TEVA PHARMACEUTICAL INDUSTRIES LTD
Form 20-F
March 15, 2004
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

Or

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2003

Or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File number: 0-16174

TEVA PHARMACEUTICAL INDUSTRIES LIMITED

(Exact name of Registrant as specified in its charter)

N/A **(Translation of Registrant s name into English)**	**ISRAEL** **(Jurisdiction of incorporation or organization)**

5 Basel Street

P.O. Box 3190

Petach Tikva 49131, Israel

(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
None	**None**

Securities registered or to be registered pursuant to Section 12(g) of the Act:

American Depositary Shares (as evidenced by American Depositary Receipts),

each representing one Ordinary Share

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer s classes of capital or common stock as of the close of the period covered by the annual report.

277,668,835 Ordinary Shares 198,371,227 American Depositary Shares

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark which financial statement item the registrant has elected to follow. Item 17 ¨ Item 18 x

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INTRODUCTION AND USE OF CERTAIN TERMS

Unless otherwise indicated, all references to the Company, we, our and Teva refer to Teva Pharmaceutical Industries Limited and its subsidiaries. References to US dollars, US$ and $ are to the lawful currency of the United States of America, and references to NIS are to New Israeli Shekels.

This Form 20-F does not discuss the results, and generally does not discuss the operations, of Sicor Inc., which we acquired on January 22, 2004. We expect to file audited consolidated financial statements for Sicor for the year ended December 31, 2003, and unaudited condensed pro forma financial statements for the year ended December 31, 2003 giving effect to Teva s acquisition of Sicor, on a Form 6-K on or about March 15, 2004.

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FORWARD-LOOKING STATEMENTS

Our disclosure and analysis in this report contain some forward-looking statements. Forward-looking statements give our current expectations or forecasts of future events. You can identify these statements by the fact that they do not relate strictly to historical or current facts. Such statements may include words such as anticipate, estimate, expect, project, intend, plan, believe and other words and terms of similar m connection with any discussion of future operating or financial performance. In particular, these statements include, among other things, statements relating to:

- our business strategy;
- the development of our products;
- our projected capital expenditures; and
- our liquidity.

This report contains forward-looking statements which express the beliefs and expectations of management. Such statements are based on current expectations and involve a number of known and unknown risks and uncertainties that could cause our future results, performance or achievements to differ significantly from the results, performance or achievements expressed or implied by such forward-looking statements. Important factors that could cause or contribute to such differences include the impact of pharmaceutical industry regulation, the difficulty of predicting U.S. Food and Drug Administration (FDA) and other regulatory authority approvals, the regulatory environment and changes in the health policies and structures of various countries, acceptance and demand for new pharmaceutical products and new therapies, the impact of competitive products and pricing, uncertainties regarding market acceptance of innovative products newly launched, currently being sold or in development, the impact of restructuring of clients, reliance on strategic alliances, reliance on a strategy of acquiring companies, including risks relating to our acquisition of Sicor, exposure to product liability claims, dependence on patent and other protections for our innovative products, exposure to potential patent liability damages for products sold at risk , i.e., prior to the final adjudication of patent issues, fluctuations in currency, exchange and interest rates, operating results and other factors that are discussed in this report and in our other filings made with the US Securities and Exchange Commission (SEC).

We undertake no obligation to publicly update any forward-looking statements or other information contained in this report, whether as a result of new information, future events or otherwise. You are advised, however, to consult any additional disclosures we make in our 6-K reports to the SEC. Also note that we provide a cautionary discussion of risks and uncertainties under Risk Factors on page 9 of this report. These are factors that we think could cause our actual results to differ materially from expected results. Other factors besides those listed here could also adversely affect us. This discussion is provided as permitted by the Private Securities Litigation Reform Act of 1995.

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PART I

ITEM 3: KEY INFORMATION

SELECTED FINANCIAL DATA

During 2000, the Israeli Securities Law was amended to allow Israeli companies, such as Teva, whose securities are listed both on the Tel Aviv Stock Exchange and on certain stock exchanges in the United States (including NASDAQ), to report exclusively under SEC rules and accounting principles generally accepted in the United States (US GAAP). Accordingly, on December 18, 2000, Teva s shareholders approved a resolution under which Teva s financial statements would be prepared under SEC rules and US GAAP, rather than under Israeli Securities Regulations and accounting principles generally accepted in Israel. All financial statements included in this report and all financial information released in Israel are now presented solely under US GAAP.

The following selected financial data for each of the years in the three-year period ended December 31, 2003 and at December 31, 2003 and 2002 are derived from Teva s audited consolidated financial statements set forth elsewhere in this report, which have been prepared in accordance with US GAAP.

The selected financial data for each of the years in the two-year period ended December 31, 2000 and at December 31, 2001, 2000 and 1999 are derived from other audited financial statements not appearing in this report, which have been prepared in accordance with US GAAP.

The selected financial data should be read in conjunction with the other financial statements, related notes and other financial information included in this report.

The currency of the primary economic environment in which the operations of Teva and its subsidiaries in Israel and in the United States are conducted is the U.S. dollar. The functional currency of Teva s other subsidiaries (principally operating in Europe and Canada) is their respective local currency.

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Operating Data

	For the year ended December 31				
	2003	2002	2001	2000	1999
	U.S. dollars in millions (except per ADR amounts)				
Net sales	3,276.4	2,518.6	2,077.4	1,749.9	1,282.4
Cost of sales	1,757.5	1,423.2	1,230.1	1,058.0	767.6
Gross profit	1,518.9	1,095.4	847.3	691.9	514.8
Research and development expenses:					
Total expenses	243.4	192.6	168.6	132.3	91.6
Less participations and grants	29.9	27.6	61.4	27.7	9.8
Research and development - net	213.5	165.0	107.2	104.6	81.8
Selling, general and administrative expenses	520.6	406.4	358.1	301.0	223.2
Acquisition of research and development in process				35.7	17.7
Income from GSK litigation settlement	100.0				
Restructuring expenses	7.4		15.7		
Operating income	877.4	524.0	366.3	250.6	192.1
Financial expenses - net	5.0	24.6	26.0	42.2	30.1
Income before income taxes	872.4	499.4	340.3	208.4	162.0
Income taxes	181.5	84.8	63.6	59.6	45.4
	690.9	414.6	276.7	148.8	116.6
Share in profits (losses) of associated companies - net	1.5	(2.7)	0.8	0.4	(0.6)
Minority interests in (profits) losses of subsidiaries - net	(1.4)	(1.6)	0.7	(0.8)	0.8
Net income	691.0	410.3	278.2	148.4	116.8
Earnings per ADR[(1)] - Basic ($)	2.57	1.55	1.05	0.58	0.48
Earnings per ADR[(1)] - Diluted ($)	2.39	1.52	1.02	0.57	0.48
Weighted average number of ADRs (in millions):					
Basic	268.4	264.5	264.5	257.9	245.2
Diluted	295.0	280.8	280.9	263.7	246.6
Before one-time items[(2)]					
Operating income	784.8	524.0	382.0	286.3	209.8
Net income	617.8	410.3	287.9	184.1	134.5
Earnings per ADR[(1)] - Basic ($)	2.30	1.55	1.09	0.71	0.55
Earnings per ADR[(1)] - Diluted ($)	2.14	1.52	1.06	0.71	0.55

(1) Historical figures have been adjusted to reflect the two for one stock splits effected in both December 2002 and February 2000. Each ADR represents one ordinary share.

(2) See the reconciliation on the following page.

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Teva believes that excluding the following one-time items from its results represents a better indicator of the underlying trends in its business. The following table provides a reconciliation of operating income, net income and earnings per ADR before one-time items, a non-GAAP financial measure:

	2003	2002	2001	2000	1999
Total income before taxes as reported *	872.5	495.1	341.8	208.0	162.2
Deduct one time gain:					
Income from GSK litigation settlement	100.0				
Add back one time charges:					
Acquisition of in process R&D				35.7	17.7
Restructuring expenses	7.4		15.7		
Total normalized income before taxes	779.9	495.1	357.5	243.7	179.9
Taxes on normalized income	162.1	84.8	69.6	59.6	45.4
Net normalized income	617.8	410.3	287.9	184.1	134.5
Net income as reported	691.0	410.3	278.2	148.4	116.8

* Includes share of profits (losses) of associated companies-net and minority interest in losses (profits) of subsidiaries-net

Balance Sheet Data

	As at December 31				
	2003	2002	2001	2000	1999
	U.S. dollars in millions				
Working capital	2,021.5	1,377.2	1,439.8	825.1	373.5
Total assets	5,915.9	4,626.8	3,460.2	2,855.6	1,755.3
Short-term credit, including current maturities:					
Convertible senior debentures (short-term)	352.5	562.4			
Other	291.7	176.1	206.5	341.5	276.3
Total short-term debt	644.2	738.5	206.5	341.5	276.3
Long-term debt, net of current maturities:					
Convertible senior debentures	449.9	810.0	912.0	550.0	
Other	365.5	351.4	334.9	263.9	391.4
Total long-term debt	815.4	1,161.4	1,246.9	813.9	391.4
Minority interests	6.7	4.9	2.2	1.6	
Shareholders equity	3,289.4	1,829.4	1,380.7	1,151.3	747.2

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Dividends

For over 30 years Teva has paid dividends, with dividends paid on a regular quarterly basis since 1987. Future dividend policy will be reviewed by the Board of Directors based upon conditions then existing, including Teva s earnings, financial condition, capital requirements and other factors. Dividends are declared and paid in New Israeli Shekels. Dividends are converted into dollars and paid by the depositary of the ADRs for the benefit of owners of ADRs.

Dividends paid by an Israeli company to shareholders residing outside Israel are currently subject to withholding of Israeli income tax at a rate of up to 25%. In Teva s case, the applicable withholding tax rate will depend on the particular Israeli production facilities that have generated the earnings that are the source of the dividend and, accordingly, the applicable rate will change from time to time. The rate of tax withheld on the dividend declared for the fourth quarter of 2003 was 21%.

The following table sets forth the amounts of the dividends paid in respect of each period indicated prior to deductions for applicable Israeli withholding taxes (in cents per ADR). All the figures have been adjusted to reflect the 2:1 stock splits effected in December 2002 and February 2000. Actual dividends paid in US Dollars are subject to some deviation reflecting exchange rate fluctuations between the NIS (the currency in which dividends are declared) and the US Dollar between the declaration date and the date of actual payment.

	2003	2002	2001	2000	1999
1st interim	7.4	4.4	3.3	2.7	1.9
2nd interim	7.4	4.5	3.2	2.8	1.8
3rd interim	7.4	4.5	3.2	2.8	1.8
4th interim	10.0	6.9	4.7	3.3	2.8

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RISK FACTORS

Our business faces significant risks. You should carefully consider all of the information set forth in this Form 20-F and in our other filings with the SEC, including the following risk factors which we face and which are faced by our industry. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. This Form 20-F also contains forward-looking statements that involve risks and uncertainties. Our results could materially differ from those anticipated in these forward-looking statements as a result of certain factors, including the risks we face as described below and elsewhere. See Forward-Looking Statements on page 4.

Our success depends on our ability to successfully develop and commercialize additional pharmaceutical products.

Our future results of operations depend, to a significant degree, upon our ability to successfully commercialize additional generic and/or innovative branded pharmaceutical products. We must develop, test and manufacture generic products as well as prove that our generic products are the bio-equivalent of their branded counterparts. All of our products must meet regulatory standards and receive regulatory approvals. The development and commercialization process, particularly with respect to innovative products, is both time consuming and costly and involves a high degree of business risk. Our products currently under development, if and when fully developed and tested, may not perform as we expect, necessary regulatory approvals may not be obtained in a timely manner, if at all, and we may not be able to successfully and profitably produce and market such products. Delays in any part of the process or our inability to obtain regulatory approval of our products (including the products filed by Andrx Corporation, IMPAX Laboratories Inc. and Biovail Corporation, for which we have exclusive marketing rights) could adversely affect our operating results by restricting or delaying our introduction of new products. The continuous introduction of new generic products is critical to our business.

Our revenues and profits from any particular generic pharmaceutical products decline as our competitors introduce their own generic equivalents.

Selling prices of generic drugs typically decline, sometimes dramatically, as additional companies receive approvals for a given product and competition intensifies. To the extent that we succeed in being the first to market a generic version of a significant product, our sales, profit and profitability can be substantially increased in the period following the introduction of such product and prior to a competitor s introduction of the equivalent product. Our ability to sustain our sales and profitability on any product over time is dependent on both the number of new competitors for such product and the timing of their approvals. Our overall profitability depends, among other things, on our ability to continuously and timely introduce new products.

Our generic pharmaceutical products face intense competition from brand-name companies that sell or license their own generic products or successfully extend their market exclusivity period.

