Company valuation

Actavis

Recommendation

12 April 2005

SELL

Valuation	ISK 90.4 bn
Valuation share price	32.4
Closing price 11 April 2005	41.6

Income Highest in Q2 and Q3 of 2005

Actavis plans to place 14 new pharmaceuticals on the market this year through third-party sale. Although sales forecasts for each individual product are not available, the most significant of them will be marketed in Q2 and Q3, with the result that we can expect income to be highest in these quarters, instead of in Q1 and Q4, as has been the case in recent years. Despite the launching of these 14 new pharmaceuticals, we expect third-party sales growth to be considerably less than in 2004, when 9 new products were marketed, as the total market value of this year's pharmaceuticals is less than last year's new products. As far as own-brand sales are concerned, management anticipates launching at least 35 pharmaceuticals in new market regions this year, some of them new products, or a similar number as were placed on the market last year.

ISK 50 billion Investment Capacity

Actavis has concluded two applications for marketing authorisations for the US market (ANDA filings) and the first income from this market is expected in 2006. A further 8-10 filings are expected this year. On average, it takes some 12-18 months from the date of filing until generic pharmaceuticals reach the market. Actavis intends to market these pharmaceuticals under its own brand in the US and direct the marketing itself. The company is also currently examining the possibility of acquiring other companies to facilitate its entry into the US market, or the acquisition of pharmaceutical portfolios. Acquiring a portfolio would broaden Actavis's product line and could, in our estimation, result in an earlier entry into the US market than presently anticipated. In Research's estimation, Actavis can comfortably handle investment or acquisitions of up to ISK 50 billion (bn). The company was authorised to increase share capital by ISK 450 million (m) nominal value at its most recent shareholders' meeting on 31 March this year, or the equivalent of ISK 18 bn. Assuming the company avails itself of the authorisation, Actavis would have the possibility of debt financing amounting to some ISK 30 bn, based on an unchanged 40% equity ratio.

Conclusions of the Valuation

Based on a nominal rate of return of 13.3% and 5% future growth annually, Actavis is valued at EUR 1,125 m (ISK 90.4 bn at a EUR exchange rate of 80), which translates into a valuation share price of 32.4. The outcome of the previous valuation, of 10 November 2004, was a share price of 37.1 and total market value of ISK 103.5 billion. All the main valuation assumptions have been reviewed, with two factors accounting for most of the decrease. In the first place, the EUR has weakened significantly against the ISK, falling from 87.5 to 80.0, which accounts for 5% of the valuation decrease. Had the EUR exchange rate remained unchanged at 87.5, the result would have been a valuation share price of 35.4. Income growth assumptions have also been cut back slightly, for this year in particular. Average annual growth of around 10% is now anticipated until 2010 instead of the previous 12%. Closing price for Actavis's shares on 11 April 2005 was 41.6. Assuming a 5% margin of uncertainty, sale of shares is thus recommended.

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Landsbanki has a holding of 2.15% in Actavis (7 April 2005)

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Actavis's Operations

Own-brand sales

Actavis divides its income generation into two principal areas: own-brand sales and third-party sales. Own-brand pharmaceuticals are sold directly to Actavis's customers, while third-party sales go to companies which subsequently resell the pharmaceuticals under their own brand names. Together, own-brand sales and sales to third parties represented 87% of total Group income in 2004. The remainder was derived from sale of pharmaceutical intellectual property (documentation dossiers for marketing authorisation), active pharmaceutical substances and other income.

The ten best-selling own-brand pharmaceuticals account for 34% of this division's total sales

Own-brand sales amounted to EUR 240 m in 2004 (53% of total income), as compared to EUR 152 m in 2003. The sizeable increase can be attributed to the full inclusion of the Turkish plant Fako in the Group's accounts for 2004. The ten best-selling own-brand pharmaceuticals account for 34% of total sales of this division. The list of best-selling pharmaceuticals changed considerably from that of the previous year. This time the antibiotic Bioment topped the list, followed by the cardiovascular (CV) drug Troxevasin, which has long been the top seller. Bioment was not among Actavis's 2003 best-sellers, as it is produced by Fako.

Management expects to market at least 35 pharmaceuticals this year in new market regions, some of them new products

Management expects to market at least 35 pharmaceuticals this year in new market regions, some of them new products This would seem to be a similar number as were placed on the market last year. Management expects excellent growth in own-brand sales in 2005. Emphasis will be placed on advancing into new markets, taking advantages for instance of opportunities in Poland following Actavis's acquisition in 2004 of the Polish marketing company Biovena. Strengthening operations in Central Europe, e.g. in the Czech Republic, Slovakia and Romania, will also be a priority. At its presentation following the announcement of annual results, Actavis stated that it had been examining small Czech companies as potential acquisitions and the company recently announced acquisition of a sales and marketing company in the country. Although Actavis has concluded two applications for marketing authorisations for the US market, as discussed in a later section, the first income from this market is expected in 2006.

Pharmaceutical markets in various countries

	US	Poland	Slovakia	Czecg Rep.	Hungary
Population (millions)	293	39	5	10	10
Pharmaceutical market (MEUR)	191.398	2.892	468	1.120	1.483
Per capital consumption	653	75	86	110	148
Generic share of pharm.market (value)	9%	65%	33%	32%	32%
Generic share of pharm.market (volume)	36%	86%	70%	58%	53%

Source: Actavis

Company CEO Róbert Wessman has stated that in the longer term, the prime emphasis will be on developing own brands

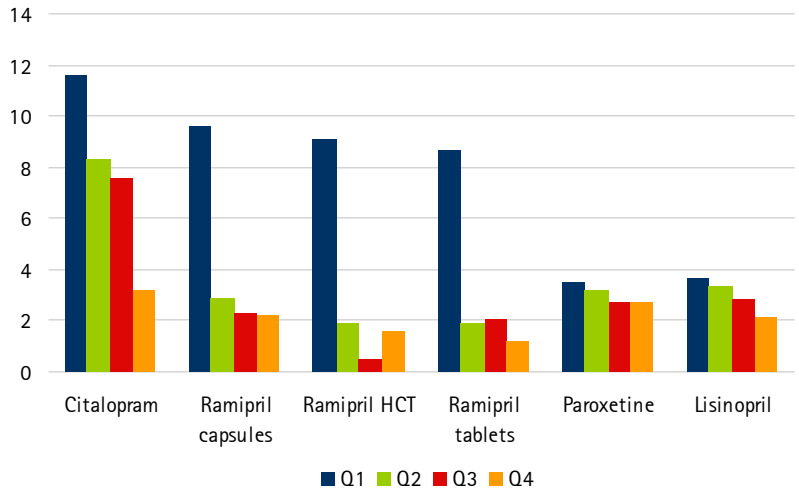
As company CEO Róbert Wessman has stated that, in the longer term, the prime emphasis will be on developing Actavis's own brands, we expect that the relative share of income from own-brand sales will continue to grow. In our estimation, this involves a considerable change of course, although the acquisition of Fako in Turkey and Zdravlje in Serbia are admittedly moves in this direction. Own-brand sales ensure the company a larger portion of the value chain while, on the other hand, pharmaceuticals sold to third parties have been returning a higher margin than have own-brand products.

Third-party sales

Total third-party sales in 2004 amounted to EUR 165 m, up 21% from 2003 when the figure was EUR 136 m. Of this, EUR 152 m were final products and EUR 13 m sale of pharmaceutical intellectual property. The major increase in income can be attributed primarily to successful marketing of the CV pharmaceutical Ramipril. Total sales of Ramipril in three pharmaceutical

forms (Ramipril capsules, Ramipril HCT (tablets containing the diuretic hydrochlorothiadizine) and Ramipril tablets) amounted to EUR 44 m in 2004. Of the nine new pharmaceuticals it launched on the market last year, Actavis was first to market with five of them, which must be considered a good performance. Being first to market is important for generics, since the profits are highest in the months immediately following the expiration of the original pharmaceutical's patent. In addition to these nine new products, five "older" pharmaceuticals were marketed in new marketing regions, in France, Italy and Hungary.

