		
Development expenditure and pharmaceutical know-how	29	24.916	15.575
Goodwill	30	235.038	191.739
		259.954	207.314
Property and equipment:	10,31		
Property and plant		51.027	50.263
Machinery and equipment		63.606	51.695
		114.633	101.958
Investments:			
Investments in associated companies	11,37	3.115	8.512
Investments in other companies	11	2.947	2.415
Securities		1.364	1.836
Deferred tax assets	16,42	14.966	3.217
		22.392	15.980
Total fixed assets		396.979	325.252
Current assets:			
Inventories	12,38	78.852	55.932
Receivables:	13		
Accounts receivable		72.307	56.203
Other receivables		19.421	12.355
Cash		29.968	8.863
Total current assets		200.548	133.353
Total assets		597.527	458.605

31 December 2003

Stockholders' equity and liabilities

	Notes	2003	2002
Stockholders' equity:			
Capital stock	14,39	36.113	7.419
Share premium		100.903	163.434
Translation reserve	(28.634)	(8.223)
Accrued stock option		281	353
Retained earnings		111.812	71.945
Total stockholders' equity	40	220.475	234.928
Provisions:			
Minority interest		7.295	3.218
Deferred tax liabilities	16,42	8.333	4.677
Employee termination indemnity	17	5.539	0
		21.167	7.895
Long-term liabilities:			
Bonds	44	173.974	74.946
Current liabilities:			
Bank loans		90.758	61.389
Accounts payable		43.765	26.701
Current maturities of long-term liabilities	45	18.889	31.732
Accrued liabilities and expenses		28.499	21.014
		181.911	140.836
Total liabilities and provisions		377.052	223.677
Total stockholders' equity and liabilities		597.527	458.605

Consolidated statement of cash flows

for year ended 31 December 2003

	Notes	2003	2002
Cash flows from operating activities:			
Net profit		40.540	32.584
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation and amortization	32	31.940	14.722
Currency fluctuations and indexation		(7.615)	2.125
Changes in deferred taxes		365	(2.687)
Other changes		5.772	(5.300)
Working capital provided by operating activities		<u>71.002</u>	<u>41.444</u>
Changes in operating assets and liabilities:			
Inventories, (increase) decrease		(15.063)	4.378
Receivables, increase		(9.627)	(2.326)
Short-term liabilities, (decrease) increase		(2.529)	2.684
Changes in operating assets and liabilities		<u>(27.219)</u>	<u>4.736</u>
Net cash provided by operating activities		<u>43.783</u>	<u>46.180</u>
Cash flows to investing activities:			
Increase in intangible assets		(14.547)	(7.691)
Investment in property and equipment		(28.750)	(27.097)
Proceeds from sale of property and equipment		2.403	10.217
Investments in other companies, net of cash acquired		(52.272)	(10.531)
Securities, change		120	(1.659)
		<u>(93.046)</u>	<u>(36.761)</u>
Cash flows from financing activities:			
Changes in capital stock		(33.058)	(55.475)
Dividend paid		(673)	(487)
Changes in minority interest		0	(1.009)
Proceeds from long-term borrowings		77.634	22.569
Payments of long-term debt		(49.617)	(21.765)
Bank loans, increase		77.176	46.238
		<u>71.462</u>	<u>(9.929)</u>
Increase (decrease) in cash		22.199	(510)
Cash at beginning of year		8.863	9.617
Effects of exchange rate changes on beginning balances		<u>(1.094)</u>	<u>(244)</u>
Cash at year-end		<u>29.968</u>	<u>8.863</u>
Other information:			
Paid interest on long-term debt		8.777	4.746
Paid income tax		8.826	8.396

Notes to consolidated financial statements

Summary of accounting principles

Basis of preparation

1. Pharmaco hf. (the Company) is a company domiciled in Iceland. The consolidated 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 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 changes explained in notes 19 and 20.

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.

Associated companies are capitalized in the balance sheet at their estimated values. Original capitalization has been amortized in the balance sheet in accordance with lower estimated valuation of the associated companies.

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 recognized 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 subsidiaries

3. The operations of subsidiaries are not considered an integral part of the Company's operation. Accordingly, the assets and liabilities of subsidiaries, 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 subsidiaries are translated to euro at the average conversion rates for the year. 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.