Competition in the U.S. generic pharmaceutical market continues to intensify as the pharmaceutical industry adjusts to increased pressures to contain health care costs. Brand-name companies continue to sell their products to the generic market directly by acquiring or forming strategic alliances with generic pharmaceutical companies. No significant regulatory approvals are required for a brand-name manufacturer to sell directly or through a third party to the generic market. Brand-name manufacturers do not face any other significant barriers to entry into such market. In addition, such companies continually seek new ways to delay generic introduction and decrease the impact of generic competition, such as filing new patents on drugs whose original patent protection is about to expire,

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developing patented controlled-release products, changing product claims and product labeling, granting third parties the rights to sell authorized generics, or developing and marketing as over-the-counter products those branded products which are about to face generic competition.

Recent changes in the regulatory environment may prevent us from utilizing the exclusivity periods that are important to the success of our generic products.

The FDA s policy regarding the award of 180-days market exclusivity to generic manufacturers who challenge patents relating to specific products continues to be the subject of extensive litigation in the United States. The FDA s current interpretation of the Hatch-Waxman Act is to award 180 days of exclusivity to the first generic manufacturer who files a Paragraph IV certification under the Act challenging the patent of the branded product, regardless of whether the manufacturer was sued for patent infringement. Although the FDA s interpretation may benefit some of the products in our pipeline, it may adversely affect others.

The Medicare Prescription Drug Act provides that the 180-day market exclusivity period provided under the Hatch-Waxman Act is triggered by the commercial marketing of the product. However, the Medicare Act also contains forfeiture provisions which, if met, will deprive the first Paragraph IV filer of exclusivity. As a result, under certain circumstances, we may not be able to exploit our 180-day exclusivity period since it may be forfeited prior to our being able to market the product.

If we elect to sell a generic product prior to any court decision or prior to the completion of all appellate level patent litigation, we could be subject to liabilities for damages if a lower court judgment upon which we are relying is reversed.

At times we seek approval to market generic products before the expiration of patents for those products, based upon our belief that such patents are invalid, unenforceable, or would not be infringed by our products. As a result, we often face significant patent litigation. Depending upon a complex analysis of a variety of legal and commercial factors, we may, in certain circumstances, elect to market a generic product even though litigation is still pending. This could be before any court decision or while an appeal of a lower court decision is pending. Should we elect to proceed in this manner, we could face substantial patent liability damages if the final court decision is adverse to us. For example, we continue to market Moexipril HCl tablets (which we began shipping in May 2003) despite the fact that an appellate court has returned to the lower court for further proceedings a decision of non-infringement that had been in our favor.

Our sales of Copaxone® could be adversely affected by competition.

Copaxone®, is our leading innovative product, from which we derive substantial revenues and profits. To date, we and our marketing partners have been successful in our efforts to establish Copaxone® as a leading therapy for multiple sclerosis and have increased our global market share among the four currently available major therapies for multiple sclerosis. However, Copaxone® faces intense competition, including from currently marketed interferon-based products such as Betaseron®, Avonex®, and Rebif®, as well as potential competition from products in development, such as Antegren®. In addition, the exclusivity protections afforded us in the United States through orphan drug status for Copaxone® expired on December 20, 2003. To the extent that our patents on Copaxone® are challenged and if any such challenges are successful, we may face generic competition for this product.

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We are subject to government regulation that increases our costs and could prevent us from marketing or selling our products.

We are subject to extensive pharmaceutical industry regulations in the United States, England, Hungary, The Netherlands, Canada, France, Italy, Israel and other jurisdictions. We cannot predict the extent to which we may be affected by legislative and other regulatory developments concerning our products. We are also subject to various environmental laws and regulations in the jurisdictions where we have operations.

We are dependent on obtaining timely approvals before marketing most of our products. In the United States, any manufacturer failing to comply with FDA or other applicable regulatory agency requirements may be unable to obtain approvals for the introduction of new products and, even after approval, initial product shipments may be delayed. The FDA also has the authority to revoke drug approvals previously granted and remove from the market previously approved drug products containing ingredients no longer approved by the FDA. Our major facilities, both in the United States and outside the United States, and our products are periodically inspected by the FDA, which has extensive enforcement powers over the activities of pharmaceutical manufacturers, including the power to seize, force to recall and prohibit the sale or import of non-complying products, and halt operations of and criminally prosecute non-complying manufacturers.

In Europe and Israel, the manufacture and sale of pharmaceutical products is regulated in a manner similar in many respects to that in the United States. Legal requirements generally prohibit the handling, manufacture, marketing and importation of any pharmaceutical product unless it is properly registered in accordance with applicable law. The registration file relating to any particular product must contain medical data related to product efficacy and safety, including results of clinical testing and references to medical publications, as well as detailed information regarding production methods and quality control. Health ministries are authorized to cancel the registration of a product if it is found to be harmful or ineffective or manufactured and marketed other than in accordance with registration conditions.

We may experience difficulties in integrating and operating Sicor s business with the existing Teva businesses.

Our recent acquisition of Sicor involves the integration of a company that has previously operated independently and constitutes the largest acquisition we have ever undertaken. The difficulties of combining Sicor s operations with ours include:

- the necessity of coordinating and consolidating geographically separated organizations, systems and facilities; and
- integrating the management and personnel of Sicor and Teva, maintaining employee morale and retaining key employees.

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of our businesses and the loss of key personnel. The diversion of management s attention and any delays or difficulties encountered in connection with the acquisition and the integration of Sicor s operations could have an adverse effect on our business, results of operations, financial conditions or prospects.

Achieving the anticipated benefits of the acquisition will depend in part upon whether we can integrate and operate the Sicor business in an efficient and effective manner. For example, prior to the

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acquisition, we did not have significant relationships with U.S. hospitals, which are the principal customer base of Sicor, and we did not have biogenerics activities. We may not accomplish this integration process smoothly or successfully. If management is unable to successfully integrate Sicor s operations, the anticipated benefits of the acquisition may not be realized.

We may not achieve the revenue and cost synergies we expect for the combined Teva-Sicor company.

Our rationale for the acquisition was, in part, predicated on the projected ability of the combined company to realize certain revenue and cost synergies. Achieving these synergies is dependent upon a number of factors, some of which are beyond our control. These synergies may not be realized to the extent or within the time frame that we anticipate.

Sicor derives a large percentage of its sales from one product, propofol. If sales of propofol decrease below our expectations, we may not achieve the expected benefits from the acquisition.

Sicor markets the first generic formulation of propofol in the United States, which is currently the only generic propofol on the U.S. market. Accordingly, any factor adversely affecting sales of propofol, such as the introduction by other companies of additional generic equivalents of propofol or non-propofol injectable general anesthetics, may have a material adverse effect on us. In addition, the total market for propofol in the United States has fluctuated in recent years, and there can be no assurance that this market will not decline in the future.

We may not be able to successfully identify, consummate and integrate future acquisitions.

In the past, we have grown, in part, through a number of significant acquisitions. We plan to remain frequently engaged in various stages of evaluating or pursuing potential acquisitions and may in the future acquire other pharmaceutical and active pharmaceutical ingredients businesses and seek to integrate them into our own operations. Future acquisitions involve known and unknown risks that could adversely affect our future revenues and operating results. For example:

- We compete with others to acquire companies. We believe that this competition will intensify and may result in decreased availability or increased prices for suitable acquisition candidates.
- We may not be able to obtain the necessary regulatory approvals, including the approval of anti-competition regulatory bodies, in any countries in which we may seek to consummate potential acquisitions.
- We may ultimately fail to close an acquisition even if we announce that we plan to acquire a company.
- We may fail to integrate successfully our acquisitions in accordance with our business strategy.
- Potential acquisitions may divert management s attention away from our primary product offerings, result in the loss of key customers and/or personnel and expose us to unanticipated liabilities.

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We may not be able to retain the skilled employees and experienced management that may be necessary to operate the businesses we may acquire and, if we cannot retain such personnel, we may not be able to locate or hire new skilled employees and experienced management to replace them.

We may purchase a company that has contingent liabilities that include, among others, known or unknown patent or product liability claims.

As a pharmaceutical company, we are susceptible to product liability claims that may not be covered by insurance, including potential claims relating to products that we currently sell and that are not covered by insurance.

Our business inherently exposes us to potential product liability claims. From time to time, and particularly following changes in the insurance industry following the September 11, 2001 terrorist attacks, the pharmaceutical industry has experienced difficulty in obtaining product liability insurance coverage for certain products or coverage in the desired types and amounts or with the desired deductibles. As a result, we sell, and may continue to sell, generic products that are not covered by insurance and may also be subject to product liability claims that are not covered by insurance or that exceed our policy limits. Additional products for which we currently have coverage may be excluded in the future. In addition, because of the nature of these claims, we are generally not permitted to establish reserves in our accounts for such contingencies.

Reforms in the health care industry and the uncertainty associated with pharmaceutical pricing, reimbursement and related matters could adversely affect the marketing, pricing and demand for our products.

Increasing expenditures for health care have been the subject of considerable public attention in Israel, North America and many European countries. Both private and governmental entities are seeking ways to reduce or contain health care costs. In many countries in which we currently operate, including Israel, pharmaceutical prices are subject to regulation. In the United States, numerous proposals that would effect changes in the United States health care system have been introduced or proposed in Congress and in some state legislatures. Similar activities are taking place throughout Europe. We cannot predict the nature of the measures that may be adopted or their impact on the marketing, pricing and demand for our products.

As a result of governmental budgetary constraints, the Israel Ministry of Health and the major Israeli health funds have sought to further reduce health care costs by, among other things, applying continuous pressure to reduce pharmaceutical prices and reducing inventory levels.

The success of our innovative products depends on the effectiveness of our patents and other measures we take to protect our intellectual property rights.

Our success with our innovative products depends, in part, on our ability to protect our current and future innovative products and to defend our intellectual property rights. If we fail to adequately protect our intellectual property, competitors may manufacture and market products similar to ours. We have been issued numerous patents covering our innovative products, and have filed, and expect to continue to file, patent applications seeking to protect newly developed technologies and products in various countries, including the United States. Any existing or future patents issued to or licensed by us may not provide us with any competitive advantages for our products or may even be challenged, invalidated or circumvented by competitors. In addition, such patent rights may not prevent our competitors from developing, using or commercializing products that are similar or functionally equivalent to our products.

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We also rely on trade secrets, unpatented proprietary know-how and continuing technological innovation that we seek to protect, in part by confidentiality agreements with licensees, suppliers, employees and consultants. It is possible that these agreements will be breached and we will not have adequate remedies for any such breach. Disputes may arise concerning the ownership of intellectual property or the applicability of confidentiality agreements. Furthermore, our trade secrets and proprietary technology may otherwise become known or be independently developed by our competitors or, if patents are not issued with respect to products arising from research, we may not be able to maintain the confidentiality of information relating to such products.

We have significant operations, including in Israel, that may be adversely affected by acts of terrorism or major hostilities.

Significant portions of our operations are conducted outside of the United States, and we import a substantial number of products into the United States. We may, therefore, be directly affected and denied access to our customers by a closure of the borders of the United States for any reason or other economic, political and military conditions in the countries in which our businesses are located. We may also be affected by currency exchange rate fluctuations and the exchange control regulations of such countries or other political crisis or disturbances, which impede access to our suppliers.

Our executive offices and a substantial number of our manufacturing facilities are located in Israel. Teva s Israeli operations are dependent upon materials imported from outside of Israel. We also export significant amounts of products from Israel. Accordingly, our operations could be materially and adversely affected by acts of terrorism or if major hostilities should occur in the Middle East or trade between Israel and its present trading partners should be curtailed, including as a result of acts of terrorism in the United States. Any such effects may not be covered by insurance.

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ITEM 4: INFORMATION ON THE COMPANY

Teva Pharmaceutical Industries Limited is a global pharmaceutical company producing drugs in all major treatment categories. Teva is one of the world s largest generic drug companies and has a leading position in the U.S. generic market. Teva has successfully utilized its production and research capabilities to establish a global pharmaceutical operation focused on supplying the growing demand for generic drugs and on the opportunities for proprietary branded products for specific niche categories, with its leading branded drug being Copaxone® for multiple sclerosis. Teva s active pharmaceutical ingredients (API) business provides both significant revenues and profits from sales to third party manufacturers and strategic benefits to Teva s own pharmaceutical production through its timely delivery of significant raw materials.

Teva s operations are conducted directly and through subsidiaries in Israel, Europe, North America and several other jurisdictions. During 2003, Teva generated approximately 63% of its revenue in North America, 26% in Europe and 11% in the rest of the world, predominantly in Israel. For a breakdown of Teva s sales by business segment and by geographic market for the past three years, see Item 5: Operating and Financial Review and Prospects Results of Operations Sales General.

Teva was incorporated in Israel on February 13, 1944 and is the successor to a number of Israeli corporations, the oldest of which was established in 1901. Its executive offices are located at 5 Basel Street, P.O. Box 3190, Petach Tikva 49131 Israel, telephone number 972-3-926-7267.

Recent Sicor Acquisition

In October 2003, Teva entered into an agreement to purchase Sicor Inc., a generic pharmaceutical company based in California, with facilities in Mexico, Italy and Lithuania. The transaction closed on January 22, 2004. The purchase price paid by Teva for Sicor amounted to approximately $3.46 billion in a combination of cash and Teva shares. The transaction was accounted for as a purchase and will begin to impact Teva s results commencing in the first quarter of 2004.