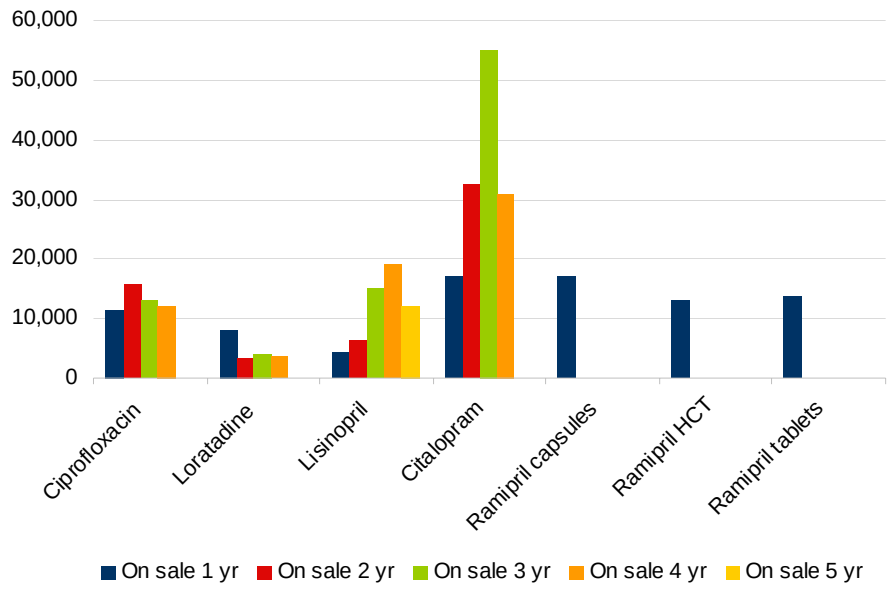
Top selling third-party pharmaceuticals (MEUR) by quarter



The third-party product line has been expanding. The 10 best-selling pharmaceuticals provide 85% of income from final products as compared to 90% in 2003

The third-party product line has been expanding. The 10 best-selling pharmaceuticals provide 85% of income from final products as compared to 90% in 2003 The product line will be expanded in coming years, since it is important for Actavis to increase diversification of risk: sales of these pharmaceuticals quickly taper off as competition grows. The antidepressant Citalopram continues to be the company's highest-selling product, followed by Ramipril. Citalopram sales fell substantially in Q4 of 2004, as a result in particular of lower sales in the UK, and can be expected to continue to slide this year. Citalopram was launched in 2001 and has thus been on the market for four years. In evaluating the company's growth we have assumed that pharmaceuticals like Citalopram can sell well for three to four years. The decline in Citalopram sales thus accords with expectations. Lisinopril is the Actavis pharmaceutical which has been on the market longest, for five years, which is the length of average contracts with pharmacy suppliers. As a result, sales of the pharmaceutical in quantity are generally guaranteed for five years, although the value of a product naturally drops as its generic producers grow in number. Sales value can thus decline rapidly even though the sales volume remains steady.

Best-selling pharmaceuticals since launch, EUR thousands



Actavis intends to launch 14 new pharmaceuticals this year. Although market forecasts are not available, the Actavis management has said that the most important ones will come on the market in Q2 and Q3

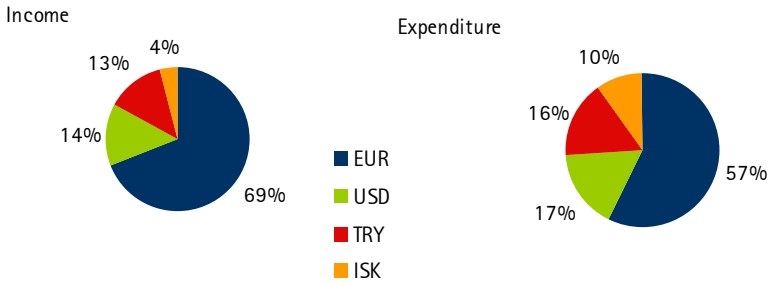
Actavis intends to launch 14 new pharmaceuticals this year. Although market forecasts are not available, the Actavis management has said that the most important ones will come on the market in Q2 and Q3. This year's seasonal fluctuations in operations should therefore differ from the traditional pattern, since the second and third quarters will in all likelihood be those with the highest income for the year, rather than Q1 and Q4 as has been the general trend in recent years. Despite the marketing of 14 new products this year, sales growth will be considerably less than in 2004, when nine new pharmaceuticals were launched, the reason being that the total market value of this year's pharmaceuticals is less than last year's new products. Ramipril played a key role in 2004, but the Actavis management has said that no single project this year will be of the same magnitude.

Some experts abroad have commented on Actavis's two different sales channels, i.e. third-party sales and own-brand sales. At first glance this might seem to create possibilities for conflicts of interest, but to prevent this Actavis does not market its own-brand products in those countries where it sells to third parties. This applies, for instance, to the German market. Actavis has acquired market shares for its pharmaceuticals of up to 5ö% through third-party sales. According to CEO Róbert Wessman, if the company succeeds in selecting the right pharmaceuticals (acquiring the right raw materials) and launching them on the market at the intended time, there is no reason to refrain from selling to third parties.

Breakdown of income and expenditure

Actavis's market regions are spread across Europe. Bulgaria and Germany are among its most important market regions in terms of income, but since the acquisition of Fako, Turkey has become the most important market, accounting for 21% of total income. The valuation is based on the assumption that 69% of income is in EUR, 14% in USD, 13% in TRY (Turkish liras) and 4% in ISK. On the expenditure side, 57% of expenditures are estimated to be in EUR, 17% in USD, 16% in TRY and 10% in ISK.

Estimated breakdown of income and expenditures



Introduction of International Financial Reporting Standards (IFRS)

In accordance with the rules on publication of annual financial statements of companies listed on European stock exchanges, Actavis will change its accounting methods this year to comply with IRFS. According to Actavis's management, the principal changes concern the treatment of intangible assets, for instance, where development cost has to be expensed retroactively. Actavis has not provided details of the impact this will have but if increased costs are to be expensed we can expect this to be visible in the Q1 interim statement. Actavis's development costs have previously been expensed over the five years following the first income returned by the product. This is done through the depreciation of intangible assets and will thus not affect EBITDA but will have an impact on EBIT.

Increased Activities in India and the US

The acquisition of Lotus Laboratories

The objective of the acquisition is to involve Lotus in Actavis's developmental process for the US market

At the beginning of February this year, Actavis reported it had acquired the Indian pharmaceutical research company Lotus Laboratories for a purchase price of EUR 20 m. Lotus, which was established in 2001, has its head office in Bangalore, India. The company, which employs 230 people, specialises in clinical trials (absorption tests) on pharmaceuticals and their interactions, and in medical tests. Lotus has carried out 450 studies since the company was established and has a capacity of about 10 trials per month. The objective of the acquisition is to involve Lotus in Actavis's developmental process for the US market Up until now, Actavis has marketed its pharmaceuticals only in Europe. For them to be approved by the US Food and Drug Administration (FDA), they must fulfil certain requirements on product development, requirements which Lotus satisfies.

The cost of absorption tests is considerable, as much as 30-35% of total development costs. By having this testing done within the group, the estimated savings could be as much as one-half

The difference between the European and US approval process lies primarily in absorption tests and substance testing. Absorption testing involves carrying out studies of Actavis's pharmaceuticals on certain groups of people and comparing the results with the effects of the original pharmaceutical. Testing of substances is done in the same manner as in product development for the European market. However, the process must be repeated when producing for the US. The cost of absorption tests is considerable, comprising as much as 30-35% of total development costs. By having this testing done within the group, the estimated savings could as much as one-half. The average developmental cost for the European market is estimated at EUR 1.5 m and somewhat higher for the US market. Of that amount, the estimated cost of absorption tests would be around or over EUR 0,5 m.

Acquisition of Lotus is an opportunity to reduce developmental costs

Up until now, Actavis has had to look to outside parties to carry out its absorption tests, to Canada in particular. The acquisition of Lotus thus clearly offers an opportunity to lower developmental costs in the long term, and is an important step in Actavis's advance into the US generics market.

Partnership with Emcure

Under the agreement with Emcure, the latter will manufacture four pharmaceuticals which Actavis has developed for the European market and will subsequently be marketed in the US

In parallel to its acquisition of Lotus, Actavis announced it had concluded a partnership agreement with Indian generic producer Emcure Pharmaceuticals to manufacture generic pharmaceuticals developed by Actavis. Under the agreement with Emcure, the latter will manufacture four pharmaceuticals which Actavis has developed for the European market and will subsequently be marketed in the US The involvement of Lotus will mean adding the additional stages shown above to the developmental process for these four products. Actavis now has access to Emcure's production of 3-3.5 m tablets. By comparison, the combined production capacity of Actavis's plants in Iceland, Bulgaria, Malta, Serbia and Turkey is 15 bn tablets annually. The reason that Actavis is interested in having Emcure manufacture the pharmaceuticals is that its plants satisfy US quality standards. Actavis's own plants, on the other hand, only satisfy the quality standards required for production for the European market.

