

## Actavis reports net profits of EUR11.1 million for Q1 2005

Actavis Group hf. ("ACT") ('Actavis'), the international generic pharmaceuticals company, announces its results for the quarter ended 31 March 2005.

### Highlights - first quarter 2005

- Own Brand sales up 15.5 % in the quarter compared to Q1 2004
- As anticipated sales to Third-parties decreased by 54.6% compared to a 54.6% growth in Q1 2004
- Total revenue was EUR101.8 million, against exceptionally strong first quarter in 2004 (Q1 2004: EUR129.3 million)
- EBITDA was EUR24.6 million and net profit EUR11.1 million, in line with company's expectations.
- EBITDA margin of 24.1% despite lower revenue in the period.
- Net cash provided by operating activities EUR24.8 million (Q1 2004: EUR5.9 million).
- Acquisition of Lotus Laboratories in India
- Acquisition of Pharma Avalanche, with presence in Czech Republic and Slovakia
- First financial results announcement prepared in accordance with IFRS

### Post period end events

- Actavis acquired the US based generic pharmaceutical company Amide in May 2005

Thousands of Euro	Three months ended 31 March		
	1Q 2005	1Q 2004	% Change
Total revenues.....	101,790	129,259	-21.3%
Total expenses.....	(82,918)	(99,048)	-16.3%
EBITDA.....	24,565	35,055	-29.9%
EBITDA/revenues.....	24.1%	27.1%	-3.0%
Profit before tax (PBT).....	11,674	27,639	-57.8%
Net profit.....	11,095	21,824	-49.2%
Earnings per share (EPS).....	0.00372	0.00751	-50.5%

Actavis President & CEO, Robert Wessman commented:

"As anticipated, this was a slower first quarter with few new product launches and several of our larger customers holding high inventory levels. The quarter is in line with our expectations with good progress made in the sale of own-label products with 14% growth. The first quarter of 2004 was exceptionally strong with three of the Group's largest products (Ramipril in three forms) being launched in the period. It was also a busy period in terms of strengthening the business even further with going forward with the strategic acquisitions of Lotus in India and Pharma Avalanche in March of this year and Biovena in December of 2004, expanding our presence in Central Europe. Our recent acquisition of Amide in the US will give us a strong platform to grow our business further."

"Looking ahead, with a significant number of new product launches in the second, third and fourth quarters of the year. After the acquisition of Amide, Actavis has 136 products in

development and registration, providing Actavis with one of the strongest product pipelines in the industry. Looking forward we expect to deliver EBITDA margin above 26% for the full year and single digit growth. Further, our expectations for the year 2006 are bright where we expect an EBITDA margin above 27% and a strong organic growth. Our results are in line with our expectations and the Group will reach it's objectives for the whole year."

## **Group Strategy**

Actavis is committed to driving growth through aggressive product launches, penetration of new markets, regulatory approvals of new generic pharmaceuticals and by leading the consolidation of a still fragmented industry through strategic acquisitions.

Actavis' strategy is to develop and strengthen its value chain which will enable the Group to exploit its strategy to be first to market with new products, reduce costs, penetrate existing markets and expand its international sales and marketing networks.

## **Implementation of IFRS**

The Group's financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) for the first time. The Group's financial statements have previously been prepared in accordance with the Financial Statements Act and generally accepted accounting principles in Iceland. The changes in the Group's stockholder's equity 1 January 2005 as a result of the implementation of IFRS, is an increase amounting to EUR5.8 million.

An explanation of how the transition from previous GAAP to IFRSs has effected the Groups financial position and financial performance is set out in a separate Press Release on 26 May 2005.