This acquisition combines Teva s oral dose generic drugs franchise with Sicor s generic injectables business. In addition, Sicor s API business should complement Teva s API offerings. The Sicor acquisition further provides Teva with new capabilities for the development and production of biological products.

We have provided additional details regarding Sicor in various sections throughout this report.

Pharmaceutical Products

Generic Products

Teva is one of the largest generic drug companies in the world. Generic drugs are the chemical and therapeutic equivalents of brand-name drugs, typically sold under their generic chemical names at prices below those of their brand-name equivalents. These drugs are required to meet similar governmental regulations as their brand-name equivalents and must receive regulatory approval prior to their sale in any given country. Generic drugs may be manufactured and marketed only if relevant patents on their brand-name equivalents (and any additional government-mandated market exclusivity periods) have expired, been challenged and invalidated, or otherwise validly circumvented.

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Global generic pharmaceutical sales have been positively impacted in recent years by the increased awareness and acceptance among consumers, physicians and pharmacists that generic drugs are the equivalents of brand-name drugs. Among the factors contributing to this increased awareness are the passage of legislation permitting or encouraging substitution and the publication by regulatory authorities of lists of equivalent drugs, which provide physicians and pharmacists with generic drug alternatives. In addition, various government agencies and many private managed care or insurance programs encourage the substitution of generic drugs for brand-name pharmaceuticals as a cost-savings measure in the purchase of, or reimbursement for, prescription drugs. Teva believes that these factors, together with the large volume of branded products losing patent protection over the coming years, should lead to continued expansion of the generic pharmaceuticals market.

Through the coordinated efforts of research and development staff in Israel, Europe and North America, Teva seeks to constantly expand its range of generic products. Teva s product development strategy emphasizes not only introducing its generic products upon the patent expiration date of the equivalent brand-name pharmaceutical but also the goal of market introduction at the earliest possible date, which may involve attempting to invalidate or otherwise validly circumvent such patents.

Teva is able to differentiate itself from its competitors in its major markets by offering a range of capabilities that it believes ultimately adds value for its customers and enhances Teva s business:

- global research and development facilities that have provided Teva with both the broadest product line and the deepest generic pipeline in the U.S. and a leading generic pipeline globally;
- manufacturing facilities inspected by the FDA and other regulatory authorities and located in a variety of countries around the world, which provide Teva with a broad array of production technologies and with the ability to concentrate production to achieve economies of scale; and
- its own active pharmaceutical ingredient business that offers stability of supply as well as vertical integration efficiencies.

North America

Teva Pharmaceuticals USA, Inc., Teva s principal subsidiary, is one of the leading generic drug companies in the United States. Teva USA markets approximately 150 generic products representing approximately 450 dosage strengths and packaging sizes, which are distributed and sold in the United States. Teva believes that a broad line of products has been and will continue to be of strategic significance as the generics industry continues to grow and as it experiences the effects of consolidation among purchasers, including large pharmacy chains, wholesaling organizations, buying groups and managed care providers.

In addition, through Novopharm Limited, which Teva acquired in 2000, Teva manufactures and markets generic prescription drugs in Canada. Novopharm is the second largest generic drug company in Canada in terms of prescriptions.

Products. Teva USA manufactures generic pharmaceutical products in a variety of dosage forms, including tablets, capsules, ointments, creams and liquids, and through its recent acquisition of Sicor, injectables. During 2003, Teva sold the following generic products in the United States that were not sold during 2002: generic formulations of the following products (listed in the order of their launch during the year): Remeron®, Nolvadex®, Amoxil®, Vicoprofen®, Univasc®, Daypro®,

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Megace®, Serzone®, K-Dur®, Bactroban® and Monopril®. In addition, during 2003, Teva commenced selling Purinethol®, after acquiring the North American rights to such product from GlaxoSmithKline on June 30, 2003 as part of a settlement in a patent case.

The FDA requires companies to submit abbreviated new drug applications (ANDAs) for approval to manufacture and market generic forms of brand-name drugs. During 2003, Teva received in the United States 12 final generic drug approvals and seven tentative approvals. The seven tentative approvals received were for generic equivalents of the following products: Glucophage®, Lamisil®, Lotensin®, Neurontin® tablets and capsules, Oxycontin® and Paraplatin®. A tentative approval letter indicates that the FDA has substantially completed its review of an application.

The potential for revenue growth of generic products in the United States is closely related to a company s pipeline of pending ANDAs with the FDA, as well as tentative approvals already granted. As of February 13, 2004, Teva had 94 product registrations awaiting FDA approval (including some from Biovail, Impax and Andrx), including 16 tentative approvals but not including the Sicor filings described below. Collectively, the brand-name versions of these products had corresponding U.S. 2003 sales exceeding $66 billion. Branded product market size is a commonly used measurement of the relative significance of a potential generic product. Generic equivalents of any given product are typically sold at prices below the branded price, and in those instances where there are multiple generic producers of the same product, substantially below the branded price.

In most instances, FDA approval is granted on the expiration of the underlying patents. However, companies are rewarded with marketing exclusivities, as provided by law, by challenging or circumventing these patents. As part of its strategy, Teva actively reviews pharmaceutical patents and seeks opportunities to challenge those patents where it believes that such patents are either invalid or are not infringed by the generic version. Aside from the financial benefits of marketing exclusivities, Teva believes that these activities improve health care by allowing consumers faster access to more affordable medications.

As of February 13, 2004, Teva s product registrations included 54 applications filed with the FDA that were Paragraph IV applications i.e., applications that challenge patents of branded products. Of these applications, 43 applications are pending FDA approval and 11 have been tentatively approved. Several of these pending products may enjoy a 180-day marketing exclusivity period, as Teva was the first to file a patent challenge as part of the ANDA for such products.

Sicor Generic Injectables Business. Sicor s finished dosage injectable pharmaceutical products are primarily used in hospitals and clinics for critical care, anesthesiology and oncology, and are marketed through its own sales force and its marketing partners, including Baxter Healthcare Corporation and Faulding Pharmaceutical Co., as well as through relationships with hospital group purchasing organizations, managed care groups and other large health care purchasing organizations. Sicor s pipeline includes 18 ANDAs with a collective annual branded sales of approximately $2 billion. Sicor s Irvine facility provides Teva with the capability to formulate, fill, label and package finished dosage forms of injectable pharmaceutical products. Finished dosage injectable pharmaceuticals produced in the Irvine facility are principally sold in the United States. Sicor s Mexican pharmaceutical operation produces drugs in several finished dosage forms, including injectable oncolytic agents and critical care and biopharmaceutical products. These products are sold in Mexico and exported to countries in Central and South America, the Middle East and Europe.

Strategic Alliances. In December 1997, Teva and Biovail Corporation International entered, through subsidiaries, into a marketing and product development agreement which provided Teva with exclusive U.S. marketing rights for Biovail s pipeline of eight controlled-release generic versions of

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successful brands. These products included generic versions of Cardizem®SR, Cardizem®CD, Trental®, Verelan®, Adalat®CC, Procardia XL®, Dilacor®XR and Voltaren®XR. Biovail was responsible for the regulatory filing and approval process as well as the manufacturing of the products. In addition to amounts paid to Biovail for products purchased by Teva under this agreement, Teva paid Biovail $34.5 million pursuant to the agreement. To date, seven of these eight products are being marketed by Teva USA.

In September 1999, Teva entered into a strategic alliance with Savient Pharmaceuticals Inc. (formerly, Bio-Technology General Corp.) for the development and worldwide commercialization of generic equivalents of biotechnology products. In addition to granting Teva U.S. exclusive marketing rights for Savient s human growth hormone, Savient agreed to develop and produce certain biogenerics which would be sold by Teva. The agreement provides for each of the two companies to capitalize on its particular strengths Savient s primary role will be to develop and manufacture the products, and Teva will have exclusive marketing rights. Teva had intended to launch Savient s human growth hormone product in 2002. However, just prior to launch, Novo Nordisk Pharmaceuticals, Inc. and Novo Nordisk A/S sued Teva USA and Savient for patent infringement and obtained a preliminary injunction, which prevented the launch of the product. The injunction was reversed by an appellate court, and a decision on the patent infringement case is still pending.

In June 2001, Teva entered into a strategic alliance agreement for twelve controlled release generic pharmaceutical products with Impax Laboratories, Inc. The agreement grants Teva exclusive U.S. marketing rights and an option to acquire exclusive marketing rights in the rest of North America, South America, the European Union and Israel. Prior to its expiration, Teva exercised its option with respect to the marketing rights of certain products in Canada. The products subject to the agreement include the following products as to which Impax had pending ANDAs at the FDA, all but one of which have now received final or tentative approval: generic versions of Claritin® D12, Claritin® D24, Claritin® Reditabs, Wellbutrin® SR tablets, Zyban® tablets, and Prilosec® capsules. As part of the transaction, Impax received a loan of $22 million. In addition, Teva has invested $15 million in exchange for Impax shares according to a fixed schedule through June 2002. Such loan, together with accrued interest, has been settled in exchange for $16 million of Impax shares and the granting to Teva of exclusive marketing rights for certain Impax products.

In July 2003, Teva entered into an exclusivity transfer agreement with Andrx Corporation and Impax relating to pending ANDAs for bioequivalent versions of Wellbutrin® SR and Zyban® (bupropion hydrochloride) 100 mg and 150 mg Extended Release Tablets filed by Andrx, as well as by Impax. Pursuant to Teva s strategic alliance agreement with Impax, Teva has U.S. marketing rights to Impax s versions of these products. Teva believes that the Andrx ANDA for the 150 mg strength product is entitled, under the Hatch-Waxman Act, to a 180-day period of marketing exclusivity. Under the exclusivity transfer agreement, if Andrx is unable to launch its own product within a defined period of time, and Teva and Impax are able to market its product, Andrx will enable Impax to launch its own product through Teva, with the parties sharing certain payments with Andrx relating to the sale of the product for the 180-day period.

In December 2003, Teva entered into a strategic alliance agreement with Andrx Corporation to develop and market generic oral contraceptive pharmaceutical products. The agreement grants Teva exclusive marketing rights in the U.S. and Canada to Andrx s line of generic oral contraceptive products currently pending regulatory approval. Andrx will be responsible for all formulations, U.S. regulatory submissions and the manufacturing of products covered under the agreement. The agreement also provides Teva with an option to acquire from Andrx similar marketing rights in the U.S. and Canada to additional oral contraceptive products that are currently in development but have not yet been submitted for regulatory approval as well as other future oral contraceptive products that the parties agree upon.

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Marketing and Sales. The marketing of generic pharmaceutical products in the United States is conducted through Teva USA. During 2003, 56% of Teva USA s sales were made to drug store chains, 20% to drug wholesalers, 8% to generic distributors and 16% to others, including mail order distributors, governmental institutions and managed care institutions. Over the last several years, the percentage of sales to drug store chains has continued to increase. Looking forward to 2004, Teva expects that its recent acquisition of Sicor will increase Teva s share in the hospital market.

Teva USA has a sales force that actively markets Teva USA s products. Key account representatives for generic products call on purchasing agents for chain drug stores, drug wholesalers, health maintenance organizations, pharmacy buying groups and nursing homes. Teva USA also contacts its retail customers and supports its wholesale selling effort with telemarketing as well as professional journal advertising and exhibitions at key medical and pharmaceutical conventions. From time to time, Teva USA bids for government-tendered contracts.

Through its acquisition of Novopharm Limited in 2000, Teva acquired a sales force in Canada, which markets Novopharm s products to over 6,300 pharmacies. Novopharm also has a hospital sales division, which covers approximately 900 hospitals throughout Canada.

Europe

Teva believes that the evolving European generics market has the potential to provide it with opportunities for substantial growth in its sales. The European generics market varies considerably from country to country. The Netherlands and the United Kingdom have well-established markets for drugs sold under their generic names. In certain European countries, there is a market for branded generics but not for products sold under their generic names; in other European countries, there is a market for both branded generics and products sold under their generic name. In France, generics have begun to take a firmer hold on the pharmaceutical market, while in Italy the development of a generics market is progressing more slowly. In July 2002, a law became effective in Germany that for the first time allows generic substitution by pharmacists under certain prescribed circumstances. While further regulatory changes took place during 2003, and the overall impact of these changes is not yet known, the trend in these and other European countries is in the direction of promoting a wider use of generic drugs.

Teva currently produces for sale in Europe approximately 300 generic products representing over 1,700 dosage strengths and packaging sizes. Among the significant products sold by Teva in Europe during 2003 were the generic versions of Zocor® and Neurontin® that were launched in 2003. In the past four years, Teva received over 350 generic approvals, corresponding to 61 compounds in 112 formulations. In addition, in Europe, as of December 31, 2003, 111 compounds representing 240 formulations and 420 marketing authorization applications were pending approval, with over 160 additional compounds approved for development. Teva believes that this pipeline of approvals and applications will generate significant internal growth in the next several years, and includes significant products, some of which Teva expects to launch in 2004 in the U.K., The Netherlands and other markets upon anticipated patent expirations.