India an attractive option

India is a very attractive option for a number of reasons. Manufacturing and wage costs are low in the country, job expertise is high and knowledge of international quality standards is continually increasing. In addition, original drug manufacturers have only applied for patents in India to a limited extent. This has given generic producers the opportunity to begin development, manufacture and marketing of generics before patents expire in those regions where patents were obtained. According to *Datamonitor,* extensive specialised expertise has developed in the Indian pharmaceutical sector over the years, expertise which Indian pharmacologists have acquired from western countries. This makes India an especially good choice for activities of generic drug producers.

Actavis moves into the US market

A further 8-10 ANDA filings are expected this year. On average, it takes some 12-18 months from the date of filing until generic pharmaceuticals reach the market.

Actavis has concluded two applications for marketing authorisations for the US market (ANDA filings) and the first income from this market is expected in 2006. Two years ago, Actavis (then Pharmaco) reached an agreement with US generics producer Purepac Pharmaceutical, a subsidiary of Alpharma, for manufacture and marketing of Actavis's products in the US. One of the filings is the result of this co-operation agreement, while the other was carried out in co-operation with a non-disclosed partner. While the agreement was expected to begin to bring in income to the company this year, the filing process took longer than anticipated and will delay this until next year. A further 8-10 ANDA filings are expected this year. On average, it takes some 12-18 months from the date of filing until generic pharmaceuticals reach the market. The timing will depend, however, on whether anyone else has acquired 180-day generic market exclusivity after the original patent expires. Actavis has now adopted a policy of marketing these pharmaceuticals under its own brand in the US and direct the marketing itself.

The US generic drug market is the largest in the world. To gain a foothold in this market, CEO Róbert Wessman has said that Actavis will need a minimum of 30-40 pharmaceuticals to start with. A good reputation and pharmaceutical portfolio are also important. The key factor is to be able to deliver to pharmacy suppliers the right product, at the right time and in the right quantities. In Wessman's opinion, if the company manages to create a positive and reliable image, it will not need as large a sales team as might be expected, because a few, very large suppliers control the market.

Actavis is examining US companies which could make attractive acquisitions, but purchasing pharmaceutical portfolios is also an option

With this in mind, Actavis has been looking at US companies which could make attractive acquisitions, although the management says purchasing a pharmaceutical portfolio could also be an option. Acquiring a portfolio would broaden Actavis's product line and could, in our estimation, result in an earlier entry into the US market than indicated above.

What about listing on the London Stock Exchange?

In our estimation the situation is now more favourable for listing than it was last year

It is some time now since Actavis announced plans for listing on the London Stock Exchange. The company was to be listed last year, but the plan was postponed until this year. The reason given for postponing the action was that the company would have had to adopt new accounting practices last year, concurrent to listing, and then change yet again to implement IFRS this year. In our estimation the situation is now more favourable for listing than it was last year. The company's share price has been practically unchanged for over a year, and its price multiples are more favourable today. A comparison of these figures for Actavis as compared with other generic producers (Annex 2) supports this.

At a shareholders' meeting held on 31 March this year, Chairman of the board Björgólfur Thor Björgólfsson stated that preparations for listing were close to completion and listing was still planned for this year

Actavis has provided little information on the listing, except to say that two financial undertakings, ABN AMRO Rothschild and Merrill Lynch, have been engaged as consultants. At a shareholders' meeting held on 31 March this year, Chairman of the board Björgólfur Thor Björgólfsson stated that preparations for listing were close to completion and listing was still planned for this year. We were even expecting the listing to be announced in parallel to the publication of the company's 2004 results, but this did not prove to be the case. The summer months are now approaching, which is a rather unsuitable time for listing. In addition, there have recently been changes in the company's senior management. Ágúst Helgi Leósson, former CFO, has resigned and no announcement has been made as to his replacement. This increases the likelihood still more that listing will not occur until the autumn at the earliest.

Actavis will most likely apply for primary listing, although no company which could be considered comparable has a primary listing on the London Stock Exchange

Actavis will most likely apply for primary listing, although no company which could be considered comparable has a primary listing on the London Stock Exchange. This fact is clearly in the company's favour. Some generic producers have a secondary listing there, i.e. their shares can be traded on LSE although the primary listing is in the company's home state. The Croatian company PLIVA is one example. In an interview in *Generic Bulletin* on 10 December last year, Róbert Wessman stated that the purpose of the listing was partly to open up improved financing possibilities and broaden the company's shareholder group, in addition to which shares listed on the LSE were more attractive as currency in mergers and acquisitions.

The prospect of listing has given rise to speculation as to whether Actavis would eventually be included in the FTSE 100 equity index. For this to become a reality, however, the company's market value would have to increase by around ISK 55 bn (GBP 500 m) from its current value, or by around 50%. The next level below the FTSE 100 index is the FTSE 250 index, in which Actavis would be included based on its current market value.

Actavis can comfortably handle investment of ISK 50 bn

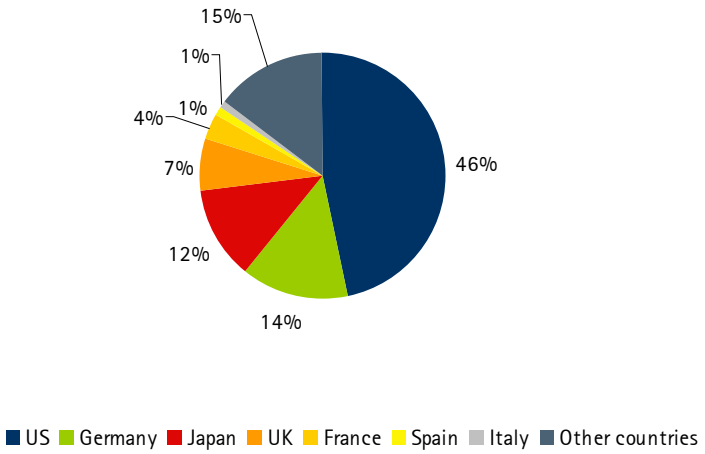
For Actavis to be included in the FTSE 100 it would clearly have to undertake new acquisitions. A shareholders' meeting on 31 March this year approved a share capital increase of ISK 450 m nominal value until year-end 2010, which would correspond to ISK 18 bn in new capital, based on a share price of 40. At year-end 2004, the company's equity ratio was 40%. Assuming the company avails itself of the above authorisation to increase share capital, Actavis would have the possibility of debt financing amounting to some ISK 30 bn, based on an unchanged 40% equity ratio. This would mean Actavis can comfortably undertake investment of ISK 50 bn

Situation and Outlook on the International Generics Market

The international generic drug market is expected to continue to grow fairly rapidly in coming years. The international business intelligence provider *Datamonitor* estimated that YoY growth in 2003 was 12.8% The global market was valued at USD 35.4 bn in 2003, with the US the largest individual generic drug market, comprising around 46% of the total. In Europe, market growth in 2003 was highest in France and Italy, over 45% in both countries. Southern Europe could be said to lag a bit behind, for example, Northern Europe as far as the use of generic drugs is concerned, and *Datamonitor* expects Southern European markets to grow fastest in coming years. In France, for instance, patents have been expiring later than in Germany and the UK, which Actavis has been taking advantage of. It could be pointed out in this connection that in 2004 the company marketed two pharmaceuticals in France, for one of which the patent had expired in Germany nine years earlier.

Datamonitor estimates that the generic drug market grew by 12.8% YoY in 2003

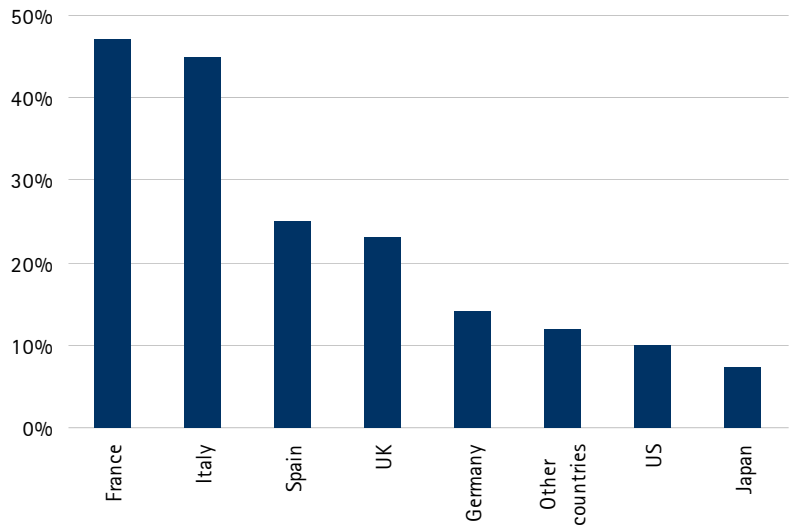
Breakdown of generic drug market by country



Source: Datamonitor

The generic market grew substantially in the UK and Germany in 2003 despite the fact that over 50% of generic pharmaceuticals in both countries now require prescriptions. The figure below shows YoY growth of the generic market in each country for 2003.