## **Financial highlights - first quarter**

### **Income**

Total revenues were EUR101.8 million (Q1 2004: EUR129.3 million). Underlying growth for own-label products was +14.0% in line with expectations, compared to a negative growth for the same period last year. This positive development is important and the Company is seeing positive progress in most markets. Sales to third-parties were slightly below expectations with a negative growth of -54.6% compared to a positive growth of 57.7% Q1 2004. In addition, the first quarter in 2004 was exceptional since some of the largest Actavis products, the three Ramipril products, were launched in Western Europe at that time. The Group's internal growth thus decreased by 21.9% against Q1 2004. This reflects the anticipated slower period for new product launches and fewer orders due to the relatively high inventory levels by a number of our larger customers and strong competition in Germany. The market is expected to show a positive turnaround in the coming months.

The Group expects a positive organic growth for the whole year.

### **Operating expenses**

Operating expenses during the first quarter decreased by 16.3% to EUR82.9 million (Q1 2004: EUR99.0 million). Cost of sales was EUR50.5 million (Q1 2004: EUR65.4 million) and decreased by 22.8% and is now 49.7% of total revenues compared to 50.6% in the Q1 2004. Sales and marketing expenditure was EUR14.1 million (Q1 2004: EUR14.2 million) and decreased by 0.5%

compared with last year. Research and development expenses increased by 5.7% compared to Q1 2004 and amounted to EUR8.9 million, while capitalized R&D represented an additional EUR4.5 million (Q1 2004 EUR4.1 million).

#### **EBITDA**

Earnings before interest, tax, exceptional items, depreciation and goodwill amortisation (EBITDA), was EUR24.6 million (Q1 2004: EUR35.1 million). The EBITDA margin for the period was 24.1%, in line with expectations and is expected to improve for the remainder of the year. The decrease in EBITDA derives mostly from lower sales and the fact that few new products were launched in the quarter. The EBITDA margin of the company is expected to be above 26% for the year as a whole, even though the second quarter is forecasted to be below that objective.

#### **Tax**

The Company's tax charge was EUR0.6 million in the first quarter of 2005, and the effective tax rate was 5.0%. The effective tax rate is lowered by an increase in tax assets in Malta, amounting to EUR1.2 million during the period. The reason is that companies in Malta are offered special tax deduction that is calculated both from the amount of investment in fixed assets and salaries paid. The tax asset is not paid but is offset against future taxable income. The effective tax rate of the Group without the increased tax asset in Malta would be 15.6%.

#### **Profit and return on equity**

Profit before tax was EUR11.7 million (Q1 2004: profit of EUR27.6 million). Net profit was EUR11.1 million (Q1 2004: profit of EUR21.8 million) in line with the Group's expectations. Return on equity in Q1 was 14.7% compared to 37.6% in the previous year. Negative financial items were negative of EUR7.2 million, compared to EUR2.3 million in 2004. This is mostly due to currency fluctuations amounting to EUR6.8 million.

After tax earnings per share (EPS) were 0.00372 (Q1 2004: 0.00751), down 50.5% from 2004.

#### **Cash flow**

During the first quarter, net cash provided by operating activities was EUR24.8 million compared to EUR5.9 million for the Q1 2004, representing an operating profit to cash conversion ratio of 1.31.

#### **Capital expenditure**

The Company's capital expenditure reached EUR41.3 million during the first quarter, representing 40.5% of revenues. Investments in other companies amounted to EUR26 million, investments in development projects EUR4.5 million and in fixed assets EUR15.6 million.

### **Main developments in the first quarter 2005**

#### *February:*

- In February Actavis acquired Lotus Laboratories, an Indian Contract Research Organisation (CRO), for approximately EUR20 million. The acquisition is not expected to affect Actavis' financial results in the short term but it is expected to reduce the Group's R&D expenditure and to support its entry into the US market in the medium term.
- Actavis entered into a strategic collaboration with the Indian pharmaceutical company, Emcure Pharmaceuticals, on four products, which Emcure will manufacture for the US market.
- Actavis signed a letter of intention to divest its Bulgarian subsidiary, Balkanpharma Razgrad AD, which specialises in the production of active pharmaceutical ingredients (APIs).

