

Actavis Group hf.

(Pharmaco hf.)

Interim consolidated financial statements

Three months ended 31 March 2004

Euro

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Endorsement by the board of directors and the president and CEO

The Group's interim financial statements include the consolidated financial statements of Actavis Group and its subsidiaries. The interim financial statements are presented in euro. The accounting principles applied in preparing the Group's financial statements are consistent with those used in the previous year. The effect of the Turkish pharmaceutical companies Fako İlaçları AS and Abfar İlaç Sanayi ve Ticaret AS are included in the income statement for the period for the first time as the companies were acquired at year-end 2003.

The Company's prior name was Pharmaco hf. but in May it was decided to change it's name to Actavis Group hf. and the change becomes effective as of 17 May 2004.

Net earnings for the period 1 January to 31 March amounted to EUR20.2 million for the Group, according to the income statement. Stockholders' equity amounted to EUR241.7 million at 31 March according to the balance sheet. Changes in stockholder's equity and appropriation of net profits are further explained in the financial statements.

The board of directors and the president and CEO of Actavis Group hf. hereby confirm the Group's interim financial statements for the three months ended 31 March 2004 with their signatures.

Hafnarfjordur, 17 May 2004.

Board of directors:

Björgólfur Thor Björgólfsson

Andri Sveinsson

Karl Wernersson

President and CEO:

Robert Wessman

Auditors' report

Board of directors of Actavis Group hf.

We have compiled the interim consolidated balance sheet of Actavis Group hf. and its subsidiaries as of 31 March 2004 and the related consolidated income statement and consolidated statement of cash flow for the three months then ended. All information included in these interim consolidated financial statements is the representation of the management of Actavis Group hf.

A compilation is limited to presenting in the form of financial statements information that is the representation of management. We have not audited or reviewed the accompanying interim consolidated financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Reykjavik, 17 May 2004

Alexander G. Edvardsson

KPMG Endurskodun hf.

Consolidated income statement

for three months ended 31 March 2004

	Notes	2004	2003
		1.1 - 31.3	1.1 - 31.3
Operating revenue:			
Sales		117.472	79.152
Other revenue		8.378	5.524
		125.850	84.676
Operating expenses:			
Direct production expenses / cost of sales		60.069	47.558
Sales and marketing expenses		12.822	4.215
General and administrative expenses		10.487	5.985
Other operating expenses		6.706	3.006
Depreciation and amortization	24	4.942	4.573
		95.026	65.337
Profit from operations		30.824	19.339
Net financial (expenses) income	20	(3.113)	645
Profit before income tax		27.711	19.984
Income tax		(6.813)	(2.458)
Profit before minority interest		20.898	17.526
Minority interest		(729)	(639)
Net earnings		20.169	16.887
Earnings per share:			
	7		
Basic earnings per share (EUR)		0,0071	0,0059
Diluted earnings per share (EUR)		0,0071	0,0059

Consolidated balance sheet

Assets

	Notes	31.3.2004	31.12.2003
Fixed assets:			
Intangible assets:			
Development expenditure and pharmaceutical know-how	21	28.951	24.916
Goodwill	22	238.172	235.038
	8,9	267.123	259.954
Property and equipment:			
Property and plant		53.806	51.027
Machinery and equipment		68.055	63.606
	10,23	121.861	114.633
Investments:			
Investments in associated companies	11,26	3.742	3.115
Investments in other companies	11	2.944	2.947
Securities		96	1.364
Deferred tax assets	16,30	11.991	14.966
		18.773	22.392
Total fixed assets		407.757	396.979
Current assets:			
Inventories	12,27	78.569	78.852
Receivables:			
Accounts receivable	13	106.043	72.307
Other receivables		24.826	19.421
Cash		24.063	29.968
Total current assets		233.501	200.548
Total assets		641.258	597.527