YoY growth in the generic drug market in 2003, by country

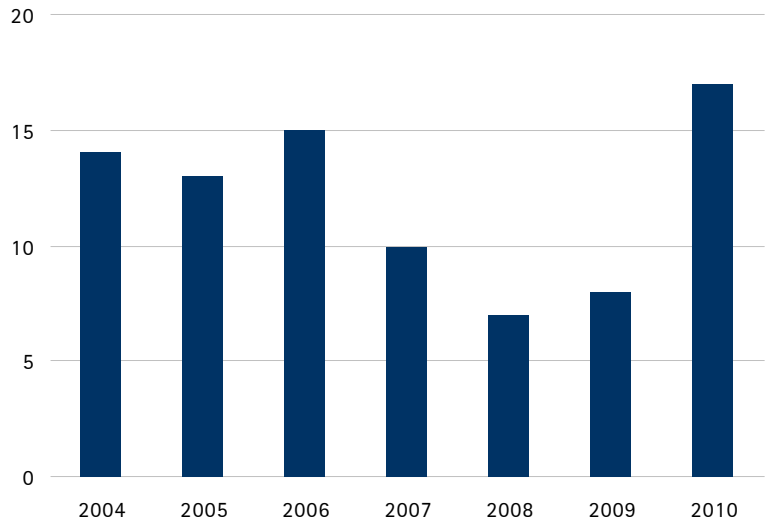


Source: Datamonitor

Assuming the market was worth USD 35.4 at year-end 2003, Datamonitor expects an average annual growth of 11.3% to 2008

In its report of November 2003, *Datamonitor* estimates that by year-end 2008 the value of the generic drug market will be around USD 60.4 bn. Assuming the market was worth USD 35.4 at year-end 2003, Datamonitor expects an average annual growth of 11.3% to 2008. One important factor fuelling this growth is the expiration of patents. Most US patents expire from 2006 to 2010, in 2004 and 2005 in the UK and Germany, and in 2007 in France, Spain and Italy. *Datamonitor* forecasts that the growth of the generic market in Europe will be prompted both by patent expirations and increased consumption of generic pharmaceuticals, while in the US the primary factor will be the patent expirations.

Patent expirations, USD billions



Source: Datamonitor

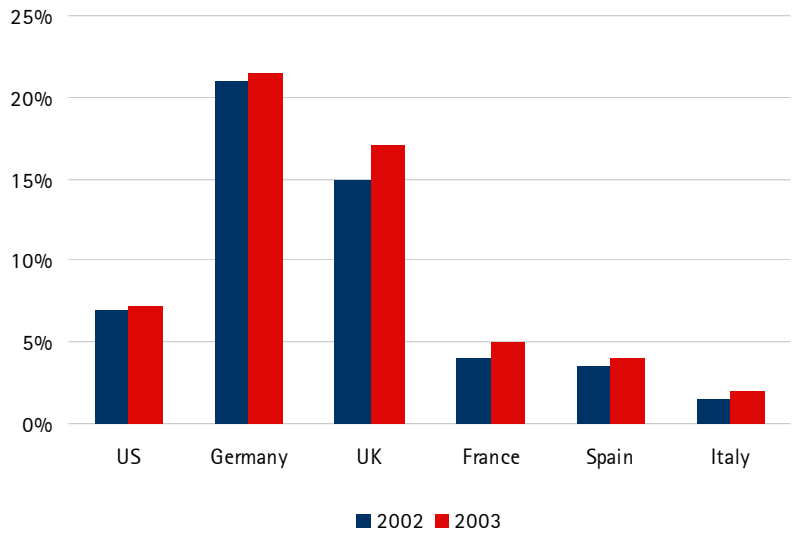
As previously mentioned, Germany has up until now been Actavis's most important market for third-party sales. This market, however, slowed substantially in Q4 of 2004 and in terms of sales volume it contracted by 10% for the year as a whole. The slowdown can probably be

attributed to increased price pressure from German authorities at the beginning of 2004, when state pharmaceutical payments were reviewed and drug prices lowered. This had a major impact on market growth, which was only 3% in value terms for 2004 as a whole, despite a good number of patent expirations. The increased discount placed on pharmaceuticals last year was partially reversed at the beginning of this year, when it was cut from 16% to 6%, but there is some uncertainty about the future and as yet nothing has be decided. Germany will continue to be an important market for Actavis, as 45% of its third-party sales go to Germany. On the other hand, we can expect the share of the German market in total sales to decrease in the coming years and that of France and the UK, for example, to increase.

The share of generics in total pharmaceutical sales in the US, Germany, UK, France, Spain and Italy increased slightly in 2003, indicating that growth in generic sales exceeded that of original drugs

The share of generics in total pharmaceutical sales in the US, Germany, UK, France, Spain and Italy increased slightly in 2003, indicating that growth in generic sales exceeded that of original drugs in these countries. This development can be attributed in particular to growing political pressure to reduce health care costs. This is most evident in Germany and the UK. The figure here below reflects this development; the share of generics in total pharmaceutical sales has been highest in Germany and the UK for the past several years.

Share of generics in total pharmaceutical sales in various countries



Source: Datamonitor

Generics are generally lower-priced in the US than in other developed markets

It is definitely interesting to note that the share of generics in total pharmaceutical sales is considerably lower in the US than, for example, in Germany and the UK, especially in view of the fact that prescription drugs account for only around 50% of US sales according to official figures (EGA, GphA and BGMA) as compared to 50-55% in Germany and the UK. The reasons can be traced to different pricing of generics in different countries; generic prices are generally lower in the US than in the other two countries. *Datamonitor* attributes the price difference to increased competition in the US, in part due to the advent of companies from lands with low manufacturing costs, such as India and Eastern Europe.

Success Factors for the Generics Market

As the generics market matures and develops, it becomes steadily more important for generic producers to have a clearly defined future vision. The right decisions on portfolio management and a well-defined marketing and growth policy are among the key factors in succeeding in a market where competition is growing steadily.

Cost – Portfolio - Reliability

Actavis produces primarily "commodity generics", the category at the lowest level of the R&D chain

Actavis produces primarily "commodity generics", the category at the lowest level of the R&D chain Here the competition is stiffest and price lowest, while on the other hand the risk is also lowest. Commodity generics are the easiest to develop and market, and have generally served as the central focus of most generics producers through the years. *Datamonitor* lists three main factors of importance for generics producers like Actavis:

1. low production cost,
2. good portfolio,
3. reliability.

Low production cost is very important for companies which produce, in particular, commodity generics, since the downward price pressure is always increasing. Raw material production is an important factor in this connection, since it will become more and more difficult to acquire the active substances for new products due to actions by original drug producers. To be able to obtain these substances within the group is thus very important, both for cost reasons and because it means the company is not as dependent upon suppliers in the early stages of production. On the other hand, there are few companies which have in-house substances production. Indian generics producers have led the way here and it is precisely for this reason that they are regarded as a major threat to the generics market. Actavis has generally purchased raw materials from outside suppliers, but there has been some substance production for Fako's pharmaceuticals in Turkey. The objective, however, is to have raw material production in India and it was to this end that Actavis established Actavis Pharma there in 2004.

Actavis has situated its plants in regions generally considered suitable for production

Datamonitor also points out that the companies producing their pharmaceuticals in India, China and Eastern Europe are in a better position to meet price competition than are those manufacturing in western countries. Actavis's own pharmaceutical production is located in five countries, in Iceland, Bulgaria, Malta, Serbia and Turkey. With the exception of Iceland, these countries all have low production costs in an international comparison, especially Bulgaria, Turkey and Serbia. At the same time, Actavis has sought an Indian producer to work with, and company management has said it is examining further opportunities in India. Actavis has thus situated its plants in regions generally considered suitable for production. Economies of scale are also important in this connection, since as the companies grow larger, their production cost per unit decreases. This is one of the reasons Actavis is always on the alert for further acquisitions.

Good portfolio: Many generic producers consider it necessary to be able to offer a broad selection of pharmaceuticals so that pharmacy suppliers (the generic producers' customers) need not look to other manufacturers. This claim has, however, been questioned to some extent recently, as suppliers increasingly seek the best offers, regardless of producers' portfolios. This applies in particular to larger pharmacies and drug store chains. The smaller pharmacies continue to emphasise dealing with the same supplier if possible, since it can cause difficulties for their customers to continually have to adapt to new products and packages.