*March:*

- Actavis acquired the generic pharmaceutical sales and marketing company, Pharma Avalanche, expanding the Group's presence in the Czech Republic and Slovakia.

## Divisional Review

Following the acquisition of Amide earlier this month, Actavis now has three main divisions for the sale of the Group's products and intellectual property. These comprise Sales & Marketing International ("Own-label sales"), Sales & Marketing Third-party Global ("Third-party sales"), and finally the newly formed North America division, which will not affect Actavis' results until the completion of the Amide acquisition which is expected to take place early in the third quarter.

*Sales & Marketing, International division*, which handles products, developed either by Actavis itself or which have been in-licensed from other companies. Key markets for this division include Turkey, Bulgaria, Russia & CIS, Serbia and the Nordic region.

*Sales & Marketing, Third-party - Global division*, which handles sales of intellectual property developed by Actavis and sales of finished products sold to third parties. Key markets for this division include Germany, Austria and the Netherlands. In addition, France, Spain and the Scandinavian countries will play an important role going forward.

### *Sales & Marketing, International division - own label sales*

Total sales for this division were EUR64.2 million or 63.0% of total revenues (Q1 2004: EUR55.6 million) and are up 15.5% from previous year. This is a positive turnaround from 2004 and the division is expected to continue to perform well during 2005. Positive developments have occurred in the division's operations, in line with the Company's expectations. Numerous new products will be launched in the second and third quarter. Future prospects are good and continued growth for the remainder of the year expected.

A market by market commentary follows below

### *Own-label sales by markets (EUR '000)*

Market	1Q 2005	1Q 2004	% Change
Turkey	23,167	19,448	19.1%
Bulgaria	12,559	12,224	2.7%
Russia, Ukraine & CIS	12,371	8,390	47.4%
Nordic Region	7,181	7,335	-2.1%
Serbia	6,768	6,112	10.7%
Other	2,104	2,056	2.4%
<b>Total Own-label</b>	<b>64,151</b>	<b>55,565</b>	<b>15.5%</b>

### *Highest selling products in own-label in EUR million*

Products	1Q 2005	1Q 2004	Description
Cravit	3.4	1.8	Anti-Infective
Oraceftin	3.0	2.0	Anti-Infective
Alfasid	2.5	2.0	Anti-Infective
Bioment	2.4	2.6	Anti-Infective
Troxevasin	2.3	1.4	Cardiovascular

**Turkey - 36% of Own-label sales**

Sales increased 19.1% compared to Q1 2004 and were EUR23.2 million (Q1 2004: EUR19.4 million). The increase was primarily due to strong volume increases, which were partly offset by price decreases. Effective January 1, 2005, the Turkish government imposed mandatory price decreases on all manufacturers. The cardiovascular product Lipitaksin (Atorvastatin) was launched in March and its contribution is expected during the next quarter. The strongest contributing products were the anti-infectives, Levofloxacin, Cefuroxime and Sultamicillin.

**Bulgaria - 20% of Own-label sales**

Sales in Bulgaria remained steady in the quarter with 2.7% growth from Q1 2004 and were EUR12.6 million (Q1 2004: EUR12.2 million). Margins were improved following a restructuring of the operation and Actavis retained its strong market position as the leading pharmaceutical company in the Bulgarian market. The strongest contributors to sales in Q1 2005 were the cardiovascular Troxevasin and the alimentary tract & metabolism Almagel.

**Russia, Ukraine & the CIS Region - 19% of Own-label sales**

The region experienced a healthy growth of 47.4% compared to the same period in 2004. Sales rose to EUR12.4 million (Q1 EUR8.4 million), due mainly to price increases and an increased emphasis on sales and marketing activities. Core contributing products are Phezam, Adrianol, Spasmalgon, as well as a recently reimbursed product Nifedipin. In March Lisinoton (Lisinopril) was launched in Russia, as well as Renapril and Nelidix in Mongolia.

