

Actavis Group hf.

Interim consolidated financial statements

Six months ended 30 June 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 thousands of EUR. 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 AŞ and Abfar İlaç Sanayi ve Ticaret AŞ are included in the income statement for the period for the first time since the companies were acquired at year-end 2003.

The Company's prior name was Pharmaco hf. but in May it was changed to Actavis Group hf.

Net earnings for the period amounted to EUR34.1 million for the Group, according to the income statement. Stockholders' equity amounted to EUR253.7 million at the end of the period according to the balance sheet. Changes in stockholder's equity and appropriation of net profits are further explained in the interim financial statements.

The board of directors and the president and CEO of Actavis Group hf. hereby confirm the Group's financial statements for the six months ended 30 June 2004 with their signatures.

Hafnarfjörður, 9 August 2004.

Board of directors:

President and CEO:

Auditors' report

Board of directors of Actavis Group hf.

We have reviewed the accompanying consolidated balance sheet of Actavis Group hf. as of 30 June 2004 and the related consolidated interim income statement and interim consolidated statement of cash flows for the six months then ended. These interim consolidated financial statements are the responsibility of the Company's 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.

Reykjavik, 9 August 2004.

KPMG Endurskodun hf.

Consolidated income statement

for the six months ended 30 June 2004

	Notes	Second quarter		Six months	
		1 April to 30 June		1 January to 30 June	
		2004	2003	2004	2003
Operating revenue:					
Sales		103.636	77.722	221.108	156.874
Other revenue		5.157	(1.317)	13.535	4.207
		<u>108.793</u>	<u>76.405</u>	<u>234.643</u>	<u>161.081</u>
Operating expenses:					
Direct production expenses / cost of sales		52.391	43.091	112.460	90.649
Sales and marketing expenses		14.400	4.901	27.222	9.116
General and administrative expenses		10.196	7.103	20.683	13.088
Other operating expenses		5.483	1.700	12.189	4.706
Depreciation and amortisation	24	5.850	3.752	10.792	8.325
		<u>88.320</u>	<u>60.547</u>	<u>183.346</u>	<u>125.884</u>
Profit from operations		20.473	15.858	51.297	35.197
Net financial income (expenses)	20	(4.155)	544	(7.268)	1.189
Profit before income tax		16.318	16.402	44.029	36.386
Income tax		(1.922)	(1.405)	(8.735)	(3.863)
Profit before minority interest		14.396	14.997	35.294	32.523
Minority interest		(490)	(687)	(1.219)	(1.326)
Net earnings		<u>13.906</u>	<u>14.310</u>	<u>34.075</u>	<u>31.197</u>
Earnings per share:					
	7				
Basic earnings per share		0,0050	0,0050	0,0122	0,0110
Diluted earnings per share		0,0050	0,0050	0,0122	0,0110

Consolidated balance sheet

Assets

	Notes	30.6.2004	31.12.2003
Fixed assets:			
Intangible assets:	8,9		
Development expenditure and pharmaceutical know-how	21	31.430	24.916
Goodwill	22	237.762	235.038
		<u>269.192</u>	<u>259.954</u>
Property and equipment:	10,23		
Property and plant		53.081	51.027
Machinery and equipment		72.410	63.606
		<u>125.491</u>	<u>114.633</u>
Investments:			
Investment in associated companies	11,26	4.083	3.115
Investment in other companies	11	1.377	2.947
Securities		96	1.364
Deferred tax assets	16,30	11.280	14.966
		<u>16.836</u>	<u>22.392</u>
		<u>411.519</u>	<u>396.979</u>
Current assets:			
Inventories	12,27	75.877	78.852
Receivables:	13		
Accounts receivable		98.214	72.307
Other receivables		33.601	19.421
Cash		20.374	29.968
		<u>228.066</u>	<u>200.548</u>
		<u>639.585</u>	<u>597.527</u>