Reliability: Suppliers' automation is steadily increasing, as providing the right quantities of pharmaceuticals "just-in-time" grows steadily in importance. In some cases, changing manufacturers can cost these suppliers billions and as a result, the manufacturer's reliability is very important. They must deliver the volume ordered at the designated time. The record shows that manufacturers which fail to deliver on time end up losing the supplier in question or even additional customers. In some instances it is not even a question of price.

Despite steadily stiffening competition and dropping margins, producers will continue to emphasise commodity generics

Despite steadily stiffening competition and dropping margins, producers will continue to emphasise commodity generics The reason is the high number of patents which expire in coming years. Because competition is increasing and the number of low-cost producers growing, it is very important to be among the first to market when the patent for an original pharmaceutical expires. Doing so makes it possible to get a good price and profitability before other competitors enter the market. In the US there is a legal provision called "Paragraph IV challenges", which entitles the generic producer who is first with an ANDA filing and fulfils further regulations set by the FDA, to generic market exclusivity for 180 days. During this time the FDA may not approve other marketing authorisations for the same pharmaceutical.

This action is a move by the authorities to compensate the generic producer for the risk involved in being first to market. Those manufacturers who are first to market often have to fight long and costly legal battles with the original drug producer. Manufacturers who manage to acquire 180-day generic exclusivity need only offer a minor reduction from the price of the original drug to ensure themselves a good share of the market. This makes it highly sought after for a generic producer to be first to market.

Well-defined Growth Policy

By manufacturing the active substance within the group, Actavis intends to ensure itself a larger portion of the value chain, giving it the opportunity of increased profitability of each individual product

Different generic manufacturers have very varied visions and objectives for their future operations and growth. There has been extensive discussion of the advantages of vertical integration. Vertical integration means producing everything in-house, with production of active substances a key factor. Companies which have the capacity to manufacture active substances are generally considered to have better control of their production than those who have to depend upon outside suppliers. By manufacturing the active substance within the group, Actavis intends to ensure itself a larger portion of the value chain, giving it the opportunity of increased profitability of each individual product. The cost of manufacturing the pharmaceutical is also more predictable. For companies emphasising low manufacturing cost, vertical integration is a key premise for success. In our estimation this definition includes Actavis, which is aiming at expanding production of active substances within the group as previously mentioned. As far as we can determine, however, they have as yet made only limited progress in this direction. Those international companies which have emphasised vertical integration include, for instance, Ranbaxy, Dr. Reddy's, PLIVA and Gedeon Richter.

The most common growth policy within the sector is geographical expansion. US generic manufacturers are to some extent a special group here, since many of them have been reluctant to look to markets abroad. One of the reasons for this is that the US market is generally regarded as a highly profitable one, due to economies of scale. Unlike US producers, companies elsewhere have been diligently expanding their markets, not least due to the large number of small domestic markets. Companies such as Teva and Sandoz (a subsidiary of Novartis), which are the largest generic producers in the world, are examples of companies moving into various areas of the world, in particular through acquisitions. Actavis has made geographical expansion the core of its growth policy. Although the company has its head office in Iceland, it has establishments in close to 30 countries. Only 4% of the company's income originates in Iceland, although this does not give a complete picture of its operations, since Actavis has extensive development work in Iceland, as well as production for the Western European market.

According to views expressed by experts abroad, further mergers and acquisitions within the industry will only increase in the future

Mergers and acquisitions are becoming a growing aspect of generic pharmaceutical companies' operations. As mentioned earlier, company size is steadily growing in importance, with large producers minimising their cost through economies of scale. According to views expressed by experts abroad, further mergers and acquisitions within the industry will only increase in the future. Encouraging companies to head in this direction is the increased downward price pressure and the fact that it is often easier to enter new markets by acquiring companies which have already built up their operations in the country in question. Nor is it always generic producers who are acquiring other smaller generic companies, since original drug producers have to an increasing extent been eyeing progressive generic producers. The most recent example of this is Novartis's acquisition of the German generic producer Hexal and US Eon Labs.

Actavis has set itself the objective of 15-20% organic growth and 15-20% external growth annually. The management has said that it is continually on the lookout for companies which would fit in well with Actavis's core activities On the other hand, it cannot be precluded, judging by the general development on the global generic market, that a larger generic producer might set its sights on Actavis, regardless of whether the company is listed on ICEX or abroad.

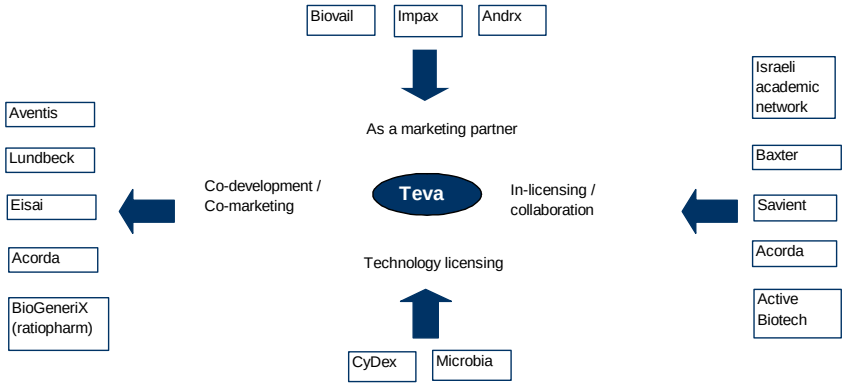
Partnerships between generic producers are nothing new on the market, as witnessed for example by the agreement concluded between Actavis and Indian manufacturer Emcure. Partnerships are generally concluded by generic producers with quite different emphases, e.g. a manufacturer with extensive experience of manufacturing active substances co-operates

with another manufacturer with good marketing expertise and a strong distribution system, etc. The number of Indian generic manufacturers is growing and such partnerships open the way for them into western markets.

Actavis has not sought partners for marketing but instead acquired smaller sales and marketing companies in regions where the company intends to sell its products

As generic producers move up the value chain, they place more emphasis on in-house sales and marketing. Manufacturers of "branded generics", "super generics" (improved generic pharmaceuticals), etc. need robust marketing, which is why smaller generic producers, manufacturing more highly developed products and lacking the capacity for the required marketing efforts, seek partnerships with larger producers. Actavis has not sought partners for marketing but instead acquired smaller sales and marketing companies in regions where the company intends to sell its products. In 2004, for instance, Actavis acquired two sales and marketing companies, PLIVA Nordic, which is to ensure Actavis's expansion in the Nordic countries, and Biovena, which is to open up the Polish market for the company. At the end of March, Actavis acquired the Czech company Pharma Avalanche, which has primarily marketed genetic pharmaceuticals in the Czech Republic and Slovakia.

Teva's network



Source: Datamonitor

Valuation Assumptions

Income growth

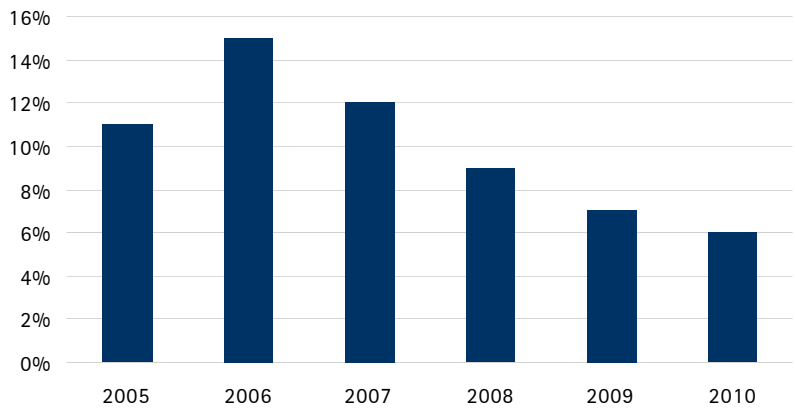
The valuation assumes organic growth of 11% in 2005 and 15% in 2006

Actavis's stated objective has been 15-20% organic growth and 15-20% external growth annually. This objective was set when Delta and Pharmaco merged in 2002, originally as a three-year plan, i.e. until 2005. Actavis's organic growth in 2004 amounted to 10.6%, while the company's total growth YoY was 43%, after the Turkish pharmaceutical producer Fako became part of the group. The valuation assumes organic growth of 11% in 2005 and 15% in 2006. Actavis intends to market 14 new pharmaceutical forms this year, but apart from this the year is still an unwritten page for the most part, since no information has been made available as to which pharmaceuticals will be market nor their anticipated sales volume. Nine new pharmaceutical forms were marketed in 2004 and we estimate that around 36 products were sold to third-parties that year. The average sale per product was EUR 4.5 m, while by comparison the average sales figure for the nine products marketed last year is estimated at around EUR 6-7 m. The higher average sales value per product can be attributed to Ramipril; sales of the three forms of this product amounted to around EUR 44 m last year.