31 March 2004

Stockholders' equity and liabilities

	Notes	31.3.2004	31.12.2003
Stockholders' equity:			
Capital stock	14,28	36.113	36.113
Share premium and statutory reserve		100.903	100.903
Translation reserve	(24.396)	(28.634)
Accrued stock option		292	281
Retained earnings		128.825	111.812
Total stockholders' equity	29	<u>241.737</u>	<u>220.475</u>
Provisions:			
Minority interest		7.696	7.295
Deferred tax liabilities	30	8.415	8.333
Employee termination indemnity	17	6.564	5.539
		<u>22.675</u>	<u>21.167</u>
Long-term liabilities:			
Bonds	32	<u>181.952</u>	<u>173.974</u>
Current liabilities:			
Bank loans		95.300	90.758
Accounts payable		43.177	43.765
Current maturities of long-term liabilities	33	12.906	18.889
Accrued liabilities and expenses		43.511	28.499
		<u>194.894</u>	<u>181.911</u>
Total liabilities and provisions		<u>399.521</u>	<u>377.052</u>
Total stockholders' equity and liabilities		<u><u>641.258</u></u>	<u><u>597.527</u></u>

Consolidated statement of cash flows

for three months ended 31 March 2004

	Notes	2004	2003
		1.1 - 31.3	1.1 - 31.3
Cash flows from operating activities:			
Net profit		20.169	16.887
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation and amortization	24	4.942	4.573
Currency fluctuations and indexation		(2.890)	(1.669)
Changes in deferred taxes		3.227	506
Other changes		4.619	627
Working capital provided by operating activities		30.067	20.924
Changes in operating assets and liabilities:			
Inventories, decrease		2.014	3.298
Receivables, increase		(43.563)	(23.637)
Short-term liabilities, increase		18.691	17.795
Changes in operating assets and liabilities		(22.858)	(2.544)
Net cash provided by operating activities		7.209	18.380
Cash flows to investing activities:			
Increase in intangible assets		(5.215)	(2.170)
Investment in property and equipment		(8.106)	(4.291)
Proceeds from sale of property and equipment		75	45
Investments in other companies, net of cash acquired		(3.543)	(3.137)
Securities, change		1.630	(97)
		(15.159)	(9.650)
Cash flows from financing activities:			
Changes in minority interest		(386)	0
Proceeds from long-term borrowings		61	23
Payments of long-term debt		(951)	(2.755)
Bank loans, increase		2.977	117
		1.701	(2.615)
(Decrease) increase in cash		(6.249)	6.115
Cash at beginning of year		29.968	8.863
Effects of exchange rate changes on beginning balances		344	(48)
Cash at end of the period		24.063	14.930
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. Actavis Group hf., formerly Pharmaco hf. (the Company) is a company domiciled in Iceland. The interim 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 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.

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 interim 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 unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Associated companies are recorded in the balance sheet at the lower of cost and net realisable value.

Foreign currencies

2. Transactions in foreign currencies are translated into euros 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 into euros 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 into euros 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 parent Company's operations. Accordingly, the assets and liabilities of subsidiaries, including goodwill and fair value adjustments arising on consolidation, are translated into euros at exchange rates ruling at the balance sheet date. The revenue and expenses of subsidiaries are translated into euros at the average conversion rates for the period. Exchange differences arising on translation are recognised 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 recognised in the income statement when ownership is transferred to buyers. Revenue is not recognised if there is an uncertainty about the collectability of receivables, related expenses or possible return of products.

Notes - cont.:

6. A portion of the Group's revenue comes from the sale of dossiers. Revenue from the sale of dossiers is recognised 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 period and reveals net profit per share. Profit for the period amounted to EUR20.2 million and the weighted average number of shares amounted to 2,839 million shares for the period. The nominal value of each share amounts to one ISK. Earnings per share for the period amounts to EUR0.0071. 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 10 million shares. The Company has not entered into agreements on any convertible bonds.

Intangible assets

8. Development expenditure is capitalised in the balance sheet as development expenditure and pharmaceutical know-how. If development leads to a marketable drug being produced, capitalised costs are amortised over a period of five years. Development expenditure that turns out to be unsuccessful is expensed 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 were used to calculate the value of goodwill instead of yearly amortisation based on the straight-line method. The main results from the impairment test performed at year-end 2003 is that the net book value of goodwill was lower than the calculated value of the acquired assets. As a result no impairment loss is recognised.