**Serbia - 11% of Own-label sales**

Increased sales and marketing activities helped achieve sales growth of 10.7% in Q1 compared to 2004, with total sales of EUR6.8 million (Q1 2004: EUR6.1 million). Major contributing products were Enalapril, Atenolol and Karvilex.

**Nordic Region - 11% of Own-label sales**

The Nordic regional revenue centre includes Iceland, Denmark, Sweden, Finland, Norway, Lithuania, Latvia, and Estonia. Sales in the Nordic region decreased by 2.1% in the first quarter of 2005 compared to the same period in 2004 and totalled EUR7.2 million (Q1 2004: EUR7.3 million). The division launched three new products in the quarter: Vostar S (diclofenac) in Iceland, Lisinopril in Sweden, and Azathioprine in Denmark, which are all expected to support the future growth in the region.

**Sales & Marketing, Third-party - Global**

The division accounts for 26.2% of total revenues. Revenues during the period reflected the fact that no new product launches took place in the quarter and thus a comparison with the same period in 2004 is tough, when three significant products were launched (Ramipril tablets, Ramipril HCT tablets and Ramipril capsules). Sales in the quarter amounted to EUR26.8 million (Q1 2004 EUR59.0 million), a decrease of 54.6%. High inventory levels at several of our larger customers and fierce competition in Germany also contributed to slower sales. However, the Third-party division has a number new product launches in the second, third and fourth quarters this year which are expected to contribute significantly to revenues this year. The remaining quarters of the year are expected to generate more revenue than the first one.

Third-party sales include the sale of intellectual property and finished products to other third-party pharmaceutical companies.

*Third-party product sales by markets (EUR '000)*

Market	1Q 2005	1Q 2004	% Change
Germany	8,070	33,734	-76.1%
Austria	2,663	3,936	-32.3%
Netherland	2,443	2,249	8.6%
Spain	1,843	1,124	63.9%
Denmark	1,868	1,124	66.1%
France	1,283	562	128.1%
UK	812	8,434	-90.4%
Other	4,731	5,060	-6.5%
<b>Total Third Party</b>	<b>23,712</b>	<b>56,224</b>	<b>-57.8%</b>

*Highest selling products by Third-party sales in EUR million*

Products	1Q 2005	1Q 2004	Description
Citalopram	6.5	11.6	Antidepressant
Ciprofloxacin	2.5	3.1	Anti-Infective
Paroxetine	2.2	3.5	Antidepressant
Mirtazapine	1.8	N/A	Antidepressant
Lisinopril	1.6	3.7	Cardiovascular

**Germany - 34% of Third-party sales**

Sales in Germany were EUR8.1 million in the quarter, down by 76.1% (Q1 2004 EUR33.7 million). As anticipated, product sales in Germany were slow during the first quarter, primarily due to high inventory levels at several of our larger customers. Despite this and the growing competition in the market place, positive signs have been noted. The marketing companies seem to be discounting products to their clients to a lesser extent than in 2004, which in addition to reduced level of the mandatory discount to the official sick fund price, is expected to strengthen the performance in Germany in the second half of the year.

**Austria - 11% of Third-party sales**

Sales in Austria were down by 32.3% as compared to Q1 2004 and totalled EUR2.7 million (Q1 2004 EUR3.9 million). The reduction is to a large extent caused by lower sales of the anti-depressant Citalopram for international distribution. On the positive side is noted that a higher number of products are contributing to sales in the Austrian market.

**Netherlands - 10% of Third-party sales**

Sales in Netherlands were up by 8.6% as compared to the same period last year amounting to EUR2.4 million (Q1 2004 EUR2.2 million). Sales of Mirtazapine were higher than expected, but sales of Ranitidine did not reach the anticipated level. The Dutch market remains quite competitive, but this market is still expected to be quite important for the division, in the future.