In 2005, considerably lower average sales are expected for the 14 new pharmaceutical forms.

In 2005, considerably lower average sales are expected for the 14 new pharmaceutical forms. It will be interesting to follow Ramipril sales, since past experience indicates that sales of Actavis's highest-selling products tend to grow for up to three years after launching. This is one of the reasons for the forecast 15% organic growth of total income in 2006.

Expected income growth 2005-2010



The management expects 12% organic growth of own-brand sales in 2005.

Own-brand sales fell short of expectations in 2004, hurting the group's total sales performance substantially. Sales in Bulgaria, the greatest disappointment, are the result of delays in introducing a new-list of pharmaceuticals approved for state payment contributions. Company management considers this year's outlook to be favourable in the company's leading market regions and expect good YoY growth. The valuation assumes that Bulgarian sales will regain a normal level this year and that organic growth in this region will be around 12% as compared with zero growth in 2004. There has been a major turnaround in group operations in Turkey and operations there are expected to propel growth this year.

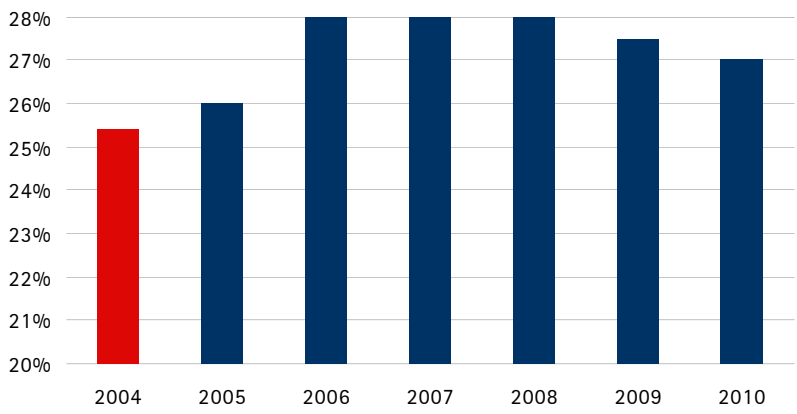
The group's total income is estimated to grow by 11.7% on average annually to 2008

The group's total income is estimated to grow by 11.7% annually on average until 2008. By comparison, *Datamonitor* forecasts 11.3% annual growth for the generics market for this same period.

Contribution margin

The company's stated objective has been to achieve an EBITDA margin of 30% until 2005. The acquisition of Zdravlje in Serbia and Fako in Turkey, however, have changed this picture as these companies had a considerably lower contribution margin than that of the group as a whole. Information on the current contribution margin is not available. For the past three years, Actavis's contribution margin has ranged from 21 to 26.6%. These figures include, however, extraordinary expenses. In 2004, for instance EUR 3 m were expensed due to the name change and another EUR 3 m expensed is the result of inventory clearance and discounts. In 2003 costs due to the departure of Sindri Sindrason were expensed. In the environment in which Actavis operations, disregarding such items is unavoidable.

Forecast EBITDA margin 2005-2010



In 2005, the company's contribution margin is expected to be 26% and 28% in 2006. The higher margin can be attributed to continuing restructuring in Serbia and Turkey and to an improved margin in Bulgaria from 2004 onward

In 2005, the company's contribution margin is expected to be 26% and 28% in 2006. The higher margin can be attributed to continuing restructuring in Serbia and Turkey and to an improved margin in Bulgaria from 2004 onward. The margin on third-party sales is not expected to be as high in 2005 as it probably was in 2004, due partly to the changes which have occurred in the German market previously discussed. The valuation assumes a margin of around or over 30% on third-party sales in Western Europe and somewhat less on the US market when it begins to provide income. The margin on third-party sales varies greatly between regions. The valuation assumes a margin of 25-26% once the restructuring measures in Central and Eastern Europe are fully implemented.

Investments

Investment will continue to be high in 2005. Last year total investment in fixed assets and capitalised development cost amounted to EUR 60.4 m

Investment will continue to be high in 2005. Last year total investment in fixed assets and capitalised development cost amounted to EUR 60.4 m. An estimated EUR 3-5 m is expected to be invested in a research lab for the Bulgarian plant and the outfitting of the development plant in Iceland is nearing completion. In addition, it should be mentioned that Actavis obliged itself to invest in Serbia for EUR 11 m over the next four years following its purchase of Zdravlje. The developmental plant in Iceland will be taken into service at year-end 2005, replacing the current developmental plant. Actavis concluded an loan agreement with the Nordic Investment Bank (NIB) for EUR 24 m for this project. The plant in Bulgaria, Tablet 3, is now ready and satisfies EU/GMP standards. The original plan was to use this plant to manufacture for the Western European market. Up until now, however, Actavis's production capacity in Malta and Iceland has been sufficient to supply this market.

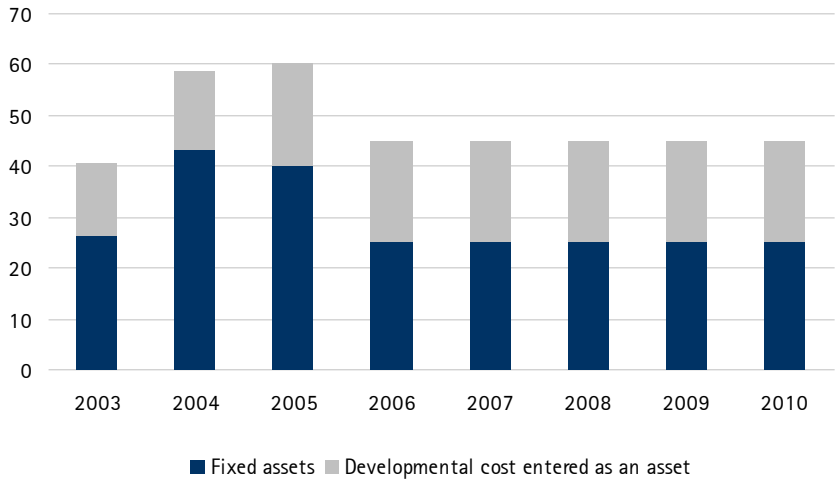
Rebuilding of another plant in Bulgaria (Tablet 2) is currently underway. Actavis has used the capacity of the Tablet 3 plant to meet demand in Eastern Europe

At the same time rebuilding of another plant in Bulgaria (Tablet 2) is underway. Actavis has used the capacity of the Tablet 3 plant to meet demand in Eastern Europe We expect that investment in fixed assets will therefore continue to be high in 2005, but it should begin to decrease in 2006. The valuation assumes that investment in fixed assets will be 8% of turnover in 2005 (9.6% in 2004) and around 4% annually after that. In the longer term, income is expected to be five times Actavis's fixed assets, which is normal for other similar generic drug producers. In addition to investment in fixed assets, Actavis has invested in the Indian research laboratory Lotus. The acquisition price was around EUR 20 m. To offset this, Actavis signed a Memorandum of Understanding for sale of one of its plants in Bulgaria, although the selling price has not been revealed.

Developmental cost entered as an asset has increased steadily in the past few years, indicating that Actavis is now developing more and/or more costly drugs than previously.

Developmental cost entered as an asset has increased steadily in the past few years, indicating that Actavis is now developing more and more costly drugs than previously. Developmental cost as a percentage of turnover has been around 7% for the last three years and developmental cost entered as an asset 3.5-4.5% of turnover. The valuation assumes developmental costs will be 7-10% in the next few years and 8.5% in the longer term. This is based on development cost trends of companies comparable to Actavis, where the cost averaged around 7%. The ratio varied greatly, however, from one company to the next.

Estimated investment in fixed assets and development cost, MEUR



Discount rate

In determining the discount rate, Landsbanki Research bases its calculations on the capital asset pricing method (CAPM), plus an additional two items, a company premium (FRT) and small cap premium (SC), as shown in the equation below:

$E(R) = Rf + ß * (E[Rm] - Rf) + FRT + SC$

Abbreviations used:

E(R) = Discount rate (expected return)

Rf – Risk-free interest

β = risk co-efficient intended to represent the deviation of the company's share price development from the average price development on the market in question

(E[Rm] - Rf): risk premium due to uncertainty on the equity market

E[Rm]: Expected equity market return

FRT: premium due to additional risk of the company in question as compared to the sector on average The premium is comprised of three factors: currency risk, special operating risk and political risk.