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. Receivables 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 EUR131 million at end of the period have been written down by EUR11 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 recognised 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 stock option agreements with its employees. There is a stock option scheme for all employees of Delta hf. which was granted to them before the merger with the Company. Employees have the rights to exercise their stock option rights in the years 2002 - 2004. Stock options are considered earned when the rights are exercised. There is also a 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. Thus, valued cost is expensed over the lifetime of the contract and it is recognised in the income statement with a corresponding increase in stockholders' equity. This method is in accordance with provisions in an international accounting standard on share-based payments.

Deferred tax assets and liabilities

16. Deferred tax assets and deferred tax liability are included in the interim financial statements. Their 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 with taxes that are imposed by the same authorities.

Employee termination indemnity

17. The employee termination indemnity arises from acquisition of 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 recognised 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 effects of these adjustments on the Company's net equity are uncertain at this point.

Notes - cont.:

Quarterly overview

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

	1st Quarter 2004	4th Quarter 2003	3rd Quarter 2003	2nd Quarter 2003	1st Quarter 2003
Sales	117.472	64.217	72.434	77.722	79.152
Cost of goods sold	(60.069)	(42.488)	(39.987)	(43.091)	(47.558)
Gross profit	57.403	21.729	32.447	34.631	31.594
Operating expenses less other income	(21.637)	(1.768)	(11.871)	(15.021)	(7.682)
Amortization, depreciation and impairment of fixed assets	(4.942)	(486)	(23.129)	(3.752)	(4.573)
Net financial income (expenses)	(3.113)	81	(2.912)	544	645
Impairment loss on investment	0	0	(3.689)	0	0
Income tax	(6.813)	(2.269)	1.698	(1.405)	(2.458)
Minority interest	(729)	(76)	(412)	(687)	(639)
Net profit (loss)	20.169	17.211	(7.868)	14.310	16.887

Net financial income and expenses

	2004	2003
20. Financial income and expenses are specified as follows:	1.1 - 31.3	1.1 - 31.3
Interest earned	788	232
Interest expenses and indexation	(4.574)	(3.081)
Currency fluctuations	673	3.494
	(3.113)	645

Intangible assets

21. Development costs for new products is capitalised in the balance sheet among intangible assets. Those assets are amortised over a period of five years. Changes during the period are specified as follows:

Balance at 1 January 2004	24.916
Additions during the period	4.989
Currency adjustments during the period	653
Sales during the period	(26)
Amortised during the period	(1.581)
Balance at 31 March 2004	28.951

Notes - cont.:

22. Capitalised goodwill in the balance sheet is derived from the purchase of subsidiaries. Goodwill is not amortised. Changes in goodwill during the period are specified as follows:

Balance at 1 January 2004	235.038
Additions due to purchase of subsidiaries	2.852
Currency adjustments during the period	538
Other changes	(256)
Balance at 31 March 2004	<u>238.172</u>

Fixed assets

23. Fixed assets and depreciation are specified as follows:

	Property and plant	Machinery and equipment	Total
Cost			
Balance at 1 January 2004	78.757	160.385	239.142
Additions during the period	2.318	4.483	6.801
Currency adjustments during the period	1.467	8.696	10.163
Sales and disposals during the period	0	(5.239)	(5.239)
Balance at 31 March 2004	<u>82.542</u>	<u>168.325</u>	<u>250.867</u>
Depreciation			
Balance at 1 January 2004	27.730	96.779	124.509
Depreciated during the period	477	2.628	3.105
Currency adjustments during the period	528	5.927	6.455
Depreciation of asset disposals	1	(5.064)	(5.063)
Balance at 31 March 2004	<u>28.736</u>	<u>100.270</u>	<u>129.006</u>
Book value at 31 March 2004	<u>53.806</u>	<u>68.055</u>	<u>121.861</u>
Depreciation ratios	2 - 8%	10 - 33%	

Notes - cont.:

24. Depreciation and amortisation according to the income statement are specified as follows:

	2004	2003
	1.1 - 31.3	1.1 - 31.3
Amortisation of intangible assets according to note 21	1.581	1.148
Other changes in goodwill according to note 22	256	190
Depreciation of fixed assets according to note 23	3.105	3.235
	<u>4.942</u>	<u>4.573</u>

Investments

Investment in subsidiaries

25. At the end the period the Company owned 16 subsidiaries that are all included in the consolidation. The subsidiaries owned 15 subsidiaries at the end of the period that are included in their interim financial statements.

