

Actavis Group hf.

**Interim consolidated financial statements
nine months ended 30 September 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 EUR48.1 million for the Group, according to the income statement. Stockholders' equity amounted to EUR266 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 interim financial statements for the nine months ended 30 September 2004 with their signatures.

Hafnarfjordur, 9 November 2004.

Board of directors:

B Thor Bjorgolfsson
Chairman of the board of directors

Andri Sveinsson

Karl Wernersson

Magnus Thorsteinsson

Sindri Sindrason

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 30 September 2004 and the related consolidated income statement and consolidated statement of cash flow for the nine 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, 9 November 2004

Alexander G. Edvardsson
Audur Thorisdottir

KPMG Endurskodun hf.

Consolidated income statement

for the nine months ended 30 September 2004

	Notes	Third quarter		Nine months	
		1 July to 30 September		1 January to 30 September	
		2004	2003	2004	2003
Operating revenue:					
Sales		97.251	72.434	318.359	229.308
Other revenue		7.887	4.361	21.422	8.568
		<u>105.138</u>	<u>76.795</u>	<u>339.781</u>	<u>237.876</u>
Operating expenses:					
Direct production expenses / cost of sales		50.012	39.987	162.472	130.636
Sales and marketing expenses		14.128	6.601	41.350	15.717
General and administrative expenses		8.705	5.213	29.389	18.301
Other operating expenses		5.816	4.418	18.005	9.124
Depreciation and amortisation	24	4.649	4.242	15.441	12.567
Impairment losses on fixed assets	24	0	18.887	0	18.887
		<u>83.310</u>	<u>79.348</u>	<u>266.657</u>	<u>205.232</u>
Earnings (loss) from operations		21.828	(2.553)	73.124	32.644
Net financial income (expenses)	20	(2.839)	(2.912)	(10.107)	(1.723)
Special reserve on investment		0	(3.689)	0	(3.689)
Earnings (loss) before income tax		18.989	(9.154)	63.017	27.232
Income tax		(3.692)	1.698	(12.427)	(2.165)
Earnings (loss) before minority interest		15.297	(7.456)	50.590	25.067
Minority interest		(1.276)	(412)	(2.495)	(1.738)
Net earnings (loss)		<u>14.021</u>	<u>(7.868)</u>	<u>48.095</u>	<u>23.329</u>
Earnings per share:					
	7				
Basic earnings per share		0,0050	(0,0028)	0,0173	0,0110
Diluted earnings per share		0,0050	(0,0028)	0,0172	0,0110

Consolidated balance sheet

Assets

	Notes	30.9.2004	31.12.2003
Fixed assets:			
Intangible assets:	8,9		
Development expenditure and pharmaceutical know-how	21	32.419	24.916
Goodwill	22	238.044	235.038
		<u>270.463</u>	<u>259.954</u>
Property and equipment:	10,23		
Property and plant		54.144	51.027
Machinery and equipment		77.767	63.606
		<u>131.911</u>	<u>114.633</u>
Investments:			
Investment in associated companies	26	4.083	3.115
Investment in other companies	11	1.323	2.947
Securities		2.335	1.364
Deferred tax assets	16,30	10.341	14.966
		<u>18.082</u>	<u>22.392</u>
		<u>420.456</u>	<u>396.979</u>
Current assets:			
Inventories	12,27	71.366	78.852
Receivables:	13		
Accounts receivable		120.100	72.307
Other receivables		35.961	19.421
Cash		20.212	29.968
		<u>247.639</u>	<u>200.548</u>
		<u>668.095</u>	<u>597.527</u>