Revenue recognition

5. Revenue from sale of products is recognized in the income statement when ownership is transferred to buyers. Revenue is not recognized if there is an uncertainty about their collectability, related expenses or possible return of products.

Notes - cont.:

6. A portion of the Company's revenue comes from the sale of dossiers. Revenue from the sale of dossiers is recognized when certain milestones, included in the contracts, are met.

Earnings per share

7. Earnings per share is the ratio between profit and weighted average number of shares for the year and reveals net profit per share. Profit for the year amounted to € 40.5 million and the weighted average number of shares amounted to 2,839 million shares for the year, when taken into consideration issued bonus shares, new shares and purchase and sale of treasury shares. The nominal value of each share amounts to one IKR. Earnings per share for the year amounts to €0.0143. Calculation of diluted earnings per share takes into consideration stock options made with the Company's employees and the prospective deliverance of shares related to these options, which amounts to 13 million shares. The Company has not entered into agreements on any convertible bonds.

Intangible assets

8. 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 amortized over a period of five years. Development expenditure, that turns out to be unsuccessful, is recognized in the income statement when that becomes evident.
9. 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 are used to calculate the value of goodwill instead of yearly amortization based on the straight-line method. The main results of the impairment test performed at year-end is that the net book value of goodwill is lower than the calculated value of the acquired assets. As a result no impairment loss is recognized.

Property and equipment

10. 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	12 - 50 years
Equipment	3 - 10 years

Investments

11. Investments in other companies are valued at acquisition cost less provisions for estimated impairment losses on certain investments.

Inventories

12. Manufactured products are valued at their average production cost, consisting of both direct and indirect production cost. Inventories of purchased goods and materials are valued at cost.

Notes - cont.:

Accounts receivable and other receivables

13. Accounts receivable 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 €92 million at year-end have been written down by €10 million in the balance sheet.

Repurchase of share capital

14. When treasury shares are repurchased, the amount of the consideration paid, including directly attributable costs, is recognized as a change in equity. Treasury shares are classified as a reduction of net equity. Possible gains or losses on purchase or sale of treasury shares are not reported in the income statement.

Stock options agreements

15. The Company has made stock options agreements with its employees. On one hand there is a stock option scheme for all employees of Delta hf. which was granted to them before the merger with Pharmaco hf. Employees of Delta hf. have the rights to exercise their stock options rights in the years 2002 - 2004. Stock options are considered earned when the rights are exercised. On the other hand there is job related stock option scheme offered to selected employees, redeemable in the years 2001 - 2005. The Company's cost is calculated according to the Black-Scholes method of evaluating stock option agreements.

Deferred tax assets and liabilities

16. Deferred tax assets and deferred tax liability are included in the financial statements. Its calculation is based on the difference between balance sheet items as reported in the Group's financial statements and tax returns of all the companies within the Group. This difference occurs because expenses, are generally expensed earlier for tax purposes than in the financial statements and due to investment tax credits. Deferred tax assets and liabilities are balanced if they are associated to taxes that are imposed by the same authorities.

Employee termination indemnity

17. Employee termination indemnity is due to the Turkish subsidiaries. In accordance with the existing social legislation in Turkey, the companies are required to make certain lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments are calculated on the basis of an agreed formula, are subject to certain upper limits and are recognized in the accompanying financial statements as accrued. The reserve has been calculated by estimating the present value of the future obligation of the Company that may arise from the retirement of the employees in accordance with international accounting standards.

International accounting standards

18. According to an EC Directive, companies listed on European Stock Exchanges must prepare consolidated financial statements in accordance with international accounting standards as of 1 January 2005. The Company has plans to present its report for the first quarter of 2005 in accordance with international accounting standards and is currently preparing necessary adjustments. The affects of these adjustments on the Company's net equity are uncertain at this point.