Investment in associated companies

26. Investment in associated companies is specified as follows:

	Ownership	Book value
Primex ehf., Iceland	20%	1.147
Iceland Genomics Corp., USA	29%	2.595
Book value at 31 March 2004		<u>3.742</u>

Inventories

27. Inventories are specified as follows:

	31.3.2004	31.12.2003
Raw materials	30.858	32.882
Work in progress	14.414	16.919
Finished goods and goods for resale	33.297	29.051
Inventories at 31 March 2004	<u>78.569</u>	<u>78.852</u>

Stockholders' equity

28. The nominal value of capital stock at the end of the period specifies as follows:

	Number of shares in thousands	EUR
Total capital stock issued	2.993.781	38.522
Treasury stock	(208.387)	(2.409)
Outstanding capital stock at 31 March 2004	<u>2.785.394</u>	<u>36.113</u>

Notes - cont.:

29. Reconciliation of movements in stockholders' equity:

	Capital stock	Share premium and statutory reserve	Translation reserve	Accrued stock option	Retained earnings	Total
Balance at 1 January 2004	36.113	100.903	(28.634)	281	111.812	220.475
Expensed stock option				11		11
Acc. currency adjustment			4.238			4.238
Dividend declared					(3.156)	(3.156)
Net earnings					20.169	20.169
Balance at 31 March 2004	<u>36.113</u>	<u>100.903</u>	<u>(24.396)</u>	<u>292</u>	<u>128.825</u>	<u>241.737</u>

Deferred income tax

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

	Assets	Liabilities
Balance at 1 January 2004	14.966	8.333
Income tax posted to income statement	(1.536)	2.806
Income tax payable	(844)	(3.063)
Other changes	(595)	339
Balance at 31 March 2004	<u>11.991</u>	<u>8.415</u>

Deferred tax assets and deferred tax liabilities specified on items:

Intangible assets	(35)	3.040
Operating fixed assets	(1.479)	1.293
Current liabilities	1.889	2.794
Accrued stock options	0	(51)
Long-term liabilities	2.515	(29)
Total deferred tax liabilities from assets and liabilities	<u>2.890</u>	<u>7.047</u>
Carry forward income tax losses	2.890	0
Investment tax credits	6.211	1.368
Balance at 31 March 2004	<u>11.991</u>	<u>8.415</u>

Notes - cont.:

Commitments

31. The Company is committed to increase the share capital of its subsidiary, Colotech AS by EUR3.5 million. The payments will be made in seven installments during the next three years.

The Company is committed on behalf of its subsidiary, Zdravlje to invest EUR20 million in Serbia during the next four years.

The Company is committed to make equity contributions to its subsidiary, Oculis ehf., up to EUR2.2 million, in the event that certain conditions are fulfilled.

Long-term liabilities

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

Liabilities are denominated in the following currencies:

Loans in EUR	104.733
Loans in USD	43.569
Loans in GBP	2.143
Loans in JPY	14.525
Loans in CHF	12.455
Loans in SEK	1.405
Loans in MTL	12.369
Loans in ISK	3.534
Liabilities in other currencies	125
Total long-term liabilities, including current maturities	194.858
Current maturities of long-term liabilities	(12.906)
Total long-term liabilities	181.952

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

In the year 2004	12.906
In the year 2005	9.810
In the year 2006	28.568
In the year 2007	15.145
In the year 2008	20.011
Subsequent payments	108.418
Total	194.858

Notes - cont.:

Financial ratios

34. The main financial ratios for the Group are as follows:	2004	2003
	1.1 - 31.3	1.1 - 31.3
Equity ratio	0,38	0,52
Current ratio	1,20	2,69
Return on equity	36,8%	28,6%
EBITDA	35.766	23.912
EBITDA as a percentage of revenues	28,4%	28,2%
Working capital provided by operating activities	30.067	20.924