30 September 2004

Stockholders' equity and liabilities

	Notes	30.9.2004	31.12.2003
Stockholders' equity:			
Capital stock	14,28	36.184	36.113
Share premium		99.882	100.903
Translation reserve .....	(	27.048)	(28.634)
Accrued stock option		302	281
Retained earnings		156.724	111.812
Total stockholders' equity	29	266.044	220.475
Provisions:			
Minority interest		8.812	7.295
Deferred tax liabilities	16,30	8.293	8.333
Employee termination indemnity	17	5.771	5.539
		22.876	21.167
Long-term liabilities:			
Long-term liabilities	32	157.312	173.974
Current liabilities:			
Bank loans		118.372	90.758
Accounts payable		27.347	43.765
Current maturities of long-term liabilities	32	35.616	18.889
Accrued liabilities and expenses		40.528	28.499
		221.863	181.911
Total liabilities and provisions		402.051	377.052
Total stockholders' equity and liabilities		668.095	597.527

Consolidated statement of cash flows

for the nine months ended 30 September 2004

	Notes	2004 1.1 - 30.9	2003 1.1 - 30.9
Cash flows from operating activities:			
Net earnings		48.095	23.329
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortisation	24	15.441	31.454
Currency fluctuations and indexation .....	(	1.142)	(3.559)
Changes in deferred taxes		683	(2.654)
Other changes		5.373	5.522
Working capital provided by operating activities		68.450	54.092
Changes in operating assets and liabilities:			
Inventories, decrease (increase)		8.545	(3.897)
Receivables, increase .....	(	61.881)	(10.654)
Short-term liabilities, decrease .....	(	648)	(1.405)
Changes in operating assets and liabilities		(53.984)	(15.956)
Net cash provided by operating activities		14.466	38.136
Cash flows to investing activities:			
Increase in intangible assets .....	(	12.524)	(10.020)
Investment in property and equipment .....	(	29.262)	(18.575)
Proceeds from sale of property and equipment		1.557	1.381
Investments in other companies, net of cash acquired .....	(	5.119)	(6.481)
Proceeds from sale of investment in other companies		1.630	0
Securities, change .....	(	566)	(56)
		(44.284)	(33.751)
Cash flows from financing activities:			
Changes in capital stock		542	(3.173)
Dividend paid .....	(	3.183)	(673)
Changes in minority interest .....	(	364)	(17)
Proceeds from long-term borrowings		12.951	58.585
Payments of long-term debt .....	(	14.646)	(34.299)
Bank loans, changes		25.865	(5.530)
		21.165	14.893
(Decrease) increase in cash .....	(	8.653)	19.278
Cash at beginning of year		29.968	8.863
Effects of exchange rate changes on beginning balances .....	(	1.103)	(694)
Cash at end of period		20.212	27.447

Notes to interim 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 or 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.

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 nine months ended 30 September was EUR48.1 million and the weighted average number of shares 2.789 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 EUR0,0173. 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 833 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 EUR156 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 option agreements

15. The Company has made 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 liabilities 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:

	3rd Quarter 2004	2nd Quarter 2004	1st Quarter 2004	4th Quarter 2003	3rd Quarter 2003
Sales	97.251	103.636	117.472	64.217	72.434
Cost of goods sold	(50.012)	(52.391)	(60.069)	(42.488)	(39.987)
Gross profit	47.239	51.245	57.403	21.729	32.447
Operating expenses less other income	(20.762)	(24.922)	(21.637)	(1.768)	(11.871)
Amortization, depreciation and impairment of fixed assets	(4.649)	(5.850)	(4.942)	(486)	(23.129)
Net financial income (expenses)	(2.839)	(4.155)	(3.113)	81	(2.912)
Special reserve on investment	0	0	0	0	(3.689)
Income tax	(3.692)	(1.922)	(6.813)	(2.269)	1.698
Minority interest	(1.276)	(490)	(729)	(76)	(412)
Net earnings (loss)	14.021	13.906	20.169	17.211	(7.868)

Net financial income and expenses

	2004 1.1 - 30.9	2003 1.1 - 30.9
20. Financial income and expenses are specified as follows:		
Interest earned	3.314	365
Interest expenses and indexation	(10.004)	(7.025)
Currency fluctuations	(3.417)	4.793
Gain on sale of investment	0	144
	(10.107)	(1.723)