Notes - cont.:

Changes in accounting principles

Impairment test of goodwill

19. Goodwill arising on acquisition of subsidiaries is no longer amortized using the straight-line method as in previous years. As of the beginning of the year 2003 an annual impairment test will be performed to assess whether the goodwill has decreased. If the result of such tests is a reduction in the value of goodwill it will be fully amortized when incurred. This change in accounting principle is in accordance with current exposure draft for a change in an international accounting standard that is estimated to be confirmed within few weeks. The principle conclusions of the impairment test performed at the end of the year 2003 are that the carrying amount of goodwill is considerably less than calculated value of relevant assets and therefore no impairment of goodwill is realized. If the same method had been used as in previous year the amortization of goodwill would have amounted to €9 million.

Stock option agreements

20. The Company's cost of stock options agreements is now valued according to the Black - Scholes option pricing method. Thus valued cost is expensed over the lifetime of the contract and it is recognized in the income statement with a corresponding increase in shareholders equity. In previous year the cost of the contracts was calculated as the difference between granted stock option rate and the market value of the shares on balance sheet dates. An entry has been made in stockholder's equity to update the position of the agreements at the beginning of the year 2003. This change is in accordance with provisions set forth in newly approved international accounting standard on share-based payments.

Changes in the Consolidation

21. In the beginning of the year the Company acquired a 68.6% share in the Serbian pharmaceutical company Zdravlje AD. The subsidiary is included for the whole year in the consolidated financial statements. The acquisition price along with cost associated to the acquisition amounted to €4.3 million. The Company is further committed to purchase additional 15% share over the next three years. At the end of the year 2003 the Company purchased additional 2.5% share and after the investment and other changes in the subsidiary's equity the Company's ownership amounts to 71.1%.

During the year the Company increased its ownership in the Danish pharmaceutical company Colotech AS by €1.5 million. The Company's ownership at the end of the year 2003 amounts to 86% and the subsidiary is included in the consolidated financial statements. The Company is committed to invest further €3.5 million in the subsidiary over the next four years.

The German subsidiary Medis GmbH was established during the year. The investment amounted to €15,000 and the Company's ownership is 60%. At the end of the year the Company founded a subsidiary in USA, Pharmaco Inc., which objective is to work on registration and sale of pharmaceutical products. The Company also purchased 67% share in the Icelandic subsidiary Oculis ehf. Its objective is research work concerning pharmaceutical eye-medicine. The investment in Pharmaco Inc. and Oculis ehf. was immaterial.

Notes - cont.:

Changes in the Consolidation, cont.

In December the Company purchased 89.9% share in the Turkish pharmaceutical companies Fako İlaçları AS and Abfar İlaç Sanayi ve Ticaret AS for €49.1 million including cost associated with the acquisition. The subsidiaries are included in the consolidation's balance sheet at the year-end 2003 but the income statement is not affected by the investment. In the purchase agreement there is a clause stating that the final purchase price can either be increased or decreased in accordance with the subsidiaries' operating performance during the years 2004 and 2005.

Acquisition of the operation of Zdravlje AD, Fako İlaçları AS og Abfar İlaç Sanayi ve Ticaret AS has the following effects on the consolidated balance sheet:

Intangible assets	1.486
Property, plant and equipment	21.224
Investment in other companies	629
Deferred tax assets	8.187
Current assets	41.110
Minority interest	(3.563)
Provisions	(7.252)
Long-term liabilities	(9.990)
Short-term liabilities	(41.589)
Net assets	10.242
Goodwill on the acquisitions	43.150
Total investment	53.392
Paid in cash	53.392

Quarterly overview

22. The operation of the Company is specified as follows by quarters:

	1st Quarter 1.1 - 31.3	2nd Quarter 1.4 - 30.6	3rd Quarter 1.7 - 30.9	4th Quarter 1.10 - 31.12	Total 1.1 - 31.12
Sales	79.152	77.722	72.434	64.217	293.525
Cost of goods sold	(47.558)	(43.091)	(39.987)	(42.488)	(173.124)
Gross profit	31.594	34.631	32.447	21.729	120.401
Operating expenses less other income	(7.682)	(15.021)	(11.871)	(1.768)	(36.342)
Amortization, depreciation and impairment of fixed assets	(4.573)	(3.752)	(23.129)	(486)	(31.940)
Net financial income (expenses)	645	544	(2.912)	81	(1.642)
Impairment loss on investment	0	0	(3.689)	0	(3.689)
Income tax	(2.458)	(1.405)	1.698	(2.269)	(4.434)
Minority interest	(639)	(687)	(412)	(76)	(1.814)
Net profit (loss)	16.887	14.310	(7.868)	17.211	40.540