Teva s rapid growth in Europe over the last few years was generated by a combination of acquisitions in the United Kingdom, The Netherlands, Hungary and France, and the parallel development of existing businesses. Teva seeks to establish itself as a leader in the European market for generic products by leveraging its strengths, including its leadership in the more mature generic markets, its active pharmaceutical ingredients business, which facilitates both vertical integration and the possibility

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of achieving economies of scale, and its ability to utilize the broad range of products already existing in its generic product portfolio as well as global R&D synergies. Furthermore, Teva not only operates in the mature generic markets of Europe, such as the United Kingdom and The Netherlands, but Teva has also been able to make selective inroads in other emerging markets. To date, however, because of the fragmented nature of the European generic markets, Teva s European cost structure is higher than that which it experiences in the United States.

Operations in Selected European Countries

The Netherlands. The Dutch market continues to be characterized by increasing price erosion as pressure from the government and buyers negatively impact margins. Through Pharmachemie B.V., its Dutch subsidiary, Teva maintained its leading position in the generics market in 2003, as well as its market share. Teva launched simvastatin, the generic version of Zocor®, during 2003, which represented a key new product opportunity. The reimbursement system in The Netherlands has recently been changed significantly, with reductions of the reimbursement price for certain products and elimination of the clawback system with respect to multi-sourced pharmaceuticals.

United Kingdom. Teva s UK subsidiary, Approved Prescription Services Limited (APS/Berk), is one of the largest generic drug companies in the United Kingdom. APS/Berk s products include pharmaceuticals in all major treatment categories. In the UK, APS/Berk launched simvastatin in May 2003 and gabapentin, the generic version of Neurontin®, toward the close of 2003. While APS/Berk remained the third largest generic drug company in the UK, its position among its customers strengthened as a result of the recent launch and further anticipated launches.

Hungary. Teva operates in Hungary through its subsidiaries Biogal Pharmaceutical Works Ltd., Biogal Teva Pharma RT, Humantrade Ltd., Humanpharma Kft and Human Pharmaceutical Manufacturing Co. Ltd. Biogal, one of the largest pharmaceutical companies in Hungary, develops and produces both finished dosage pharmaceutical products and active pharmaceutical ingredients. Biogal and Human s products include pharmaceuticals in all major treatment categories, and its production capabilities include solid forms, tablets, coated pellets, soft and hard gelatin capsules, liquid and other semi-solid forms, as well as sterile products. The sale of finished dosage pharmaceutical products in Hungary and to other Teva subsidiaries outside Hungary represent approximately 48% of Biogal s sales, with the balance coming from sales of active pharmaceutical ingredients. Biogal successfully launched simvastatin in Hungary. Furthermore, strong sales of antibiotics contributed to Teva s improved results. Human Pharmaceuticals is a Hungarian company that produces blood and sterile products for both the Hungarian market and for export markets.

France. Teva Classics, which Teva acquired from Bayer in 2002, was the fourth leading generic drug company in France as of the end of 2003. A reference price system was introduced during October 2003 in an attempt to increase the substitution rate in the French market. Although these regulatory changes are still in process, Teva anticipates the implementation of this system will favor increased generic drug use.

Other European Highlights

Teva continues to register products in most European countries and is actively exploring the expansion of its sales and marketing organization to markets where it currently does not have a presence. Teva has several small operations in other European markets and is constantly looking for ways to expand them and to enter other markets. Both in Germany, and Italy, where Teva started its own generic operations and acquired a portfolio of products from Bayer in 2002, Teva increased its sales. Other small operations are located in Belgium and the Czech Republic.

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Rest of the World

Teva s pharmaceutical sales outside of North America and Europe reached $308 million in 2003. The Israeli market represented approximately 80% of these sales, with the balance sold through Teva s International Products Division.

Israel: Teva is the largest non-governmental supplier of health care products and services in Israel. In the domestic market, Teva is involved in the marketing, promotion, selling and distribution of a wide range of health care products. These include innovative pharmaceutical products, generics, over-the-counter and consumer health care products, hospital supplies, dialysis equipment and disposables, diagnostics and home care services. In recent years, Teva has increased its distribution and wholesaling activities in Israel.

In Israel, Teva has aligned all of its products and services with the needs of its main customers, namely health funds, hospitals, private pharmacies and pharmacy chains. It has built its Israeli product portfolio through licensing arrangements, as well as through its own product development. Teva intends to introduce new products into the Israeli market and maintains ongoing close contact with other pharmaceutical, biotechnology, hospital supply and health care companies around the world.

Marketing and Sales. Teva estimates that in 2003 the Israeli market for pharmaceuticals was approximately $720 million based on manufacturers selling prices, comprised of three market categories: health care plans, private pharmacies and chains and governmental hospitals. Teva is a significant medical supplier to each of these market categories. Substantially all of Teva s pharmaceutical and hospital supplies sales in Israel are made through its own distribution company, Salomon, Levin and Elstein Ltd., Israel s largest drug wholesaler, which sells directly to institutional customers, as well as to all of the pharmacies and chains.

Pricing. Several issues affected Teva s pricing policy in Israel in 2003. The national health budget was only marginally increased during 2003, causing government-sponsored health funds to institute cost-saving measures restricting expenditures for pharmaceutical products. Furthermore, Teva s prices were affected by pricing regulations that mandate that the retail prices of pharmaceuticals in Israel may not exceed the average of prices in four European markets (the U.K., Germany, France and Belgium) (the so-called Dutch Model). Lastly, and to a lesser degree, the Israeli health care funds utilized parallel importing to a limited extent, primarily to pressure Israeli producers into granting price reductions.

Other countries: Teva s International Products Division oversees Teva s various activities in the rest of the world. Its focus is on pharmaceuticals, mainly Copaxone®, Alpha D_3® (Teva s bone metabolism product) and a line of oncology products. Sales include direct exports from Israel and sales from Teva s other manufacturing sites. Sales are made through affiliated companies, local representatives and distributors in the different markets.

Teva expects that its acquisition of Sicor and its Mexican operations will help increase the reach of its International Products Division into existing and new markets.

Sicor Biopharmaceutical Operations

Although a relatively small operation, Sicor s biopharmaceutical operations provides Teva with a platform for manufacturing and marketing biopharmaceutical products. Sicor Biotech U.A.B., a wholly owned subsidiary located in Lithuania, develops and manufactures generic recombinant protein products that are sold through agents and distributors primarily in Russia, Kazakhstan and Ukraine. Sicor s facilities in Lithuania offer bacterial fermentation and cell culture R&D capabilities. Sicor s finished dosage biopharmaceutical manufacturing facility in Toluca, Mexico became operational in the first quarter of 2002.

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Proprietary Products

Teva s strategy with regard to its proprietary products is to leverage its access to Israeli-based academic research in order to develop innovative compounds for use in selected therapeutic markets. Teva s proprietary research and development pipeline is currently focused on two specialty areas: neurological disorders and autoimmune diseases.

In conducting its research and development, Teva seeks to manage its resources conservatively and to limit its risk exposure. At the drug discovery phase, Teva leverages its relationship with the Israeli academic community to gain early access to potential projects. Once these projects progress into the more costly clinical study phase, Teva s strategy is to explore corporate partnering options through which it can share the risks associated with each project.

Copaxone®

Copaxone®, Teva s leading product and its first major innovative drug, is used for the reduction of relapse rates in patients with relapsing-remitting multiple sclerosis (MS). Copaxone® is a new class of modifying therapy that offers MS patients a different treatment concept. Copaxone® has demonstrated, in controlled clinical trials, significant reductions in relapse rates as well as significant effects on activity and burden of disease as monitored by magnetic resonance imaging (MRI). Moreover, Copaxone® efficacy was shown to be sustained over 10 years with an average reduction of relapse rates to one every five years, while maintaining physical function in the majority of patients. Copaxone® is well-tolerated and is not associated with the development of neutralizing antibodies, as shown in both clinical trials and post-marketing experience.

Multiple sclerosis is a disease characterized by both inflammation and neurodegeneration, both of which are effectively addressed by Copaxone.® Copaxone® reduces relapses and disease activity, and also reduces by 50% the number of permanent black holes that developed in patients with relapsing-remitting multiple sclerosis (a study published in *Neurology* 2001). Black holes are permanent MS lesions in the brain, and represent areas where the most severe and irreversible brain tissue damage has occurred. Furthermore, results from a recent ongoing study (presented at the ENS and ECTRIMS 2003) showed that Copaxone® reduces axonal damage, demonstrated by magnetic resonance spectroscopy (MRS), a technique which looks at the integrity of the myelin sheet.

Two studies published in *Brain* (2002) and *J. Neurological Sciences* (2003) showed that Copaxone® may have neuroprotective properties by stimulating the release of a factor called brain-derived neurotrophic factor, or BDNF, which helps to protect the brain from axonal loss. This published data support Copaxone s dual action in reducing inflammation and providing neuroprotection, thus effectively addressing both aspects of the disease.

To date, Copaxone® has been approved for marketing in 42 countries worldwide, including the United States, Israel, Canada, 15 European Union countries, Switzerland, Australia, Russia, Brazil and Argentina. Copaxone® was first launched in Israel in December 1996, and in the United States in March 1997. In 2003, in-market global sales of Copaxone® amounted to $720 million, of which $495 million was in the United States, where Copaxone® reached a market share of 28.4% by year-end. Global sales of Copaxone® in 2003 grew by 34% over those of 2002, a rate of growth that exceeded the growth of the global market of MS products.

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Outside the United States, Copaxone® in-market sales reached $225 million in 2003, an increase of 76%, driven by significant sales increases in Italy, U.K., France and Germany, the largest MS market in Europe. In France, Copaxone® became publicly available in October 2003, following 15 months of being available only in hospital settings. Copaxone® was approved in 2001 through the European Mutual Recognition Procedure, and Teva, together with its partner Aventis, began the launch of Copaxone® in all European countries.

In 2002, Teva launched Copaxone® in North America in a ready-to-use pre-filled syringe, which significantly improves the ease of use by patients. In addition, Teva has submitted its Copaxone® pre-filled syringe for approval across the European Union and other markets. In October 2003, the Copaxone® pre-filled syringe was launched in Israel.

In North America, Copaxone® is distributed by Aventis. Teva manufactures the product and supplies it to Aventis through Teva USA. Teva Neuroscience Inc., a wholly owned subsidiary of Teva, succeeded to the business of Teva Marion Partners, which had been formed in 1995 as an equally owned marketing partnership between Teva and Aventis (originally Marion). Teva Neuroscience actively markets and promotes the product in the United States and Canada through a wide range of activities, including doctor detailing, educational seminars, websites and patient support programs, such as Shared Solutions and MS Watch.

Teva and the German parent company of Aventis also have a collaborative arrangement for the marketing of Copaxone® in Europe and other markets. Under the terms of this arrangement, following approval in these markets, Copaxone® is co-promoted in certain European countries, and in other countries Aventis is the sole marketer. The product is manufactured by Teva, and Aventis purchases it from Teva and sells and distributes it in Europe and in other markets.

Teva is still seeking to develop an oral therapy for MS. Teva s oral formulation of Copaxone® was tested in large clinical trial, CORAL, conducted from 2000 to 2002; however, the results of the trials were not statistically significant. In 2003, Teva and H. Lundbeck A/S, a Denmark-based, publicly traded pharmaceutical company and Teva s strategic partner in the development of oral Copaxone®, have continued their collaboration on this project and are conducting experiments to determine how to proceed with the development of an oral Copaxone® formulation.

The exclusivity protections afforded Copaxone® in the United States through its status as an orphan drug expired on December 20, 2003. To the extent that Teva s patents on Copaxone® are challenged and if any such challenges are successful, it may face competition for this product.

Rasagiline

In 2003, Teva achieved another milestone in the development of its central nervous system franchise, by successfully completing two Phase III studies with rasagiline, its compound for Parkinson s disease, which Teva developed based on research of the Haifa Technion School of Medicine.

Rasagiline is a potent, second-generation, irreversible monoamine oxidase type B (MAO-B) inhibitor with neuroprotective activities demonstrated in various *in vitro* and *in vivo* studies. Its beneficial clinical effect, seen in the entire spectrum of the disease, combined with its once-daily dosing, lack of need for titration and high tolerability, allow rasagiline to address a significant unmet need in the treatment of Parkinson s disease. Over two million patients are affected by this chronic disease worldwide, and although many therapies are available, there is still a high level of dissatisfaction with many of these treatments, both in terms of their efficacy and tolerability.

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Following successful completion of the development program of rasagiline, a new drug application was submitted to the FDA in September 2003 for its use as an initial therapy in early stage disease and as an adjunctive treatment to levodopa in more advanced patients. Shortly thereafter, in October, applications to market rasagiline for the treatment of Parkinson s disease were submitted in the EU and Canada. These applications were based on data from three Phase III clinical trials which included over 1,600 patients with Parkinson s disease at different stages of the disease.

In the first Phase III study (TEMPO), rasagiline demonstrated efficacy as monotherapy in early-stage patients. This clinical trial showed a highly statistically significant effect on the primary endpoint progression of Parkinsonian symptoms. Moreover, the one year results of this study suggest a possible effect on disease progression. Rasagiline was well-tolerated in this patient population.