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	12.747
Currency adjustments during the period	37
Sales during the period	(111)
Amortised during the period	(5.170)
Balance at 30 September 2004	32.419

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	3.328
Currency adjustments during the period	590
Other changes	(912)
Balance at 30 September 2004	<u>238.044</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	4.825	20.642	25.467
Currency adjustments during the period	880	2.936	3.816
Sales and disposals during the period	(297)	(6.753)	(7.050)
Balance at 30 September 2004	<u>84.165</u>	<u>177.210</u>	<u>261.375</u>
Depreciation			
Balance at 1 January 2004	27.730	96.779	124.509
Depreciated during the period	1.263	8.096	9.359
Currency adjustments during the period	1.188	538	1.726
Depreciation of asset disposals	(160)	(5.970)	(6.130)
Balance at 30 September 2004	<u>30.021</u>	<u>99.443</u>	<u>129.464</u>
Book value at 30 September 2004	<u>54.144</u>	<u>77.767</u>	<u>131.911</u>
Depreciation ratios	2 - 8%	10 - 33%	

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

	2004	2003
	1.1 - 30.9	1.1 - 30.9
Amortisation of intangible assets according to note 21	5.170	3.476
Other changes in goodwill according to note 22	912	36
Depreciation of fixed assets according to note 23	9.359	27.942
	<u>15.441</u>	<u>31.454</u>

Notes - cont.:

Investments

25. At the end of 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%
Medis 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 at the end of the period:

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

Inventories

27. Inventories are specified as follows:

	30.9.2004	31.12.2003
Raw materials	31.425	32.882
Work in progress	10.019	16.919
Finished goods and goods for resale	29.922	29.051
Inventories at 30 September	<u>71.366</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	(202.410)	(2.338)
Outstanding capital stock at 30 September 2004	<u>2.791.370</u>	<u>36.184</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)	
Treasury shares sold	10	387				397
Redeemed stock option	117	879				996
Expensed stock option				21		21
Acc. currency adjustment			1.586			1.586
Dividend paid					(3.183)	(3.183)
Net earnings					48.095	48.095
Balance at 30 September 2004 ..	<u>36.184</u>	<u>99.882</u>	<u>(27.048)</u>	<u>302</u>	<u>156.724</u>	<u>266.044</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	(6.017)	6.410
Income tax payable	(547)	(6.469)
Other changes	1.939	19
Balance at 30 September 2004	<u>10.341</u>	<u>8.293</u>

Commitments

31. The Company is committed to increase the share capital of its subsidiary, Colotech AS by EUR3.0 million. The payments will be made in six 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.

The Company has guaranteed debt obligation of its subsidiary, Fako, amounting EUR12.0 million

Long-term liabilities

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

Loans in EUR	110.152
Loans in USD	38.244
Loans in GBP	2.244
Loans in JPY	13.028
Loans in CHF	12.134
Loans in SEK	1.436
Loans in MTL	8.586
Loans in BGL	3.353
Liabilities in other currencies	3.751
Total long-term liabilities, including current maturities	<u>192.928</u>
Current maturities of long-term liabilities	<u>(35.616)</u>
Total long-term liabilities	<u>157.312</u>

Notes - cont.:

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

In the year 2004 (three months)	4.337
In the year 2005	44.500
In the year 2006	30.483
In the year 2007	24.308
In the year 2008	82.210
Subsequent payments	7.090
Total	<u>192.928</u>

Financial ratios

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

	2004	2003
	1.1 - 30.9	1.1 - 30.9
Equity ratio	0,40	0,49
Current ratio	1,12	2,45
Return on equity	29,5%	12,9%
EBITDA	88.565	64.098
EBITDA as a percentage of revenues	26,1%	26,9%
Working capital provided by operating activities	68.450	54.092