Notes - cont.:

Operating expenses

23. Auditors' fee is specified as follows:		2003
Auditing of financial statements		152
Review of interim financial statements		73
Other services		212
Total audit fee		<u>437</u>

Personnel

24. Salaries and related expenses are specified as follows:	2003	2002
Salaries	60.782	34.406
Related expenses	<u>6.790</u>	<u>6.265</u>
Total salaries and related expenses	<u>67.572</u>	<u>40.671</u>
Number of employees at year-end	6.835	5.575
Average number of employees, adjusted for full-time employment	6.539	6.247

Executive employment terms

25. Payment of salaries to the key executives of the Company for work performed for the companies within the Group, their stock options and ownership in the Company are specified as follows:

	Salaries and bonuses	Stock option	Shares at year-end
		in thousands of shares	
Company:			
Senior executives:			
Robert Wessman, CEO	348	6.066	26.930
Sindri Sindrason, former CEO	142	0	17.205
Board members:			
Bjorgolfur Thor Bjorgolfsson, chairman of the board	28	0	1.085.337
Bjorgolfur Gudmundsson	14	0	99
Karl Wernersson	14	0	214.962
Magnus Thorsteinsson	14	0	0
Sindri Sindrason	14	0	0
Six managing directors and the deputy CEO	706	214	28.396
Former board members:			
Fridrik Sophusson	14	0	0
Kristinn R. Gunnarsson	14	0	100.310
	<u>1.308</u>	<u>6.280</u>	<u>1.473.239</u>

Notes - cont.:

Executive employment terms, cont.

In addition to salaries and benefits the CEO realized €1.1 million through the exercise of his stock option. The CEO purchased 5,273 thousand shares at the exchange rate of €0.05 and another 377 thousand on the exchange rate of €0.03. The market value of these shares was €1.4 million at the same time.

The Company has granted the Company's CEO loans amounting to a total of €1.5 million with a 10% interest rate. On the Chairman's current account there was a balance of €36 thousand in the Company's favour at year-end.

Stock option agreements with the Company's CEO that are based on the exercise prices €0.0294 – 0.0526, were granted in 2001 and are redeemable in 2001 - 2005. Stock option agreements with the company's deputy to the CEO and managing directors, that are based on the exercise prices €0.01368 – 0.1710, were granted in 2002 - 2003 and are redeemable in 2002 - 2004.

The ownership of shares by the management includes both direct ownership and indirect ownership through holding companies.

During the year the Company's CEO Sindri Sindrason left his position with the Company. His retirement contract has not yet been finalized and therefore the impact of the retirement contract is not disclosed in the information presented.

Net financial income and expenses

26. Financial income and expenses are specified as follows:	2003	2002
Interest earned	769	3.028
Interest expenses and indexation	(9.325)	(10.176)
Currency fluctuations	7.748	5.127
Gain on sale of investment and dividend received	(834)	8.046
	<u>(1.642)</u>	<u>6.025</u>

Notes - cont.:

Income tax

27. Income tax recognized in the income statement specifies as follows:

Current tax expense

Current year	5.925
Under/(over) provided in prior years	134
	<u>6.059</u>

Deferred tax expense

Origination and reversal of temporary differences	1.542
Investment tax credits	(3.459)
Other changes	292
	<u>(1.625)</u>

Total income tax expense according to the income statement 4.434

Reconciliation of effective tax rate

Profit before tax		46.788
Income tax using the domestic corporation tax rate	18,0%	8.422
Effect of tax rates in foreign jurisdictions	(1,5%) (685)
Non-deductible expenses	1,6%	749
Tax exempt revenue	(0,4%) (178)
Investment tax credits	(7,3%) (3.459)
Exchange rate differences and other changes	(0,9%) (415)
Effective income tax	<u>9,5%</u>	<u>4.434</u>

Calculated income tax transferred to equity

Due to changes in calculated deferred income tax liability and changes in the presentation of stock options, a decrease of €0.8 million, is transferred to retained earnings at the beginning of the year. Comparative figures in the income statement have been changed accordingly.