In two following Phase III studies with rasagiline as adjunctive therapy to levodopa in more advanced patients the LARGO study conducted in Europe, Israel and Argentina and the PRESTO study in North America rasagiline demonstrated beneficial effects in the two categories defined as the goals for adjunctive therapy on Parkinson s disease: symptomatic control of Parkinsonian symptoms and treatment of levodopa-induced motor complications. In these advanced patients as well, rasagiline was found to be well-tolerated.

The development of rasagiline is part of a long-term strategic alliance with Lundbeck for global co-development and marketing of rasagiline mainly in Europe for the treatment of Parkinson s disease. Lundbeck has provided a substantial financial contribution to the project, which has enabled Teva to pursue development efforts, while maintaining the resources allocated to Teva s generic drug development and the expansion of its proprietary pipeline. According to this agreement, Lundbeck and Teva, in a joint effort, will market the product in certain European countries and Lundbeck will be the exclusive marketer in the remaining European countries and certain other overseas markets.

In May 2003, Teva entered into a long-term strategic alliance with Eisai Inc., a U.S. leader in the field of Alzheimer s disease, for the global co-development of rasagiline for several additional indications and its co-promotion in the US market. The parties agreed to initially develop rasagiline for Alzheimer s disease, and, assuming its approval by the FDA, the parties will also co-promote the product in the United States for the treatment of Parkinson s disease.

Other Projects

Teva has innovative research projects in the earlier clinical stages, in the areas of Alzheimer s disease, epilepsy, stroke and SLE (Systemic Lupus Erythematosus), as well as several projects in the pre-clinical stage.

In connection with the epilepsy related project, Teva entered into a strategic collaboration agreement with Acorda Therapeutics Inc. to co-develop and co-promote valrocemide for several indications. The parties plan to initially develop the product for the treatment of epilepsy.

Intellectual Property and Other Protections

Teva relies on a combination of intellectual property protections and regulatory exclusivities to protect its innovative products. Teva seeks to obtain, where possible, product, process and use patents on its innovative products. Teva also relies on trade secrets, unpatented proprietary know-how and confidentiality agreements, as well as trademark and copyright protection, for its innovative products. Similar laws and regulations in Europe provide for six to ten years of data exclusivity. New pending legislation is likely to provide for a uniform period of European data exclusivity for a period of ten or 11 years.

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The market exclusivity protections afforded Copaxone® in the United States due to its status as an orphan drug expired on December 20, 2003. Accordingly, the FDA could approve ANDAs for generic versions of Copaxone®. Teva does not believe that, to date, any ANDAs with Paragraph IV certifications for Copaxone® have been filed with the FDA. Teva would not be aware of ANDAs containing Paragraph III certifications, but these would not be approved by the FDA until after the expiration of patents listed in the FDA s Orange Book. Additionally, to the best of Teva s knowledge, to date a drug master file for glatiramer acetate (the active ingredient in Copaxone®) has not been filed with the FDA.

Active Pharmaceutical Ingredients

In addition to its production and sale of pharmaceutical products, Teva manufactures and sells active pharmaceutical products. With a leading global market share in the production of many major chemicals for generic pharmaceuticals, Teva s active pharmaceutical ingredients (API) division facilitates Teva s entry into new drug markets and offers a high quality and cost-effective source of raw materials. The objective of the API division is to provide Teva with the benefits of vertical integration while maintaining and growing a significant third party business. Teva s recent acquisition of Sicor added complementary API operations to Teva s existing capabilities.

The active pharmaceutical ingredients business is run independently from Teva s finished pharmaceutical product businesses and sells products to third parties in a competitive market for APIs intended for generic products. Additionally, sales to other Teva units are on an arm s-length basis, fulfilling Teva s generic and proprietary manufacturing needs. Teva s API sales are affected by the pharmaceutical trends and are directly related to the ability of its API customers, both Teva itself and its third party customers, to launch new products and maintain market share.

Teva offers more than 100 different active pharmaceutical ingredients, using synthetic, semi-synthetic and fermentation technologies, for use in pharmaceuticals. Teva believes it is among the world s principal suppliers of many of these chemicals. The products are sold, subject to the patent position, to formulators of pharmaceutical products mainly in the United States and Europe, but also in the Far East and Latin America. The API division portfolio of products is a combination of high volume products as well as low volume high value products.

The production of API is the most complex and costly step in the production of finished drugs and requires a high level of technical and regulatory skills. During 2003, the API division further strengthened its regulatory affairs and the technical and operational departments. In order for chemicals to be approved for use as active pharmaceutical ingredients sold in the United States, the facilities and production procedures utilized at such facilities must meet FDA standards. Teva s chemical plants meet such standards and are regularly inspected by the FDA. Teva s chemical plants located in Israel, Hungary, Italy and the U.S. operate on a continuous multiple shift basis. Most of the products are produced in dedicated computer-controlled automated facilities, facilitating optimization of the production processes and the assurance of high quality.

As part of its strategy of penetrating new segments through advanced production technologies, the API division has developed an expertise in specialized technologies, such as fermentation processes and the production of peptide active pharmaceutical ingredients. Teva has established a leading position in the sale of fermentation products such as lovastatin, simvastatin, pravastatin and tobramycin. In addition, through the establishment of joint ventures, Teva has taken initial steps towards supplying various peptides such as calcitonin, octreotide and others to its customers.

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During 2003, the sales to Teva s various pharmaceutical units were approximately 43% of the division s total sales. In 2003, Teva s pharmaceutical units purchased 38% of their total requirements for active pharmaceutical ingredients from the API division. Teva believes that its ability to produce these chemicals is a strategic advantage for its production of finished pharmaceuticals.

Marketing and Sales. Teva has been actively involved in the marketing of active pharmaceutical ingredients in the United States.

In North America, the API division has marketed its products for over 20 years through its U.S. subsidiary Plantex USA. Most of Plantex s customers are generic dosage form manufacturers located in the United States and Canada. Additionally, Plantex has been able to make significant inroads into the emerging drug delivery segments and is venturing into selected custom synthesis projects for new drug applications. The direct contact with the customers enables the API division to establish long-term relationships.

In Europe, a Teva European subsidiary, Plantex Chemicals BV, is responsible for marketing to western European customers. In Japan, the Far East, Australia, New Zealand and Latin America, chemical products are sold through Teva s local subsidiaries as well as through local distributors. During 2003, Teva s API division established a local Japanese marketing office.

Production. Teva produces active pharmaceutical ingredients worldwide through eleven production sites located in the United States, Israel, Hungary and Italy. The plants manufacture active pharmaceutical ingredients through synthetic and fermentation processes, process control, a variety of milling equipment, and its expertise in the field of physical properties, enabling tailoring of the product physical characteristics for the customer s needs. In addition, through the Sicor acquisition, Teva recently added two API manufacturing sites in the vicinity of Milan, Italy, where Teva already owned several API plants, and one in Mexico.

In 2003, the division acquired a small active pharmaceutical producer in India, which will enable the division to be vertically integrated to certain key intermediate materials.

Sicor API Business. Sicor manufactures active pharmaceutical ingredients for use in its own finished dosage manufacturing facilities, and for sale to other pharmaceutical companies located primarily in North America, the European Union and Asia for use in finished dosage pharmaceutical products. Its offerings include anti-inflammatories, oncolytics, immunosuppressants, muscle relaxants and custom-manufactured APIs for a variety of proprietary drug manufacturers. The majority of Sicor s API production is carried out at two manufacturing sites in Italy. Sicor-Società Italiana Corticosteroidi S.p.A., a wholly owned subsidiary, is a major producer of oncolytic agents, steroids and certain other products which are manufactured through fermentation or chemical synthesis processes. Sicor s Mexican API operation is located in Toluca, near Mexico City, and principally produces steroid products for export.

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Research and Development

Teva s research and development efforts are involved in all its major business activities. Teva s research and development expenses were as follows:

	U.S. dollars in millions		
	2003	**2002**	**2001**
Gross R&D expenses	243	193	169
Participations and grants	30	28	61
Net R&D expenses	213	165	108

The Global Generic R&D Division is in charge of product formulation, process validation, bioequivalence testing and registration of a growing list of generic drugs for the North American and major western markets. It also focuses on the development of complex drug delivery systems for generic drugs. The division operates from five development centers: U.S., Canada, Israel Hungary and The Netherlands, enabling optimization of both human resources and the prevailing patent law situation.

The Global Innovative R&D Division employs researchers in Israel, the United States, Canada, Hungary and several Western European countries. The division conducts all research activities required for the identification of lead compounds as well as all pre-clinical development, clinical testing and regulatory submissions for Teva s growing pipeline of proprietary products. The division is deeply involved in supporting Teva s effort to achieve and maintain a leading position in the treatment of multiple sclerosis and to establish a franchise in Parkinson s disease. Teva collaborates intensively with Israel s major universities, medical institutions and research institutes in order to derive the benefits of and leverage the extensive, first-class research activities conducted in Israel, specifically in the areas of neurodegeneration/neuroprotection, autoimmunity and cancer.

In addition to the funding received through collaborations with third parties such as Lundbeck, Aventis and recently Eisai, Teva avails itself of government funding for research conducted in Israel. The Israeli government offers grants, which are repayable as royalties from the sale of products resulting from funded research, with the aggregate amount of such royalties limited to the amount of the original grant (in respect of grants since 1999, with the addition of LIBOR interest). The royalties are at rates between 2% and 3.5% (depending on the number of years elapsed since the commencement of the royalty payments) of sales relating to a product or a development resulting from the funded research. The maximum amount of the contingent liability in respect of royalties to the Israeli government at December 31, 2003 amounted to $34 million.

The Global API Division R&D researchers from the API division focus on the development of chemical and biological (fermentation) processes and on the production of active ingredients of interest to the generic drug industry, as well as for Teva s proprietary drugs. This group is comprised of a large center in Israel (chemical processes), a large center in Hungary (fermentation and downstream processing) and a newly acquired facility in India (intermediates). The R&D group also seeks to find ways to reduce API production costs, enabling Teva to remain a supplier of key API products after other competitors cease to be able to produce these products economically.

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Competition

In the United States, Teva is subject to intense competition in the generic drug market from other generic drug manufacturers, brand-name pharmaceutical companies that manufacture generic drug products, manufacturers of branded drug products that continue to produce those products after patent expirations and manufacturers of therapeutically similar drugs. Teva believes that the primary competitive factors playing a role in the United States are the ability to continually introduce the generic equivalents for brand-name drug products in sufficient volume soon after their relevant patents expire, are invalidated or circumvented, as well as price, product quality, prompt delivery, breadth of product line, customer service and reputation.

Significant profits can be realized from being the first generic version in the market; however, price competition from additional generic versions of the same product as well as potential price competition from the original branded product might result over time in significant reductions in sales and profit margins. In addition, Teva s competitors may also develop their products more rapidly or complete the regulatory approval process sooner, and therefore market their products earlier. New drugs and future developments in alternative drug delivery technologies or other therapeutic techniques may provide therapeutic or cost advantages to competing products. Some brand-name competitors try to prevent, discourage or delay the use of generic equivalents through regulatory processes, patent extension, litigation and negative public relations campaigns. More recently, brand-name companies developed a new tactic in an effort to diminish the potential from the 180-day exclusivity period that results from a successful patent challenge under the Hatch-Waxman Act: simultaneously with the launch of a generic under Paragraph IV exclusivity, certain brand-name companies have granted licenses for so-called authorized generics to third parties.

Teva is witnessing a consolidation of its customers, as chain drug stores and wholesalers merge or consolidate. In addition, a number of its customers have instituted source programs that limit the number of suppliers of generic pharmaceutical products carried by that customer. As a result of these developments, there is heightened competition among generic drug producers for the business in this smaller and more selective customer base.

In The Netherlands, Pharmachemie competes with other generic drug product manufacturers, brand-name pharmaceutical companies that manufacture generic drug products, original manufacturers of branded drug products that continue to produce those products after patent expirations and manufacturers of therapeutically similar drugs. As in the United States, the generic market in The Netherlands is very competitive, with the main competitive factor being price, but competition is also based on name, reputation and customer service.

In the United Kingdom, APS/Berk faces threats similar to those faced by Pharmachemie, as described above. APS/Berk s main competitor is a multinational pharmaceutical company, which in the past has invested heavily in new product development, giving it a competitive edge in bringing new generic products to market on a timely basis. As in the United States, the United Kingdom generic market is very competitive, with the main competitive factor being price, but competition is also based on name, reputation and customer service.

In Hungary, the Teva companies compete with local Hungarian manufacturers as well as face increasing competition from multinational pharmaceutical companies. In recent years, the Hungarian pharmaceutical industry has been substantially privatized, resulting in foreign ownership of most major Hungarian pharmaceutical manufacturers. In addition, many multinational pharmaceutical companies have established Hungarian marketing companies for their products, further intensifying the competition. Teva s acquisition of the Human group strengthened Teva s position and presence in Hungary, while creating a more diversified products and service portfolio, including wholesaling services through its Humantrade subsidiary.