**Spain - 8% of Third-party sales**

Sales increased by 63.9% confirming the increased importance of this market for the division. The single most valuable contribution is the antidepressant Sertraline tablets.

**France - 5% of Third-party sales**

Sales to the French market were up by 128.1% and the increase is primarily explained by the increased number of products that have by now come off patent and have been launched into France.

**The UK - 3% of Third party sales**

Product sales in the UK declined by 90.4% as compared to 2004 and totalled EUR0.8 million. This dramatic reduction is primarily explained by quite limited sales of Ramipril capsules and

Paroxetine tablets into the market, in addition to price erosion and increased competition. New contracts are expected to contribute to increased volumes to the UK market in the near future.

#### Near future:

A number of new product launches are planned for the year, for the Third-party division. The two first new product launches of the year will appear at the end of May. A CNS (Central Nervous Systems) product will be launched to a number of clients, in nine different countries in Europe. Numerous other products will then be launched in various markets in the next months.

#### Intellectual Property

Sales of intellectual property were above expectations and came as a valuable addition to the results achieved during the fourth quarter of 2004. New agreements of significant strategic importance for the future were signed during the period.

#### Outlook

In addition to making strategic acquisitions to lead the consolidation of a still fragmented industry, Actavis is committed to driving further organic growth through innovative product launches, penetration of new markets and regulatory approvals of new generic pharmaceuticals.

The Group continues to make good progress in the current year. Although sales during the first quarter have been slower, they are expected to pick up during the remainder of the year as new products are launched on the market, especially during the third quarter.

For the year as a whole, management expects single digit underlying revenue growth in 2005 but improving EBITDA to revenue margins of 26% or above for the full year. For 2006, strong underlying growth is expected with EBITDA to revenue margins in excess of 27%.

#### Shareholder structure

The Actavis Group shareholder structure as of 31 March 2005 is demonstrated in the table below:

Shareholders	Ownership %
Amber Intl. & related parties	36.2%
Institutional Investors	32.9%
Private Investors	22.2%
Treasury shares	6.8%
Management	1.9%
<b>Total</b>	<b>100.0%</b>
<b>Free float *</b>	<b>40%</b>
Total shares	ISK 2,993,780
Outstanding shares	ISK 2,791,162

\* According to Iceland Stock Exchange calculations, see [www.icex.is](http://www.icex.is).

#### Post Q1 events

In May 2005 Actavis reached an agreement to acquire the US based generic pharmaceutical company, Amide Pharmaceutical, Inc., for an initial gross consideration of US\$500 million in cash with up to an additional US\$100 million payable over two years subject to performance. Upon closing, Amide is expected to have a cash balance of approximately US\$40 million. Amide develops, manufactures and sells a broad range of solid-dose generic pharmaceutical products with a portfolio of 67 marketed products in tablet and capsule forms, in addition to 42 products in its development pipeline.

## Method of Consolidation

The consolidated financial statements comprise the financial statements of Actavis Group hf. and its subsidiaries. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Group companies are those companies in which the parent company has a controlling financial interest through direct and indirect ownership of a majority voting interest or effective managerial and contractual control. The subsidiaries held or acquired exclusively with a view to subsequent resale are excluded from consolidation and are included as available-for-sale investments and measured at fair value where this can be reliably measured or at cost less impairment losses where fair value cannot be reliably measured. All material intra-group balances, transactions and any unrealised gains from intra-group transactions have been eliminated in consolidation. The equity and net income attributable to minority interests are shown as separate items in the consolidated financial statements.

## Auditing

The interim consolidated financial statements have been compiled by the Group's auditors. The interim consolidated financial statement have not been audited or reviewed.

## Actavis' financial calendar

Q2 results	9 August 2005
Q3 results	8 November 2005
Q4 and annual results	7 February 2006
Q1 results	30 April 2006

Financial calendar is also available on the Actavis' website, [www.actavis.com](http://www.actavis.com)

## Presentation of financial results

An open meeting will be held in Iceland at Hotel Borg, Reykjavik, at 16:30 GMT on 26 May 2005. A copy of the presentation and other related material will be available at [www.actavis.com](http://www.actavis.com) following the meeting.