Notes - cont.:

Earnings per share

Basic earnings per share

28. The calculation of earnings per share is based on the Company's profit in € and the weighted average of issued shares at year-end. The weighted average of shares in year 2002 takes into consideration the issue of bonus shares in the year 2003. Weighted average of shares and diluted earnings per share are specified as follows in millions of shares.

<i>Weighted average per share</i>	2003	2002
Outstanding shares at 1 January	574	416
Effect of bonus shares issued	2.269	1.663
Effect of treasury shares	(9)	(34)
Effect of new shares issued	5	426
Weighted average number of shares at 31 December	<u>2.839</u>	<u>2.471</u>

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2003 was based on net profit attributable to shareholders and a weighted average number of ordinary shares outstanding during the year ended 31 December 2003.

	2003	2002
Weighted average number of shares at 31 December	2.839	2.471
Impact of stock options	8	7
Weighted average number of shares at 31 December (diluted)	<u>2.847</u>	<u>2.478</u>

Intangible assets

29. 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 year are specified as follows:

Balance at 1 January 2003	15.575
Additions due to acquisition	1.487
Additions during the year	14.355
Currency adjustments during the year	(1.241)
Amortized during the year	(5.260)
Balance at 31 December 2003	<u>24.916</u>

Notes - cont.:

30. Capitalized goodwill in the balance sheet is derived from the purchase of subsidiaries. Goodwill is not amortized. Changes in goodwill during the year are specified as follows:

Balance at 1 January 2003	191.739
Additions due to purchase of subsidiaries	42.239
Currency adjustments during the year	(190)
Other changes	1.250
Balance at 31 December 2003	<u>235.038</u>

Due to impairment on specific fixed assets in Bulgaria that is further disclosed in note 32 negative goodwill of €1.3 million related to same assets is amortized, and is included in other changes.

Fixed assets

31. Fixed assets and depreciation 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 acquisitions	15.000	53.470	68.470
Other additions during the year	10.436	20.072	30.508
Revaluation of assets	2.012	113	2.125
Currency adjustments during the year	(8.894)	(15.951)	(24.845)
Sales and disposals during the year	(5.207)	(12.388)	(17.595)
Balance at 31 December 2003	<u>78.757</u>	<u>160.385</u>	<u>239.142</u>
Amortization and impairment losses			
Balance at 1 January 2003	15.144	63.365	78.509
Additions due to acquisitions	7.502	39.604	47.106
Depreciated during the year	2.049	6.295	8.344
Impairment during the year	10.781	8.805	19.586
Currency adjustments during the year	(3.481)	(9.882)	(13.363)
Depreciation of asset disposals	(4.265)	(11.408)	(15.673)
Balance at 31 December 2003	<u>27.730</u>	<u>96.779</u>	<u>124.509</u>
Book value at 31 December 2003	<u>51.027</u>	<u>63.606</u>	<u>114.633</u>
Depreciation ratios	2 - 8%	10 - 33%	

Notes - cont.:

32. Depreciation, amortization and impairment losses according to the income statement are specified as follows:

Amortization of intangible assets according to note 29	5.260
Depreciation of fixed assets according to note 31	8.344
	<u>13.604</u>
Other changes in goodwill according to note 30	(1.250)
Impairment of fixed assets according to note 31	19.586
	<u>18.336</u>

Impairment of assets

33. During the year a special amortization was made on the carrying amount of specific assets in Bulgaria that amounted to €19.6 million. Those assets are primarily production units that will either be sold or discontinued in the near future.

Purchase lease agreements

34. Buildings, machinery and equipment, for which the Group has entered into purchase lease agreements, are capitalized, despite ownership of lessor according to the contract. At year-end the remainder of the contracts amount to €3.9 million.

Official real estate valuation and insurance value

35. Buildings and properties in Iceland with a book value of €22.3 million, had an official real estate valuation of €25.4 million at year-end 2003. Their insurance value amounted to €18.3 million at the same time.

Inventories in Iceland amounting to €34.0 million at year-end, were insured for €18.9 million.

Fixed assets and inventories in other production facilities with a book value of €73.5 million had an insurance value of €161.2 million.