30 June 2004

Stockholders' equity and liabilities

	Notes	30.6.2004	31.12.2003
Stockholders' equity:			
Capital stock	14,28	36.171	36.113
Share premium		99.489	100.903
Translation reserve .....	(	24.945)	(28.634)
Accrued stock option		302	281
Retained earnings		142.705	111.812
Total stockholders' equity	29	<u>253.722</u>	<u>220.475</u>
Provisions:			
Minority interest		7.717	7.295
Deferred tax liabilities	30	7.687	8.333
Employee termination indemnity	17	5.402	5.539
		<u>20.806</u>	<u>21.167</u>
Long-term liabilities:			
Long-term liabilities	32	<u>168.575</u>	<u>173.974</u>
Current liabilities:			
Bank loans		96.859	90.758
Accounts payable		36.880	43.765
Current maturities of long-term liabilities	32	26.864	18.889
Accrued liabilities and expenses		35.879	28.499
		<u>196.482</u>	<u>181.911</u>
Total liabilities and provisions		<u>385.863</u>	<u>377.052</u>
Total stockholders' equity and liabilities		<u><u>639.585</u></u>	<u><u>597.527</u></u>

Consolidated statement of cash flows

for six months ended 30 June 2004

	Notes	2004 1.1 - 30.6	2003 1.1 - 30.6
Cash flows from operating activities:			
Net profit		34.075	31.197
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation and amortisation	24	10.792	8.325
Currency fluctuations and indexation .....	(	143)	(5.116)
Changes in deferred taxes		457	(1.423)
Other changes		3.338	3.672
Working capital provided by operating activities		48.519	36.655
Changes in operating assets and liabilities:			
Inventories, decrease		4.292	2.989
Receivables, increase .....	(	37.463)	(12.954)
Short-term liabilities, increase (decrease)		4.370	(2.694)
Changes in operating assets and liabilities		(28.801)	(12.659)
Net cash provided by operating activities		19.718	23.996
Cash flows to investing activities:			
Increase in intangible assets .....	(	10.082)	(5.717)
Investment in property and equipment .....	(	18.264)	(8.891)
Proceeds from sale of property and equipment		1.367	1.222
Investments in other companies, net of cash acquired .....	(	4.240)	(4.013)
Proceeds from sale of investment in other companies		1.628	0
Securities, change		1.674	(60)
		(27.917)	(17.459)
Cash flows to financing activities:			
Changes in capital stock .....	(	1.316)	(4.452)
Dividend paid .....	(	3.182)	(673)
Changes in minority interest .....	(	363)	0
Proceeds from long-term borrowings		61	69.397
Payments of long-term debt .....	(	1.509)	(10.002)
Bank loans, changes		4.545	(60.057)
		(1.764)	(5.787)
(Decrease) increase in cash .....	(	9.963)	750
Cash at beginning of year		29.968	8.863
Effects of exchange rate changes on beginning balances		369	(587)
Cash at end of period		20.374	9.026

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 of the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into euros at the foreign exchange rate of that date. Translation differences are recognised in income. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into euros at foreign exchange rates of the dates the values are determined.

Financial statements of 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 are translated into euros at exchange rates of the balance sheet date. The revenue and expenses of subsidiaries are translated into euros at the average conversion rates for the period. Translation differences 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 when significant risk and rewards are transferred to the buyer. 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. The net earnings for the six months ended 30 June was EUR34.1 million and the weighted average number of shares 2.788 million shares, when taken into consideration purchases and sales of treasury shares. The nominal value of each share amounts to one ISK. Earnings per share for the period amounts to EUR0,01222. 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 765 thousand shares. The Company has not entered into agreements on convertible bonds.

Intangible assets

8. Development expenditure is capitalised in the balance sheet as development expenditure and pharmaceutical know-how. If development leads to production of marketable products the relevant cost is amortised over a period of five years. Otherwise the cost is expensed when it becomes evident that future economic benefits are not probable.
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 amortisation to year end 2002. From the beginning of the year 2003 the goodwill is not amortised but tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. If recoverable amount of goodwill is less than its carrying amount, the carrying amount of the asset is to be reduced to its recoverable amount. No impairment loss has been recognised during the period.

Property and equipment

10. Property and equipment are carried 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 carried at acquisition cost less provisions for estimated impairment losses.