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In France, Teva Classics faces challenges similar to those faced by Pharmachemie and APS/Berk, as described above. Teva Classics main competitors are multinational pharmaceutical companies, which in the past have invested heavily in new product development, giving them a competitive edge in bringing new generic products to market on a timely basis. As in the United States and the United Kingdom, the French generic market is very competitive, with the main competitive factor being price, but competition is also based on reputation and customer service.

In Canada, Novopharm is the second largest in terms of prescriptions of five major generic drug manufacturers, three of which are subsidiaries or divisions of other global manufacturers, and two of which are privately owned. Novopharm, together with these competitors, satisfies most of the Canadian demand for generic pharmaceuticals.

The Canadian regulatory and customer landscape for generic manufacturers continues to evolve. Several federal and provincial commissions were appointed to study and make recommendations for improvement to Canada s publicly funded Medicare system. Many of these commissions highlighted the need to limit brand patent extensions, and speed the approval process for generic drugs. Branded pharmaceutical companies continue to lobby against such changes, which would enhance generic drug sales at the expense of the brands.

The customer base for Novopharm continues to change as the number of independent community pharmacies shrinks at the expense of chain drug and banner aligned store groups, which have begun to work closely with selected suppliers for specific products. This trend is expected to continue, resulting in increased competition for generic drug manufacturers at the chain and banner buying offices. These larger customers look to generic suppliers to timely launch cost effective generic products, maintain high levels of product availability and provide increased levels of overall customer value and service.

In Israel, Teva, with a market share (including distribution, on behalf of third parties) of approximately one quarter of the total pharmaceutical market, is the largest supplier of health care products. Teva s success is based primarily on its ability to market products within the medical community, combined with its ability to provide clients with both a broad line of products and prompt service. Teva s products compete with those of other local manufacturers as well as with imported products. Generic competition has increased in recent years in Israel and this trend is expected to continue, with additional price pressure coming from the health care funds and other institutional purchasers. Teva participates in the Israeli pharmaceutical market in both generic and branded drugs.

Copaxone® competes with other therapies for the treatment of multiple sclerosis, principally the three products that are forms of beta-interferon: Biogen Inc. s Avonex®, Schering AG/Berlex Laboratories Betaseron® and Serono SA s Rebif®. In addition, there are other products in various stages of clinical development for the treatment of multiple sclerosis, most notably Antegren® being developed jointly by Elan Corporation and Biogen. Oral formulations are also in various stages of development by a number of companies.

In 2002, Schering AG announced the initiation of a trial which compares the efficacy of the current dose Betaseron® with a higher dose Betaseron®, and of the current dose Betaseron® with Copaxone®. The study will commence in 2004. Serono has also announced the initiation of a head-to-head comparison between Rebif® and Copaxone® to be commenced in 2004.

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In the sale of active pharmaceutical ingredients, Teva competes in all of its markets with specialty chemical producers who are mainly located in Europe, particularly in Italy and Spain, and the Far East. Teva competes based on price, quality, timely delivery and its ability to meet the stringent FDA requirements for approved suppliers of active pharmaceutical ingredients. Many of its competitors are smaller than Teva s active pharmaceutical ingredients division in terms of sales. Teva believes that its extensive portfolio (one of the broadest available in the industry), combined with the breadth of its operations and its financial resources, make its active pharmaceutical ingredients division a leader in the industry.

Regulation

United States. All pharmaceutical manufacturers that sell products in the United States are subject to extensive regulation by the U.S. federal government, principally by the FDA and the Drug Enforcement Administration (DEA), and, to a lesser extent, by state and local governments. The Federal Food, Drug, and Cosmetic Act, the Controlled Substances Act and other federal statutes and regulations govern or influence the manufacture, testing, safety, efficacy, labeling, approval, storage, distribution, recordkeeping, advertising, promotion and sale of Teva s products. Teva s major facilities and products are periodically inspected by the FDA, which has extensive enforcement powers over the activities of pharmaceutical manufacturers. Non-compliance with applicable requirements can result in fines, criminal penalties, civil injunction against shipment of products, recall and seizure of products, total or partial suspension of production, sale or import of products, refusal of the government to enter into supply contracts or to approve new drug applications and criminal prosecution. The FDA also has the authority to deny or revoke approvals of drug active ingredients and dosage forms and the power to halt the operations of non-complying manufacturers. Any failure by Teva to comply with applicable FDA policies and regulations could have a material adverse effect on the operations of Teva.

FDA approval is required before any new drug (including generic versions of previously approved drugs) can be marketed, including new strengths, dosage forms and formulations of previously approved drugs. Applications for FDA approval must contain information relating to bioequivalence (for generics), safety, toxicity and efficacy (for new drugs), product formulation, raw material suppliers, stability, manufacturing processes, packaging, labeling and quality control. FDA procedures require commercial manufacturing equipment to be used to produce test batches for FDA approval. Validation of manufacturing processes is required by the FDA before a company can market new products. The FDA conducts pre-approval and post-approval reviews and plant inspections to implement these requirements. The generic drug development process and the ANDA review process can take from about two to five years.

The Hatch-Waxman Act of 1984 established the ANDA application procedure for obtaining FDA approval for generic forms of brand-name drugs. This Act also provides market exclusivity provisions that can delay the submission and/or the approval of ANDAs. One such provision allows a five-year market exclusivity period for new drug applications (NDAs) involving new chemical entities, a three-year market exclusivity period for NDAs (including different dosage forms) containing new clinical investigations essential to the approval of the application and a seven-year market exclusivity period for the treatment of orphan diseases. The market exclusivity provisions are separate from patent protections and apply equally to patented and non-patented drug products. Another provision of the Hatch-Waxman Act extends certain patents for up to five years as compensation for reduction of effective life of the patent as a result of time spent by the FDA reviewing a drug application. The effect of patent term extension and non-patent market exclusivity may delay the submission and approval of generic drug applications.

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Additionally, the Hatch-Waxman Act provides for a potential 180-day period of generic exclusivity whereby the first company to submit an ANDA challenging a brand product patent may trigger a regulatory process in which the FDA is required to delay the final approval of subsequently filed ANDAs for up to 180 days after the first commercial marketing of the drug by the first applicant. Submission of an ANDA challenging a brand patent can result in protracted and expensive patent litigation. When this occurs, the FDA generally may not approve the ANDA until the earlier of thirty months or a relevant court decision finding the patent invalid, not infringed or unenforceable.

The new Medicare Prescription Drug, Improvement and Modernization Act of 2003 has modified certain provisions of the Hatch-Waxman Act. Under the Medicare Act, final ANDA approval may be obtained upon the earlier of a favorable district court decision and 30 months from notification to the patent holder of the Paragraph IV filing. Exclusivity rights may be forfeited pursuant to the Medicare Act if the product is not marketed within 75 days of the final court decision and under other specified circumstances. However, many of these changes apply only to newly filed ANDAs containing such patent challenges; previously filed ANDAs generally continue to be governed by the old law.

Recent court rulings continue to modify our understanding of the law. Most recently, a court has issued a ruling which questions the availability of shared generic exclusivity. The FDA has appealed this decision. This may result in the delay of entry to market for many generic products or changes in the determination of eligibility for generic exclusivity.

Brand-name manufacturers have devised numerous strategies to delay competition from lower cost generic versions of their products. One of these strategies is to change the dosage form or dosing regimen of the brand product prior to generic introduction which may reduce the demand for the original dosage form as sought by a generic ANDA applicant or create regulatory delays, sometimes significant, while the generic applicant, to the extent possible, amends its ANDA to match the changes in the brand product. In many of these instances, the changes to the brand product may be protected by patent or data exclusivities, further delaying generic introduction. Another strategy is the launch of an authorized generic during the 180-day generic exclusivity period, resulting in two generic products competing for the market rather than just the product that obtained the generic exclusivity. This may result in reduced revenues for the generic company awarded the generic exclusivity period.

The Best Pharmaceuticals for Children Act, signed into law in 2002, continues the so-called pediatric exclusivity program begun in the FDA Modernization Act of 1997. The pediatric exclusivity program provides a six-month extension to an active patent and exclusivity for all formulations of an active ingredient if the sponsor performs and submits adequate pediatric studies on any one dosage form. The effect of this program has been to delay the launch of numerous generic products by an additional six months.

The Generic Drug Enforcement Act of 1992 established penalties for wrongdoing in connection with the development or submission of an ANDA by authorizing the FDA to permanently or temporarily debar companies or individuals from submitting or assisting in the submission of an ANDA, and to temporarily deny approval and suspend applications to market generic drugs. The FDA may suspend the distribution of all drugs approved or developed in connection with wrongful conduct and also has authority to withdraw approval of an ANDA under certain circumstances. The FDA can also significantly delay the approval of a pending NDA or ANDA under its Fraud, Untrue Statements of Material Facts, Bribery, and Illegal Gratuities Policy. Manufacturers of generic drugs must also comply with the FDA s cGMP standards or risk sanctions such as the suspension of manufacturing or the seizure of drug products and the FDA s refusal to approve additional ANDAs.

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Products marketed outside the United States that are manufactured in the United States are subject to various export statutes and regulations, as well as regulation by the country in which the products are to be sold.

The Centers for Medicare & Medicaid Services (CMS) is responsible for enforcing legal requirements governing rebate agreements between the federal government and a pharmaceutical manufacturer. Drug manufacturers agreements with the CMS provide that the drug manufacturer will remit to each state Medicaid agency, on a quarterly basis, the following rebates: For generic drugs marketed under ANDAs covered by the state Medicaid program, manufacturers are required to rebate 11% of the average manufacturer price (net of cash discounts and certain other reductions). For products marketed under NDAs, manufacturers are required to rebate the greater of 15.1% of the average manufacturer price (net of cash discounts and certain other reductions) or the difference between such average manufacturer price and the best price during a specified period. An additional rebate for products marketed under NDAs is payable if the average manufacturer price increases at a rate higher than inflation. Teva USA has such a rebate agreement in effect with the federal government. The federal and/or state governments have and will continue to enact measures aimed at reducing the cost of drugs to the public, including the recent enactment in late 2003 of Medicare legislation that expands the scope of Medicare coverage for drugs over the next two years. Teva cannot predict the nature of such measures or their impact on its profitability.

Canada. The Canadian federal government, under the Food and Drugs Act and the Controlled Drug and Substances Act, regulates what therapeutic products can be sold in Canada and what level of control applies. The Therapeutic Products Directorate of Health Canada is the national authority that evaluates and monitors the safety, effectiveness and quality of drugs, medical devices and other therapeutic products.

The issuance of a Notice of Compliance for generic drug products is also subject to the Patented Medicines (Notice of Compliance) Regulations made under the Patent Act. The Therapeutic Products Directorate will not issue the Notice of Compliance if there are any patents registered with the Health Canada Patent Registrar for the relevant drug product. Generic pharmaceutical manufacturers can either wait for the patents to expire or file a patent allegation. Filing of a patent allegation often results in patent litigation with the brand company, in which case a Notice of Compliance will not be issued until the earlier of the expiration of a twenty-four month stay or resolution of the litigation in the generic s favor.

The provincial governments control expenditures on therapeutic products by establishing interchangeability formularies and benefit lists. The provincial governments regulate the pricing of the products and will only reimburse for products that are listed in the Formularies and Benefit Lists. The Provincial Ministries of Health, through their own review processes, determine the eligibility of the products for interchangeability by evaluating the drug quality, bioequivalence data, drug therapeutics, and utilization of drug and pharmacoeconomic issues.

Israel. Israel, like other countries with an advanced pharmaceutical industry, requires pharmaceutical companies to conform to international developments and standards. To this end and in order to meet the three basic criteria for drug registration, namely quality, safety and efficacy, regulatory requirements are constantly changing in accordance with scientific advances as well as social and ethical values. Legal requirements prohibit the manufacture, importation and marketing of any medicinal product, unless it is duly approved in accordance with these requirements.

Manufacturers of pharmaceuticals, both local and foreign, must comply with the requirements of Good Manufacturing Practices, in order to ensure that products marketed in Israel are of high quality. The content of an application for registration depends on the type of product to be registered and whether it is a new drug entity product, a generic product or a cosmetic product.

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As a result of the 1998 amendments to the patent law, certain pharmaceutical patents may be extended. Additionally the Israeli government is considering introducing data exclusivity provisions, which may prevent the marketing of a generic product for a period of time after the initial registration of the innovator product.

Europe. A directive of the European Union requires that medicinal products must have a marketing authorization before they are placed on the market in the European Union. The criteria upon which grant of an authorization is assessed are quality, safety and efficacy. In order to control expenditures on pharmaceuticals, most member states in the European Union regulate the pricing of such products and in some cases limit the range of different forms of a drug available for prescription by national health services. These controls can result in considerable price differences among member states.

Certain pharmaceutical patents may be extended in Europe by up to five years in order to extend effective patent life to fifteen years. Some older French and Italian patents were extended up to eight and eighteen years, respectively. Additionally, data exclusivity provisions in Europe may prevent launch of a generic product by six or ten years from the date of the first market authorization in the European Union. Legislation is pending which may lengthen this exclusivity period to 10 years for all members of the EU, with a possibility of extending the period to 11 years under certain circumstances. This legislation will also enable the submission of a generic dossier to the health authorities eight years after the first market authorization.