SC: Small cap premium

Risk-free interest rates (Rf) are based on yields on 10-year, non-indexed government bonds in the currencies which form the company's net cash flow. Using this methodology gives a risk-free rate of 4.1%, with the major weighting on interest in the Eurozone. European and US betas are used, weighted on the basis of the company's financial structure. giving a beta of 1.40.

The outcome is a required rate of return on equity of 13.30%.

The market premium E[Rm] is calculated based on the historical return of US shares in excess of government bond returns. Landsbanki Research revises the market premium regularly; it is currently 4.8%. The company premium (FRT) is comprised of currency risk, political risk and special operating risk. We have added a company premium of 2.0% to Actavis's required rate of return, comprised of currency risk, resulting from the difference between the currency composition of its income and costs, and the political risk faced by generic drug producers in general (patent legislation, conflicts of interest between generic and primary producers, etc.). A small cap premium (SC) of 0.5% is added, which is the smallest size premium we use. Both the company premium and small cap premium are unchanged from the last valuation of Actavis.

The outcome is a required rate of return on equity of 13.30%.

Conclusions of the Valuation

If we take into account the EUR exchange rate on 8 April (ISK 80), Actavis's value is ISK 90.4 bn, or the equivalent of a share price of 33.4

Based on the assumptions discussed above, the market value of Actavis is EUR 1.1 billion If we take into account the EUR exchange rate on 8 April (ISK 80), Actavis's value is ISK 90.4 bn, or the equivalent of a share price of 32.4 The outcome of the previous valuation, of 10 November 2004 was a share price of 37.1 and total market value of ISK 103.5 billion. Although all the main premises of the valuation have been reviewed since last time, there are two factors in particular which explain most of the value decrease. In the first place, the EUR has weakened significantly against the ISK, falling from 87.5 to 80, which accounts for 5% of the valuation decrease. A EUR exchange rate of 87.5 would have meant a valuation share price of 35.4. Income growth expectations have also been cut back slightly, for this year in particular. Average annual growth of around 10% is now anticipated until 2010 instead of the previous 12%.

The EUR depreciation explains about 5% of the valuation decrease. A EUR exchange rate of 87.5 would have meant a valuation share price of 35.4

Actavis's share price has remained practically unchanged in 2004, while the previous year the company's shares rose by 183%. Closing price for Actavis's shares on 11 April 2005 was 41.6. Assuming a 5% margin of uncertainty, sale of the shares is thus recommended.

Annex 1

In Scenario 1, estimated growth 2004-2010 is increased from an average of 10% annually, as assumed in the valuation, to 15%. This assumption gives a valuation share price of 39.3.

Scenario 1	2005	2006	2007	2008	2009	2010
Growth	11.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBITDA	26.0%	28.0%	27.7%	28.0%	27.5%	27.0%
Share pr.	39.3					

In Scenario 2, the estimated growth 2004-2010 is unchanged, averaging 10% annually. Here the EBITDA margin has been modified, and is assumed to be 26% in the long-term. This assumption gives a valuation share price of 31.2.

Scenario 2	2005	2006	2007	2008	2009	2010
Growth	11.0%	15.0%	12.0%	9.0%	7.0%	6.0%
EBITDA	26.0%	26.0%	26.0%	26.0%	26.0%	26.0%
Share pr.	31.2					

In Scenario 3, the estimated growth 2004-2010 is increased to an average of 15% annually. The EBITDA margin 2007-2014 is increased to 28%. This assumption gives a valuation share price of 42.2.

Scenario 3	2005	2006	2007	2008	2009	2010
Growth	11.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBITDA	26.0%	28.0%	28.0%	28.0%	28.0%	28.0%
Share pr.	42.2					

Future growth \ Discount rate	12.3%	12.8%	13.3%	13.8%	14.3%
3%	32.4	30.6	29.0	27.5	26.2
4%	34.4	32.4	30.5	28.9	27.4
5%	37.0	34.6	32.4	30.5	28.8
6%	40.4	37.4	34.8	32.5	30.5
7%	45.2	41.3	38.0	35.2	32.8

EUR \ Discount rate	12.3%	12.8%	13.3%	13.8%	14.3%
76	35.2	32.8	30.8	29.0	27.3
78	36.1	33.7	31.6	29.7	28.1
80	37.0	34.6	32.4	30.5	28.8
82	38.0	35.4	33.2	31.2	29.5
84	38.9	36.3	34.0	32.0	30.2

Annex 2

Generic companies		Market-	Enterpr.	Revenues		P/Sale ratio		Gross margin**		EBIT		Effective tax rate		Profit%	
All figures in USD mn		value	value	2004	2005 S*	2004	2005 S*	2004	2005 S*	2004	2005 S*	2004	2005 S*	2004	2005 S*
Alpharma	NYSE	581	1,180	1,340	-	0.4	-	-	-	-16.7%	-	-	-	-23.5%	-
Andrx	NasdaqNM	1,615	1,520	1,145	1,190	1.4	1.4	31.5%	27.4%	8.2%	8.1%	38.5%	38.0%	6.7%	5.3%
Barr	NYSE	5,080	4,640	1,105	1,108	4.6	4.6	62.4%	70.8%	33.0%	37.0%	35.9%	36.5%	21.4%	23.9%
Dr. Reddy´s	NYSE	1,330	1,220	444	-	3.0	-	-	-	0.6%	-	-	-	4.5%	-
Eon	NasdaqNM	2,680	2,480	432	504	6.2	5.3	57.0%	57.0%	40.3%	41.0%	38.3%	39.3%	25.1%	25.0%
Impax	NasdaqNM	1,110	1,130	113	-	9.9	-	-	-	1.8%	-	-	-	1.0%	-
Ivax	AMEX	5,070	5,810	1,837	1,997	2.8	2.5	46.4%	47.0%	13.7%	14.5%	10.7%	27.0%	10.9%	9.9%
Mylan	NYSE	4,700	3,880	1,270	1,210	3.7	3.9	51.1%	49.5%	25.3%	20.5%	35.5%	38.3%	16.8%	13.1%
Actavis	ICEX	1,894	2,036	349	387	3.2	2.9	52.5%	53.0%	19.7%	21.8%	15.0%	16.0%	13.8%	14.9%
Taro	NasdaqNM	868	1,040	284	-	3.1	-	-	-	-0.2%	-	-	-	3.8%	-
Teva	NasdaqNM	19,750	20,780	4,799	5,417	4.1	3.6	47.0%	47.3%	25.4%	27.0%	22.1%	24.0%	20.1%	20.8%
Watson	NYSE	3,490	3,400	1,641	1,675	2.1	2.1	50.0%	50.0%	20.1%	15.7%	35.2%	36.0%	12.9%	10.1%
Average		**4,014**	**4,093**	**1,230**	**1,686**	**3.7**	**3.3**	**49.7%**	**50.3%**	**14.3%**	**23.2%**	**28.9%**	**31.9%**	**9.5%**	**15.4%**

Generic companies	EPS		P/E ratio		2005			2004
All figures in USD mn	2004	2005 S*	2004	2005 S*	P/B	ROE	Current ratio	EV/EBITDA
Alpharma	-6.03	-	N/A	22.0	0.68	-	1.25	N/A
Andrx	1.05	0.86	20.9	25.5	2.33	9.6%	2.28	12.4
Barr	2.22	2.56	18.7	19.2	4.79	15.6%	3.91	15.9
Dr. Reddy´s	0.26	-	N/A	32.3	2.81	4.2%	2.695	N/A
Eon	1.20	1.30	20.8	21.3	6.06	30.9%	4.50	13.6
Impax	0.01	-	N/A	17.4	12.47	1.5%	4.44	N/A
Ivax	0.74	0.76	18.6	25.5	3.42	17.6%	2.63	21.2
Mylan	0.78	0.58	21.7	29.7	2.59	14.0%	8.49	9.7
Actavis	1.73	2.06	23.5	19.6	4.21	23.1%	1.16	13.8
Taro	0.37	-	N/A	13.8	2.38	3.1%	2.55	N/A
Teva	1.46	1.64	19.5	17.5	3.7	7.4%	1.91	36.0
Watson	1.70	1.40	16.5	20.6	1.54	7.1%	5.36	10.9
Average	**0.46**	**1.40**	**20.0**	**22.0**	**3.91**	**12.2%**	**3.43**	**16.7**

Historical data was obtained from yahoo.com

*Forecast by JP Morgan. Actavis, forecast Landsbanki Research

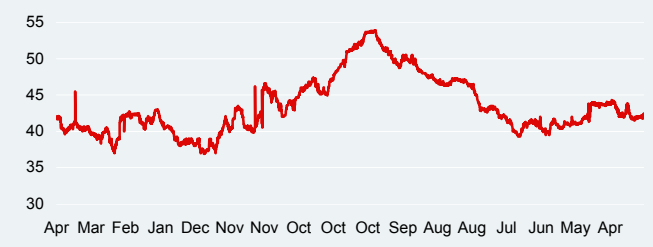
** Gross Margin = (Revenue - CGS)/Revenue

*** Market value of companie as of 8 April 2005

In making a comparison such as the one shown here, the nature of these companies, i.e. the R&D work they carry out, must be kept in mind. The companies range from generic producers who are purely copiers of drugs to those who have climbed higher up the value chain and may even have begun developing their own original drugs to some degree. Such a difference in the nature of their activities can distort a comparison of indicators, since higher share price levels?? are justified for companies farther up the value chain than for companies which are pure copiers. Actavis's pharmaceuticals are classified as commodity generics, the lowest step in the developmental chain. As producers make their way upward in this chain, R&D costs increase. For the more highly developed pharmaceuticals, however, less competition can be anticipated and thus higher profitability. The companies examined here are leading generics producers, mainly Western European or US companies. All of them develop commodity generics, but some have also been moving gradually upwards, either by increasing their R&D work, merging with or acquiring companies with strong R&D activities, and/or even by taking up co-operation with original drug manufacturers.