Inventories

12. Inventories are carried at cost. In addition to directly attributable unit costs, manufacturing cost also include indirect cost attributable to the production process.

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 EUR132 million at end of the period have been written down by EUR12 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 certain employees which may be exercised in the years 2001 - 2005. The Company's cost is based on the Black-Scholes method of evaluating stock option agreements. Thus, valued cost is expensed over the lifetime of the contract and is recognised in the income statement with a corresponding increase in stockholders' equity.

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 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.

Employee termination indemnity

17. The employee termination indemnity relates to the Turkish subsidiaries. In accordance with the existing social legislation in Turkey, 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.

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 Group is specified as follows by quarters:

	2nd Quarter 2004	1st Quarter 2004	4th Quarter 2003	3rd Quarter 2003	2nd Quarter 2003
Sales	103.636	117.472	64.217	72.434	77.722
Cost of goods sold	(52.391)	(60.069)	(42.488)	(39.987)	(43.091)
Gross profit	51.245	57.403	21.729	32.447	34.631
Operating expenses less other income	(24.922)	(21.637)	(1.768)	(11.871)	(15.021)
Amortization, depreciation and impairment of fixed assets	(5.850)	(4.942)	(486)	(23.129)	(3.752)
Net financial income (expenses)	(4.155)	(3.113)	81	(2.912)	544
Impairment loss on investment	0	0	0	(3.689)	0
Income tax	(1.922)	(6.813)	(2.269)	1.698	(1.405)
Minority interest	(490)	(729)	(76)	(412)	(687)
Net profit (loss)	13.906	20.169	17.211	(7.868)	14.310

Net financial income and expenses

	2004	2003
20. Financial income and expenses are specified as follows:	1.1 - 30.6	1.1 - 30.6
Interest earned	2.362	188
Interest expenses and indexation	(7.697)	(4.370)
Currency fluctuations	(1.933)	5.208
Gain on sale of investment	0	163
	(7.268)	1.189

Intangible assets

21. Development cost 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	9.893
Currency adjustments during the period	80
Sales during the period	(81)
Amortised during the period	(3.378)
Balance at 30 June 2004	31.430

Notes - cont.:

22. Capitalised goodwill in the balance sheet is derived from the purchase of subsidiaries. Changes in goodwill during the period are specified as follows:

Balance at 1 January 2004	235.038
Additions due to purchase of subsidiaries	3.270
Currency adjustments during the period	481
Other changes	(1.027)
Balance at 30 June 2004	<u>237.762</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	2.946	12.002	14.948
Currency adjustments during the period	1.511	4.882	6.393
Sales and disposals during the period	(21)	(6.313)	(6.334)
Balance at 30 June 2004	<u>83.193</u>	<u>170.956</u>	<u>254.149</u>
Depreciation			
Balance at 1 January 2004	27.730	96.779	124.509
Depreciated during the period	964	5.423	6.387
Currency adjustments during the period	1.428	2.131	3.559
Depreciation of asset disposals	(10)	(5.787)	(5.797)
Balance at 30 June 2004	<u>30.112</u>	<u>98.546</u>	<u>128.658</u>
Book value at 30 June 2004	<u>53.081</u>	<u>72.410</u>	<u>125.491</u>
Depreciation ratios	2 - 8%	10 - 33%	

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

	2004	2003
	1.1 - 30.6	1.1 - 30.6
Amortisation of intangible assets according to note 21	3.378	2.351
Other changes in goodwill according to note 22	1.027	0
Depreciation of fixed assets according to note 23	<u>6.387</u>	<u>5.974</u>
	<u>10.792</u>	<u>8.325</u>

Notes - cont.:

Investments

25. At the end the period the Company owned 16 subsidiaries that are all included in the interim consolidated financial statements. The subsidiaries owned 17 subsidiaries at the end of the period that are included in their interim financial statements. The companies that are included in the interim consolidated statements are as follows:

	Ownership %
Abfar İlaç Sanayi ve Ticaret AŞ, Turkey	89%
Actavis BV (Medis BV), Netherland	100%
Actavis Ltd. (Pharmamed Ltd), Malta	100%
Actavis hf. (Delta hf.), Iceland	100%
Actavis Inc. (Pharmaco Inc.), USA	100%
Actavis Nordic (United Nordic Pharma AS), Denmark	100%
Actavis AS (Nordisk Ibu-Pharma AS), Denmark	100%
Actavis OY, Finland	100%
Actavis A/S, Norway	100%
Actavis A/B (UNP Sweden AB), Sweden	100%
Balkanpharma Holdings Ltd, Cyprus	100%
Balkanpharma Healthcare International, Cyprus	100%
MM Pharma LLC, USA	100%
Verben S.A. Uruguay	50%
Actavis AD (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%
Actavis OOO (Balkanpharma OOO), Russia	100%
Colotech AS, Denmark	86%
Dansk Lægemedel Forsyning AS, Denmark	100%
Fako İlaçları AŞ, Turkey	89%
Medis GmbH, Germany	60%
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%
Zdravlje AD, Serbia	73%
Zdravlje Trade AD, Serbia	95%

Notes - cont.:

Investment in associated companies

26. Investment in associated companies is specified as follows:

	Ownership	Book value 30 June 2004
Primex ehf., Iceland	20%	1.147
Iceland Genomics Corp., USA	31%	2.936
Book value at 30 June		<u>4.083</u>

Inventories

27. Inventories are specified as follows:

	30.6.2004	31.12.2003
Raw materials	29.761	32.882
Work in progress	14.672	16.919
Finished goods and goods for resale	31.444	29.051
Inventories at 30 June	<u>75.877</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	2.993.780	38.522
Treasury stock	(203.291)	(2.351)
Outstanding capital stock at 30 June 2004	<u>2.790.489</u>	<u>36.171</u>

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
Treasury shares acquired	(56)	(2.287)			(2.343)	
Redeemed stock option	114	873				987
Expensed stock option				21		21
Acc. currency adjustment			3.689			3.689
Awarded dividend					(3.182)	(3.182)
Net earnings					34.075	34.075
Balance at 30 June 2004	<u>36.171</u>	<u>99.489</u>	<u>(24.945)</u>	<u>302</u>	<u>142.705</u>	<u>253.722</u>

Notes - cont.:

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	(3.395)	5.340
Income tax payable	(1.601)	(6.106)
Other changes	1.310	120
Balance at 30 June 2004	<u>11.280</u>	<u>7.687</u>

Deferred tax assets and deferred tax liabilities arise from temporary differences in respect of the following:

Intangible assets	477	3.637
Operating fixed assets	(1.312)	2.839
Current assets	979	1.168
Accrued stock options	0	(53)
Short-term liabilities	1.152	29
Long-term liabilities	2.034	67
Total deferred tax liabilities from assets and liabilities	<u>3.330</u>	<u>7.687</u>
Carry forward income tax losses	1.751	0
Investment tax credits	6.199	0
Balance at 30 June 2004	<u>11.280</u>	<u>7.687</u>

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.

Notes - cont.:

Long-term liabilities

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

Loans in EUR	105.002
Loans in USD	43.980
Loans in GBP	2.244
Loans in JPY	13.915
Loans in CHF	12.743
Loans in SEK	1.422
Loans in MTL	8.639
Loans in BGL	3.489
Liabilities in other currencies	4.005
Total long-term liabilities, including current maturities	195.439
Current maturities of long-term liabilities	(26.864)
Total long-term liabilities	168.575

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

In the year 2004 (six months)	15.593
In the year 2005	33.161
In the year 2006	31.742
In the year 2007	25.517
In the year 2008	80.013
Subsequent payments	9.413
Total	195.439

Financial ratios

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

	2004	2003
	1.1 - 30.6	1.1 - 30.6
Equity ratio	0,40	0,52
Current ratio	1,16	2,54
Return on equity	31,3%	26,5%
EBITDA	62.089	43.522
EBITDA as a percentage of revenues	26,5%	27,0%
Working capital provided by operating activities	48.519	36.655