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## About Actavis

Actavis is an international pharmaceutical company, founded in 1956, specialising in the development, manufacture and sale of high quality generic pharmaceuticals. The Group has also established itself as a supplier of pharmaceutical intellectual property.

Headquartered in Iceland, Actavis has operations in 28 countries with around 7,000 employees. In addition to development and manufacturing facilities in Bulgaria, USA, Turkey, Malta, Iceland and Serbia, Actavis has an extensive sales network. The Group has built a strong market position in Europe and is entering the US market through its newly acquired company Amide. Furthermore, Actavis is constantly looking to establish itself in new markets. Actavis'

intellectual property has resulted in Actavis and its customers being first to market with generic products when patents expire.

#### **Forward Looking Statements**

This press release contains forward-looking statements with respect to the financial condition, results of operations and businesses of Actavis. By their nature, forward-looking statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from that expressed or implied by these forward-looking statements. These factors include, among other things, exchange rate fluctuations, the risk that research and development will not yield new products that achieve commercial success, the impact of competition, price controls and price reductions, the risk of loss or expiration of patents or trade marks, difficulties of obtaining and maintaining governmental approvals for products, the risk of substantial product liability claims and exposure to environmental liability.

Following are the financial statements.

Income Statement	1Q 2005	1Q 2004
Net sales.....	96,958	117,472
Cost of goods sold.....	<u>(50,546)</u>	<u>(65,437)</u>
<b>Gross profit.....</b>	<b>46,413</b>	<b>52,035</b>
Other income.....	4,832	11,787
Sales and marketing expenses.....	(14,122)	(14,189)
Research and development expenses.....	(8,877)	(8,401)
General and administrative expenses.....	<u>(9,374)</u>	<u>(11,021)</u>
	<u>(27,540)</u>	<u>(21,824)</u>
<b>Profit from operations (EBIT).....</b>	<b>18,872</b>	<b>30,211</b>
Income / (Loss) from associates.....	0	(282)
Financial income/(expenses).....	<u>(7,199)</u>	<u>(2,290)</u>
<b>Profit before tax.....</b>	<b>11,674</b>	<b>27,639</b>
Income tax.....	<u>(579)</u>	<u>(5,815)</u>
<b>Net profit.....</b>	<b>11,095</b>	<b>21,824</b>
<b>Attributable to:</b>		
Equity holders of the Company.....	10,381	21,332
Minority interest.....	<u>714</u>	<u>492</u>
<b>Profit for the period.....</b>	<b><u>11,095</u></b>	<b><u>21,824</u></b>

Balance sheet	31.3.2005	31.12.2004
Non-current assets.....	483,795	442,084
Current assets.....	279,884	242,080
<b>Total Assets</b>	<b>763,679</b>	<b>684,164</b>
Stockholders' equity.....	304,555	281,823
Minority interest.....	10,658	9,853
Long-term liabilities.....	183,133	183,122
Current liabilities.....	265,333	209,366
<b>Total equity and liabilities</b>	<b>763,679</b>	<b>684,164</b>
Cash flow	1Q 2005	1Q 2004
Working capital from operating activities.....	24,759	29,883
Net cash provided by operating activities.....	24,755	6,035
Key ratios		
EBITDA.....	24,565	35,055
EBITDA/revenues.....	24.1%	27.1%
EBIT/revenues.....	18.5%	23.4%
Earnings per share (EPS).....	0.00372	0.00751
Profit to sale.....	10.9%	16.9%
Return on equity (ROE).....	14.72%	37.61%
Equity ratio.....	0.40	0.41
Current ratio.....	1.05	1.16
Internal value of shares.....	8.42	7.79