Annex - Data and indicators

Share price development on ICEX (April 04 - April 05)



Board of Directors

CEO
Róbert Wessman

Board of Directors
Björgólfur Thor Björgólfsson, Chairman

Andri Sveinsson	Sindri Sindrason
Magnús Þorsteinsson	Karl Wenersson

10 largest shareholders*

Amber International	32.93%
Landsbankinn Luxemberog S.A.	10.78%
Actavis Group	6.63%
Milestone Import Export	5.21%
Burðarás	3.39%
Landsbanki Íslands	2.19%
Ólöf Vigdís Baldvinsdóttir	2.13%
Arion safnreikningur	1.73%
Lífeyrissjóður verslunarmanna	1.49%
Jón Halldórsson	1.43%
* 07.04.2005	**68%**

Share turnover on ICEX

	Last 12 months
No. of trades	5,311
Turnover - nominal value	1,053 m.kr.
Turnover - market value	45,170 m.kr.
Turnover velocity (annual basis)*	0.38
*turnover nominal vlaue/share captial	
Average price	43.5
Highest price	53.9
Lowest price	36.9

Executive ownership in the Company

	Thous. shares
RóbertWessman	32,865
Bj. Thro Björg´lfsson	1,085,337
Karl Wenersson	225,378
Magnús Þorsteinsson	0
Sindri Sindrasvona	0
Sex framkvæmdarst. og aðstoðarforstj.	21,955
Fyrrverandi stjórnarmenn	99

Required rate of return

Risk-free interest (rf)	4.1%
Market premium (rm)	4.8%
Beta (β)	1.40
Company premium (FRT)	2.0%
Small cap (SC)	0.5%
Required rate of return	**13.3%**
Future growth	**5.0%**

Figures from annual statement

ISK mn	2002	2003	2004	4Q 2002	1Q 2003	2Q 2003	3Q 2003	4Q 2003	1Q 2004	2Q 2004	3Q 2004	4Q 2004
EUR 000s												
Profit and loss account												
Income from operations	216,043	316,151	451,697	201,523	84,676	76,405	76,795	78,275	125,850	108,793	105,138	111,916
Operating expenses	185,047	264,032	362,635	66,722	65,337	60,547	79,348	58,800	90,084	94,170	78,661	85,774
EBITDA	45,718	84,059	115,708	32,778	23,912	19,610	20,576	19,961	35,766	26,323	26,477	26,142
EBITDA%	21.2%	26.6%	25.6%	16.3%	28.2%	25.7%	26.8%	25.5%	28.4%	24.2%	25.2%	23.4%
EBIT	30,996	52,119	89,062	8,801	19,339	15,858	-2,553	19,475	30,824	20,473	21,829	15,936
EBIT%	14.3%	16.5%	19.7%	4.4%	22.8%	20.8%	-3.3%	24.9%	24.5%	18.8%	20.8%	14.2%
Profit	32,584	40,540	62,656	5,720	16,887	14,310	-7,868	13,676	20,169	13,906	14,022	14,559
Balance sheet												
Assets	458,605	597,527	678,494	-	488,800	481,300	493,800	597,500	641,258	639,585	668,095	678,494
Equity	234,928	220,475	277,380	-	252,500	251,100	241,190	220,475	241,737	253,722	266,044	277,380
Equity ratio	51.2%	36.9%	40.9%	52%	52%	52%	49%	37%	38%	40%	40%	41%
Key indicators												
Current ratio	1.0	1.1	1.2	1.0	2.7	2.5	2.5	1.1	1.2	1.2	1.1	1.2
Working capital from operations	41,444	71,002	83,168	-	20,923	15,700	17,437	16,910	30,067	18,452	19,931	14,718
Cash on hand from operations	46,180	43,783	36,320	-	18,379	5,617	14,140	5,647	7,209	12,509	-5,252	21,854

Own-brand sales, 2004

EUR mn	Sales	Sales %	% of total income	Best selling drugs	Income 2004	Therapeutic class
By region						
Turkey	82.4	34%	18%	BIOMENT	10.1	Antibiotics
Bulgaria	49.7	21%	11%	TROXEVASIN töflur	9.6	Cardiovascular
Russia	38.3	16%	8%	CRAVIT	9.3	Antibiotics
N- Europe	24.7	10%	5%	ALMAGEL	9.0	Gastro intestinal medication
Serbia	24.5	10%	5%	ORACEFTIN	8.9	Antibiotics
Total own-brand sales	240.2	100%	53%			

Thrid party sales, 2004

EUR mn	Sales	Sales %	% of total income	Best selling drugs	Income 2004	Therapeutic class
By region						
Germany	79.2	48%	18%	CITALOPRAM	30.6	Antidepressants
England	20.5	15%	5%	RAMIPRIL hylki	16.1	Cardiovascular
Austria	12.3	9%	3%	RAMIPRIL töflur	15.1	Cardiovascular
Netherlands	7.4	6%	2%	RAMIPRIL HCT	12.7	Cardiovascular
Other countries	32.2	22%	7%	PAROXETINE	12.7	Antidepressants
Total third-party sales	151.6	100%	34%			

Assumptions

EUR mn	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Turnover	316	451	500	575	644	702	751	796	836	878	922	968
YOY change	46.4%	42.5%	11.0%	15.0%	12.0%	9.0%	7.0%	6.0%	5.0%	5.0%	5.0%	5.0%
As % of turnover												
Cost of good sold	54.8%	47.5%	47.0%	46.0%	46.0%	46.0%	46.0%	46.0%	46.0%	47.5%	47.5%	47.5%
Sales and marketing cost	6.7%	13.6%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	14.0%	13.0%	13.0%	13.0%
Overhead	7.4%	8.2%	8.0%	7.5%	7.5%	7.5%	8.0%	8.0%	8.0%	8.5%	8.5%	8.5%
Other operating expenses	4.6%	5.3%	5.0%	4.5%	4.5%	4.5%	4.5%	5.0%	5.0%	5.0%	5.0%	5.0%
EBITDA	84	114	130	161	180	197	207	215	226	228	240	252
EBITDA%	26.6%	25.4%	26.0%	28.0%	28.0%	28.0%	27.5%	27.0%	27.0%	26.0%	26.0%	26.0%
Depriciation on current assets	32	26	21	24	27	30	32	34	35	37	37	37
of which, development cost	5.3	7.8	6.6	9.3	11.4	13.1	14.5	15.6	16.5	17.0	17.2	17.2
of which, current assets	8.3	13.4	14.2	14.8	15.8	16.7	17.6	18.3	19.0	19.6	19.6	19.4
EBIT%	16.5%	19.7%	21.8%	23.8%	23.8%	23.7%	23.2%	22.7%	22.8%	21.8%	22.0%	22.2%
Effective tax rate	9.5%	15%	16%	19%	19%	19%	19%	19%	19%	19%	19%	19%
Net profit	41	62	75	92	101	110	114	118	123	123	130	137
Investment in current assets as % of turnover	8.3%	9.6%	8.0%	4.3%	3.9%	3.6%	3.3%	3.1%	3.0%	2.3%	1.8%	1.7%
Investment in development cost as % of turnover	4.54%	3.4%	4.0%	3.5%	3.1%	2.8%	2.7%	2.5%	2.3%	2.1%	1.8%	1.7%
Development cost as % of turnover	7.54%	7.30%	9.26%	9.92%	10.19%	10.33%	10.39%	10.35%	10.16%	9.79%	9.30%	8.74%

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