Notes - cont.:

Investments

36. At year-end the Company owned sixteen subsidiaries that are all included in the consolidation, an increase of seven from the beginning of the year. The subsidiaries owned seventeen subsidiaries at year-end. The companies are as follows:

	Ownership %
Abfar İlaç Sanayi ve Ticaret AS, Turkey	90%
Balkanpharma Holdings Ltd, Cyprus	100%
Balkanpharma Healthcare International, Cyprus	100%
MM Pharma LLC, USA	100%
Verben S.A. Ukraine	50%
Balkanpharma AD, Bulgaria	100%
Balkanpharma Dubnitsa AD, Bulgaria	95%
Balkanpharma Troyan AD, Bulgaria	98%
Balkanpharma Razgrad AD, Bulgaria	94%
Balkanpharma Security AD, Bulgaria	100%
Balkanpharma Macedonia, Macedonia	100%
Balkanpharma OOO, Russia	100%
Colotech AS, Denmark	86%
Dansk Lægemedel Forsyning AS, Denmark	100%
Delta hf., Iceland	100%
Fako İlaçları AS, Turkey	90%
Medis GmbH, Germany	60%
Medis Holland BV, Netherland	100%
Pharmamed Ltd, Malta	100%
Pharmamed Parenterals Ltd., Malta	100%
Delta R&D Ltd., Malta	100%
Medis Ltd., Isle of Man	100%
Medís ehf., Iceland	100%
Medis Danmark AS, Denmark	100%
NM Pharma ehf., Iceland	100%
Oculus ehf., Iceland	67%
Omega Farma ehf., Iceland	100%
Pharmaco Inc., USA	100%
United Nordic Pharma AS, Denmark	100%
Nordisk Ibu-Pharma AS, Denmark	100%
UNP Sweden AB, Sweden	100%
Zdravlje AD, Serbia	71%
Zdravlje Trade AD, Serbia	95%

Notes - cont.:

Investment in other companies

Investment in associated companies

37. Investment in associated companies is specified as follows at year-end:

	Ownership	Book value
Primex ehf., Iceland	20%	1.147
Iceland Genomics Corp., USA	31%	1.968
Book value at 31 December		<u>3.115</u>

Inventories

38. Inventories are specified as follows:

	2003	2002
Raw materials	32.882	27.769
Work in progress	16.919	12.945
Finished goods and goods for resale	29.051	15.218
Inventories at 31 December	<u>78.852</u>	<u>55.932</u>

Stockholders' equity

39. Outstanding capital stock was 574 million shares at the beginning of the year. The Company's annual meeting agreed to quintuple the nominal value of capital stock by issuing bonus shares. The annual meeting also agreed to increase capital stock to meet stock options to employees. The Company is planning a listing on the London Stock Exchange in the year 2004. The Company policy is to grow with mergers or acquisitions. Due to those reasons it is considered important to own treasury shares at each time. Changes in the nominal value of capital stock during the year are specified as follows:

	Number of shares in thousands	€
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	(68.212)	(769)
Sale of treasury shares	2.236	26
Outstanding capital stock at 31 December 2003	<u>2.785.394</u>	<u>36.113</u>

Total capital stock is as follows:

Total capital stock issued	2.993.781	38.522
Treasury stock	(208.387)	(2.409)
Outstanding capital stock at 31 December 2003	<u>2.785.394</u>	<u>36.113</u>

Notes - cont.:

40. Reconciliation of movements in stockholders' equity:

	Capital stock	Share premium and statutory reserve	Translation reserve	Accrued stock option	Retained earnings	Total
Transferred from previous year	7.419	163.190	(8.223)	0	73.389	235.775
Accrued stock option at beginning of year		244		353	(597)	0
Changes in opening balance of deferred tax liabilities					(847)	(847)
Revised balance						
at 1 January 2003	7.419	163.434	(8.223)	353	71.945	234.928
Bonus shares issue	29.339	(29.339)				0
Treasury shares acquired	(769)	(34.528)				(35.297)
Treasury shares sold	26	400				426
New shares issued	98	673				771
Expensed stock option				191		191
Redeemed stock option		263		(263)		0
Acc. currency adjustment			(20.411)			(20.411)
Dividend to shareholders					(673)	(673)
Net earnings					40.540	40.540
Balance at 31 December 2003 .	36.113	100.903	(28.634)	281	111.812	220.475

Stock options agreements

41. The company has granted its employee's stock options rights, which they can exercise in the years 2001 to 2005. The Company will use treasury shares or/and issue new shares to fulfill the Company's obligations according to the stock options. The Company's stock option liabilities are 13 million shares by the end of the year and are specified as follows.