During the course of 2003, Teva continued to register its products in Europe. As part of the mutual recognition procedure established by the European Union, an attempt was made to simplify registration, although centralized registration for generic products is, as yet, not possible in Europe. Teva has significantly increased its registration efforts in a number of main countries: Hungary, the United Kingdom, France and Germany.

Hungary. Only registered drugs can be marketed in Hungary. OGYI (the National Pharmaceutical Institution), an agency of the Ministry of Health, examines and approves the documents filed for health registration. The standards of approval correspond substantially to European Union standards. On granting the marketing authorization, the price and amount of the National Health Authority subsidy are published in the official Health Gazette of the Ministry. A pharmaceutical product can only be placed on the Hungarian market after such price and subsidy amounts have been published.

On January 1, 2003, Hungary joined the European Patent Convention and simultaneously amended its own patent act to conform to this convention. On the whole, the new patent act retained most provisions of the previous act, including the permission to carry out clinical trials and tests and apply for and obtain registration of generics even prior to the expiration of the original patent. This new act, however, considers the maintenance of an inventory of such generics prior to the expiration of the patent to be infringement of the patent, while the maintenance of such an inventory was not considered infringement under the previous act.

In May 2004, Hungary will join the EU. As a result: (1) supplementary protection certificates will become available in Hungary for products having marketing authorizations dated not earlier than January 1, 2000, which may extend the patent protection period for up to five years; (2) Hungary will be able to participate in the EU s mutual recognition procedure; and (3) the data exclusivity protection period will be extended from the current six years to ten or 11 years in effect in the EU. Hungary is likely to ask for an exemption from this EU data exclusivity rule for a number of years.

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Miscellaneous Regulatory Matters.

Teva is also governed by federal, state and local laws of general applicability, such as laws regulating working conditions. In addition, Teva is subject, as are manufacturers generally, to various federal, state and local environmental protection laws and regulations, including those governing the discharge of material into the environment. Compliance with such environmental provisions is not expected to have a material effect on the operations of Teva in the foreseeable future.

Data exclusivity provisions exist in many countries worldwide, although their application is not uniform. In general, these exclusivity provisions prevent the submission of generic drug applications to the health authorities for a fixed period of time usually following the first approval of the brand name product in that country. The fixed period of time ranges from five to ten years. As these exclusivity provisions operate independently of patent exclusivity, they may prevent the submission of generic drug applications for some products even after the patent protection has expired. In particular, European data exclusivity provisions prevent the submission of generic drug applications to the health authorities for a period of six to ten years following the first approval of the brand name product in the European Union. New pending legislation may extend the data exclusivity in all EU countries, including the accession countries, to ten or 11 years. Additional countries, including Israel, may introduce data exclusivity provisions in the future.

Pharmaceutical Production

Teva operates 18 finished dosage pharmaceutical plants in North America, Europe and Israel. The plants manufacture solid dosage forms, injectables, liquids and semi-solids. During 2003, Teva s plants produced approximately 19 billion tablets and capsules. In addition, Teva recently commenced construction of a new state-of-the-art production facility in Jerusalem.

Teva s North American facilities manufacture solids, liquids and semi-solids, including dedicated facilities for penicillin and cephalosporin products. Its European facilities manufacture solids, liquids and semi-solids (including soft gelatin caps), and sterile products (including plasma fractionation products). Its Israeli facilities manufacture solids, liquids and semi-solids and sterile products. Teva s main technology the manufacture of tablets and capsules is available in all the three geographical areas. Teva USA derives most of its sales from products manufactured outside of the United States.

Teva s plants in the United States and Canada, the Kfar Sava plant in Israel and the Haarlem plant in The Netherlands are FDA-inspected. Achieving and maintaining quality standards in compliance with the current good manufacturing practice (cGMP) regulations, as established by the FDA and other regulatory agencies worldwide, requires sustained efforts and expenditures. Teva has spent, and will continue to spend, significant funds and dedicate substantial resources to help ensure that standards are continuously met.

Through the Sicor acquisition, Teva added an additional nine plants, located in California, Italy, Mexico and Lithuania.

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Raw Materials for Pharmaceutical Production

Teva has taken a global approach to manage the commercial relations with its main suppliers: strategic decisions are made on a global basis, while day-to-day operations are run locally. Most packaging materials are purchased locally.

Approximately 38% of Teva s raw material purchases for its pharmaceutical businesses during 2003 were made from Teva s API division. The rest were purchased from suppliers located mainly in Europe, the Far East and the United States. Most of the purchases from the US-based suppliers are controlled substances.

In order to protect itself from possible supply interruptions, Teva has qualified alternate suppliers for several large products and is in the process of qualifying alternate sources for several other products. For products that Teva has only one approved source, Teva has built appropriate inventory to meet the opportunities in the market or signed supply agreements with the existing approved source. Teva has implemented a supplier audit program to ensure that its suppliers meet its standards.

In the United States, Teva USA utilizes controlled substances in certain of its products and therefore must meet the requirements of the Controlled Substances Act and the related regulations administered by the U.S. Drug Enforcement Administration. These regulations include quotas on procurement of controlled substances and stringent requirements for manufacturing controls and security to prevent pilferage of or unauthorized access to the drugs in each stage of the production and distribution process. Quotas for controlled substances may from time to time limit the ability of Teva USA to meet demand for these products in the short run.

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Organizational Structure

The following table sets forth, by geographic area, as of December 31, 2003, the name and jurisdiction of Teva s principal operating subsidiaries. Except as otherwise indicated, Teva owns 100% of the ownership and voting interest in such subsidiaries.

North America:

Novopharm Limited (Canada)

Plantex USA, Inc. (United States)

Teva Neuroscience, Inc. (United States)

Teva Pharmaceuticals USA, Inc. (United States)

Europe:

Approved Prescription Services Limited (United Kingdom)

Biogal Pharmaceutical Works Ltd. (Hungary) -99.3% owned

Gry Pharma GmbH (Germany)

Human Pharmaceutical Works Co. Ltd. (Hungary) 99.98% owned

Orphahell BV (The Netherlands)

Pharmachemie Group (The Netherlands)

Prosintex Industrie Chimiche Italiane S.r.l. (Italy)

Teva Pharmaceuticals Europe B.V. (The Netherlands)

Teva Classics S.A. (France)

Teva Santé SAS (France)

Teva Pharmaceutical Fine Chemicals s.r.l. (Italy)

Teva Pharma Italia S.r.l. (Italy)

Israel:

Abic Ltd.

Assia Chemical Industries Ltd.

Abic Biological Laboratories Teva Ltd.

Plantex Ltd.

Salomon, Levin and Elstein Ltd.

Teva Medical Ltd.

In addition, through its acquisition of Sicor in January 2004, Teva acquired the additional subsidiaries listed below. Except as otherwise indicated, Teva owns 100% of the ownership and voting interest in such subsidiaries.

North America:

Genchem Pharma Ltd. (United States)

Metabasis Therapeutics, Inc. (United States - 16.5%)

Sicor Inc. (United States)

Sicor Pharmaceuticals Sales, Inc. (United States)

Sicor Pharmaceuticals, Inc. (United States)

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Europe:

Rakepoll Holding B.V. (The Netherlands)

Sicor Biotech UAB (Lithuania)

Sicor Europe S.A. (Switzerland)

Sicor Societa Italiana Corticosteroidi S.p.A. (Italy)

China:

Tianjin Hualida Biotechnology Company Ltd (45%)

Mexico:

Lemery S.A. de C.V.

Sicor de Mexico S.A. de C.V.

Sicor Latinoamerica S.A. de C.V.

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Properties and Facilities

Listed below are Teva s major facilities as of December 31, 2003:

Plant Location	Square Footage (in thousands)	Main Function
Kfar Sava, Israel	327	Pharmaceutical manufacturing, research laboratories
Netanya (South), Israel	200	API (chemical) production, warehouses and distribution center, research laboratories
Ramat Hovav, Israel	180	API (chemical) production
Jerusalem, Israel (2 sites)	127	Pharmaceutical manufacturing, research laboratories, offices
Netanya (North), Israel	105	API (chemical) production
Ashdod, Israel	91	Hospital supplies production
Kiryat Shemona, Israel	78	Hospital supplies production
Petach Tikva, Israel	72	Corporate headquarters
Beit Shemesh, Israel	28	Veterinary products production
North Wales, Pennsylvania	335	US headquarters, Pharmaceutical warehousing and distribution center
Sellersville, Pennsylvania	165	Pharmaceutical packaging, research laboratories
Mexico, Missouri	146	API (chemical) production
Fairfield, New Jersey	44	Pharmaceutical production, warehousing
Eastbourne, England	103	Pharmaceutical packaging, research laboratories
Bulcagio, Italy	65	API (chemical) production
Vilanterio, Italy	40	API (chemical) production
Setimo, Italy	35	API (chemical) production
Carono, Italy	18	API (chemical) production
Gödöllõ, Hungary	320	Pharmaceutical manufacturing, hospital supplies production, research laboratories
Debrecen, Hungary	2,260	Pharmaceutical manufacturing, API (chemical) production, warehousing and research laboratories
Haarlem, The Netherlands	232	Pharmaceutical manufacturing, warehousing, offices
Scarbourough, Ontario, Canada (2 adjacent sites)	359	Canadian headquarters, pharmaceutical packaging, warehousing, research laboratories
Stouffville, Ontario, Canada	140	Pharmaceutical manufacturing, warehousing
Markham, Ontario, Canada	71	Pharmaceutical manufacturing
Sens, France	61	Pharmaceutical manufacturing and warehousing

Gajraula (U.P.), India	182	API (chemical) production

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Teva leases certain of its facilities. The Kfar Sava plant, the Jerusalem pharmaceutical plant, the Netanya chemical plant and the Ramat Hovav plant are in buildings owned by Teva on land leased from the Israel Lands Administration. The leases with respect to the Kfar Sava plant extend until 2032 and 2034, respectively, with an option to renew until 2081 and 2083, respectively. The leases with respect to the Netanya chemical plant extend until 2018 and 2022, with an option to renew each of the leases until 2067 and 2071, respectively. The lease with respect to the Ramat Hovav plant extends until 2043, with an option to renew until 2092. The lease with respect to the Jerusalem pharmaceutical plant extends until 2021, with an option to renew until 2070. All of the above lease payments (other than the options) have been prepaid. The corporate headquarters in Petach Tikva is leased in part, until December 2006, with an option to renew annually until December 2009. Novopharm presently leases seven facilities under leases which expire between 2004 and 2005. Novopharm is in the process of purchasing one of its facilities. Teva owns all of its other facilities.

In addition, through its acquisition of Sicor in January 2004, Teva acquired the following additional facilities:

Location	Square Footage (in thousands)	Status	Main Function
United States			
California	289	Leased	Manufacturing, R&D, warehouse, office
California	150	Leased	Sub-leased to third-party tenants
California	31	Owned	Manufacturing, office
New Jersey	5	Leased	Office
Italy			
Santhià	183	Owned	Manufacturing, R&D, warehouse
Rho	60	Owned	Manufacturing, R&D, warehouse, office
Mexico			
Mexico City	65	Owned	Manufacturing, R&D, warehouse, office
Toluca	34	Owned	Manufacturing
Toluca	18	Owned	Manufacturing, R&D, warehouse, office
Mexico City	13	Leased	Warehouses
Mexico City	12	Owned	Office
Lithuania			
Vilnius	62	Owned	Manufacturing, R&D, office
Vilnius	35	Owned	Protein manufacturing, office
Vilnius	23	Owned	Warehouse
Switzerland			
Vacallo	19	Leased	R&D

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ITEM 5: OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Introduction

Teva s operations are affected by demographic trends and budgetary constraints of governments and health care organizations. Each market in which Teva operates has its own pressures, although there are common trends that affect them all. In light of these trends and in order to maintain and increase its competitive position, Teva is constantly seeking additional ways of rationalizing its operations, as well as improving its customer service. In the generic pharmaceutical marketplace, a broad range of products and economies of scale in both manufacturing and sales are key competitive factors. In order to enhance its growth, Teva has also continued to pursue an aggressive acquisition strategy, as well as various forms of strategic alliances.

Economic Environment

Since Teva s results are reported in U.S. dollars, changes in the rates of exchange between the U.S. dollar and the local currencies in the major markets outside the United States in which it operates affect Teva s results. In 2003, the European currencies increased in value relative to the dollar, with the Euro being revalued during the year by 20%, the Hungarian Forint by 9% and the Pound Sterling by 8%. In Israel, the New Israel Shekel (NIS) strengthened in value relative to the dollar by 8% during 2003.

Highlights

In 2003, Teva achieved significant growth, reaching $3.3 billion in revenues and an even greater rate of growth in its net income. Among the more significant factors affecting 2003, which may also affect future results of operations, are:

Substantially higher US generic pharmaceutical sales as a result of the introduction of eleven new generic products, including, most significantly, the introductions of the generic versions of Augmentin® (introduced toward the end of 2002), Remeron® and Vicoprofen®.