	Shares in thousands	€
Balance at 1 January	24.681	274
Granted stock options during the year	166	2
Exercised stock option during the year	(12.235)	(136)
Balance at 31 December	12.612	140

Stock options are specified as follows at year-end:

Exercise year 2004	12.235	136
Exercise year 2005	377	4
	12.612	140

Notes - cont.:

Deferred income tax

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

	Assets	Liabilities
Balance at 1 January 2003	3.217	4.677
Additions due to acquisition	8.187	1.713
Income tax posted to income statement	3.560	7.936
Income tax payable	570	(5.430)
Other changes	(568)	(563)
Balance at 31 December 2003	14.966	8.333

Deferred tax assets and deferred tax liabilities specified on items:

Intangible assets	246	2.737
Operating fixed assets	(6.476)	3.984
Investments	0	(41)
Current liabilities	3.917	1.694
Accrued stock options	0	(48)
Long-term liabilities	0	7
Total deferred tax liabilities from assets and liabilities	(2.313)	8.333
Carry forward income tax losses	10.914	0
Investment tax credits	6.365	0
Balance at 31 December 2003	14.966	8.333

Movement in temporary differences during the year

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

	Balance at 1 January	Additions due to acquisition	Recognized in income	Recognized in equity	Balance at 31 December
Intangible assets	(1.791)	0	(672)	(28)	(2.491)
Operating fixed assets	(4.151)	(7.737)	1.082	346	(10.460)
Investments	(85)	200	(28)	(46)	41
Current liabilities	525	3.974	(2.174)	(102)	2.223
Accrued stock options	120	0	(70)	(2)	48
Long-term liabilities	0	(6)	1	(2)	(7)
Carry forward income tax losses	1.088	9.774	(90)	142	10.914
Investment tax credits	2.834	268	3.383	(120)	6.365
Balance at 31 December 2003	(1.460)	6.473	1.432	188	6.633

Notes - cont.:

Commitments

43. The Company is committed to increase the share capital of its subsidiary, Colotech AS by €3.5 million. The payments will be made by seven installments during the next four years.

The Company is committed on behalf of its subsidiary Zdravlje to invest €20 million in Serbia during the next five years.

The Company is committed to make equity contributions to its subsidiary, Oculis ehf., up to €2.2 million, given that certain conditions are fulfilled.

Long-term liabilities

44. Long-term liabilities are specified as follows, by currency denominations:

Liabilities are denominated in the following currencies:

Loans in EUR	105.171
Loans in USD	41.437
Loans in GBP	2.742
Loans in JPY	13.741
Loans in CHF	12.454
Loans in SEK	1.430
Loans in MTL	12.298
Loans in ISK	3.531
Liabilities in other currencies	59
Total long-term liabilities, including current maturities	192.863
Current maturities of long-term liabilities	(18.889)
Total long-term liabilities	173.974

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

In the year 2004	18.889
In the year 2005	22.270
In the year 2006	40.050
In the year 2007	25.299
In the year 2008	79.347
Subsequent payments	7.008
Total	192.863

Notes - cont.:

Derivative

46. The Company has made currency- and interest swap contracts. These contracts are specified as follows:

	2003	2002
Currency- and interest swap contracts:		
Assets	15.184	15.793
Liabilities	12.533	15.004

Subsequent events

47. At the end of January 2004 a finding was made in the proceedings of Lundbeck against the subsidiary United Nordic Pharma AS. The demands of Lundbeck were rejected and the company was awarded DKK 3 million in compensation.

Financial ratios

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

	2003	2002
Equity ratio	0,37	0,51
Current ratio	1,10	0,95
Return on equity	17,8%	23,1%
EBITDA	84.059	45.718
EBITDA as a percentage of revenues	26,6%	21,2%
Working capital provided by operating activities	71.002	41.444