The continued success of Copaxone® in North America, where, despite an increasingly competitive environment, Copaxone® continued to increase its market share to 28.4%, and the strong ongoing entry of Copaxone® into the European market, where growth is expected to be further fueled by its recent launch in France.

The favorable impact on sales of the strengthening of European currencies relative to the US dollar, which contributed approximately 19% to the year-over-year growth in consolidated net sales for 2003. While sales in Europe significantly benefited from the strengthening of European currencies, the impact on net income was mitigated by higher costs in US dollar terms as a result of most products sold in Europe being produced in Europe and the purchase of European raw materials for use in non-European production.

Sales growth was also impacted by:

the inclusion for the first time of a full year of sales for Teva Classics and Teva Pharmaceutical Fine Chemicals Srl. These companies, which were acquired in mid-2002, contributed an additional $50 million to Teva s 2003 sales when compared to 2002 sales;

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two quarters of sales in North America of Purinethol®, the rights to which were obtained from GlaxoSmithKline (GSK) on June 30, 2003 as part of a settlement in a patent case. In February 2004, a generic version of Purinethol® was launched by a competitor, which should result in lower sales of this product in future periods.

Significantly increased gross and net R&D expenditures with participation and grants at approximately the same levels as during 2002 (in absolute terms), reflecting increases in both generic and innovative R&D efforts.

Lower financial expenses in 2003, resulting primarily from a combination of the low interest rate on $450 million of 0.375% Convertible Senior Debentures due 2022 which were issued in November 2002, increased cash generated from operations and the conversion in October 2003 of $550 million of 1.5% Convertible Senior Debentures due 2005.

An increased tax rate, which rose from 17.0% in 2002 to 20.8% in 2003, mainly representing the expiration of certain tax benefits relating to Copaxone®.

The key events of 2003 and subsequent, which are poised to have a substantial impact on Teva s future results, are:

The acquisition of Sicor, which was consummated in January 2004, for a purchase price of approximately $3.46 billion, comprised of $2 billion in cash and $1.4 billion in Teva shares. While not reflected at all in Teva s 2003 results, the inclusion of Sicor s operations will significantly increase revenues for 2004 and beyond, and is expected to become accretive to earnings per ADR within 12 months of the acquisition date.

In connection with this acquisition, a Teva finance subsidiary issued $1.1 billion of Convertible Senior Debentures due 2024, carrying a weighted average interest rate of 0.36%, the proceeds of which were utilized to refinance short term bank borrowings used to fund the closing of the transaction. In addition, Teva utilized approximately $890 million of its available cash and cash equivalents.

The acquisition is to be accounted for by the purchase method. The results of operations of Sicor will be consolidated into the financial statements of Teva commencing with the first quarter of 2004. It is anticipated that the Sicor acquisition will give rise to a substantial one-time write-off of in-process R&D. In addition, Teva expects to amortize Sicor existing products and other identifiable intangible assets mainly over periods ranging from 15 to 20 years.

The submission in September 2003 of the application for rasagaline to the regulatory authorities in the US and Europe, following successful completion of Phase III clinical trials in March 2003.

The continued strengthening of Teva s generic drug pipeline which, as of February 13, 2004, was comprised of 94 ANDAs in the United States, plus an additional 18 ANDAs acquired as part of the Sicor acquisition, and 111 compounds representing 240 formulations submitted for registration in Europe.

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Results of Operations

The following table sets forth, for the periods indicated, certain financial data presented as percentages of net sales and the increase/decrease by item as a percentage of the amount for the previous year.

In the years ended December 31, 2001 and 2003, Teva recorded non-recurring items as follows: in 2001, a charge for restructuring activities, and in 2003, a one time benefit to income resulting from the receipt of North American rights to Purinethol® from GSK, less restructuring charges related to impairment of property, plant and equipment in connection with the shutdown and transfer of an API facility. These charges and benefits are detailed in the discussion below under the heading Other Income Statement Line Items One-Time Charges/Benefits. Teva believes that the exclusion of these one time elements presents a better indicator of the trends in its underlying operations. Accordingly, both the table of percentage changes which accompanies this analysis and the textual descriptions below, analyze results before, as well as after, giving effect to such charges and benefits.

	Percentage of Net Sales Year Ended December 31			Percentage Change Comparison	
	2003	2002	2001	2003-2002	2002-2001
	%	%	%	%	%
Net Sales	100.0	100.0	100.0	30.1	21.2
Gross Profit	46.4	43.5	40.8	38.7	29.3
Research & Development Expenses	7.4	7.7	8.1	26.4	14.2
Less Participations and Grants	(0.9)	(1.1)	(3.0)	8.3	(55.1)
Research & Development Net	6.5	6.6	5.1	29.4	53.9
Selling, General and Administrative Expenses	15.9	16.1	17.2	28.1	13.5
Operating Income	26.8	20.8	17.7	67.4	43.1
Financial Expenses Net	0.2	1.0	1.3	(79.7)	(5.4)
Income Before Income Taxes	26.6	19.8	16.4	74.7	46.8
Net Income	21.1	16.3	13.4	68.4	47.5
Data Before One-Time Items					
Operating Income	24.0	20.8	18.5	49.8	37.2
Income before Income Taxes	23.8	19.8	17.1	56.1	40.3
Net Income	18.9	16.3	13.9	50.6	42.5

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Sales General

Consolidated sales by geographic areas and business segments were as follows:

Sales by Geographical Areas

Sales for the Period	2003	2002	2001	% of 2003	% of 2002	Percent Change 2003 from 2002	Percent Change 2002 from 2001
	U.S. dollars in millions						
North America	2,055	1,611	1,288	63%	64%	28%	25%
Europe	861	600	457	26%	24%	44%	31%
Rest of the World	360	308	332	11%	12%	17%	(7)%
Total	3,276	2,519	2,077	100%	100%	30%	21%

Sales by Business Segments

Sales for the Period	2003	2002	2001	% of 2003	% of 2002	Percent Change 2003 from 2002	Percent Change 2002 from 2001
	U.S. dollars in millions						
Pharmaceuticals	2,885	2,241	1,838	88%	89%	29%	22%
API *	371	259	219	11%	10%	43%	18%
Other	20	19	20	1%	1%	4%	(5)%
Total	3,276	2,519	2,077	100%	100%	30%	21%

* Third party sales only.

Teva Classics in France and Teva Pharmaceutical Fine Chemicals in Italy were consolidated with Teva s financial statements commencing in the third quarter of 2002. Accordingly, Teva s 2003 annual financial statements reflect for the first time a full year of consolidated results for these two companies. Except for this effect, Teva s overall sales growth for 2003 was driven principally by the organic growth of both the pharmaceutical and the API business segments, together with the impact of favorable currency trends, which contributed 19% of the increase in consolidated sales.

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Pharmaceutical Sales

North America

In 2003, pharmaceutical sales in North America amounted to $1,827 million, representing an increase of 26% over 2002. The increase in sales was attributable to (1) products that were launched during 2003, including the generic equivalents of the following products (listed in the order of their launch during the year): Remeron®, Nolvadex®, Amoxil®, Vicoprofen®, Univasc®, Daypro®, Megace®, Serzone®, K-Dur®, Bactroban® and Monopril®; (2) continued growth in sales of Copaxone®, which reached a market share of 28.4% of total U.S. MS prescriptions by year-end, and (3) the sales of Purinethol®. In 2003, the pricing environment for generic products in the United States continued to be relatively stable. While during 2003 practically all the increase in sales over 2002 were the result of organic growth, in the future Teva anticipates that its recent acquisition of Sicor and joint ventures will have a positive impact on supplementing its growth in North America.

Teva s organic growth in North America will continue to be fueled by its strong U.S. generic pipeline, which as of February 13, 2004 included 94 ANDAs, including 16 tentative approvals and 78 pending. Total annual branded sales of this pipeline exceed $66 billion. Included among these ANDAs are several products resulting from cooperation with Biovail, Impax and Andrx. Sicor s pipeline as of February 13, 2004 included 18 products with approximate branded sales of $2 billion. These Sicor pipeline products are not otherwise included in the pipeline figures above.

In 2002, pharmaceutical sales in North America amounted to $1,456 million, representing an increase of 26% over 2001. The increase in sales was attributable to several significant launches of new generic products in 2002, the most significant being the generic form of Augmentin® in the fourth quarter of 2002, as well as 14 other new generic product launches, and the continued growth in sales of Copaxone® resulting in part from the successful introduction in 2002 of the pre-filled syringe which, as of the end of 2002, accounted for approximately 95% of U.S. prescriptions of Copaxone®.

During 2002, Teva USA fully implemented a state-of-the-art computer-controlled distribution center in its Pennsylvania facilities. This system has increased Teva USA s capacity to handle the significantly increased volumes of products that it sells and over 450 stock keeping units (SKUs) which presently comprise its product line, and is expected to contribute significantly to Teva s ongoing effort to maintain high levels of customer service.

In the second half of 2003, Novopharm s sales growth in Canadian dollar terms was better than that of the overall Canadian generic market. December 2003 was the fifth consecutive month in which Novopharm sales growth outpaced the generic market growth in Canadian dollar terms. During 2002, Teva substantially augmented a program, initiated subsequent to Novopharm s acquisition, to significantly expand the Canadian product pipeline. In addition, plant restructurings and capital investments were made to enable Novopharm to become a center of excellence for the production of certain products for the American market.

Europe

Pharmaceutical sales in Europe in 2003 amounted to $751 million, an increase of 47% compared to 2002, primarily due to the launch of new products by Teva in Europe during 2003, including the generic versions of Neurontin®, Zocor® and Diflucan®, the continued penetration of Copaxone® in Europe and the 20% revaluation of the Euro against the US dollar (when average compared to average). In addition, as of December 31, 2003, 111 compounds representing 240 formulations and 420 marketing authorization applications are pending approval.

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In the major European countries where it operates, Teva was affected by the following trends in 2003:

- the Dutch market continued to be characterized by increasing price erosion as pressure from the government and buyers negatively impact margins. The reimbursement system in The Netherlands has recently been changed significantly, with reductions of the reimbursement price for certain products and elimination of the clawback system with respect to multi-sourced pharmaceuticals. Nevertheless, Teva maintained its market-leading position in 2003, as well as its market share, partly due to the launch of simvastatin, the generic version of Zocor®;

- in the United Kingdom, simvastatin and gabapentin, the generic version of Neurontin®, were successfully launched;

- in Hungary, the new governmental product and price list was published in February 2003, resulting in the launch of several new products as well as moderate price increases. Hungarian results also benefited from the successful launch of simvastatin and strong antibiotics sales; and

- in France, the change aimed at encouraging generic usage in the reimbursement system continued, reducing reimbursement on certain branded products; this trend, which had a marginally positive impact on Teva in 2003, is expected to have further impact in future years.

Pharmaceutical sales in Europe in 2002 amounted to $509 million, an increase of 34% (28% in Euro terms) compared to 2001. Increased sales in Europe reflected both organic growth resulting from the strong penetration of Copaxone® and new generic product launches, mainly in The Netherlands and the U.K., including omeprazole, as well as external growth resulting from the acquisition of Teva Classics in France. In addition, the revaluation of European currencies against the U.S. dollar had a positive impact on the U.S. dollar value of European sales. In Hungary, higher sales were recorded both of manufactured and third party distributed products.

During the course of 2003, Teva continued to register its generic products in Europe. Although European Union regulatory harmonization efforts have simplified some pharmaceutical product registrations, truly harmonized registration for generic products in Europe remains a challenge in light of differences which exist among member states. Teva has significantly increased its registration efforts, primarily focusing on the United Kingdom, The Netherlands, France, Germany and Italy.

Rest of the World

Israel. Pharmaceutical sales in Israel, which amounted to $243 million in 2003, increased by 11% compared to 2002. However, net of the impact of the strengthening during the year of the NIS relative to the U.S. dollar, sales increased by just 5%. The increased NIS sales were achieved by new product launches as well as new distribution agreements. Teva continues to face adverse trends in the Israeli market. These trends include: budgetary constraints of Israel s principal health care providers, the ongoing genericization of the Israeli market (although Teva participates in both the generic and branded markets), new regulations that seek to harmonize private market prices with those of western Europe and, to a lesser extent, regulations that permit the parallel importation of pharmaceutical products.

Other Countries. Teva s pharmaceutical sales to markets outside of North America, Europe and Israel amounted to $64 million, an increase of 17%. This increase represents a turning point in the trend Teva faced in the previous year of decreasing sales to countries where financial conditions were unstable, such as Latin American and the CIS countries, and also reflects increased sales of Copaxone® in certain countries.

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The economic stabilization of Latin American countries, especially Argentina and Brazil, helped enable Teva to continue its business development in this region, without the increased level of risk that was formerly experienced as a result of economic instability in the region.

Copaxone®

In-market global sales of Copaxone® in 2003 amounted to $720 million, an increase of 34% over 2002. According to IMS data, Copaxone®, Teva s largest product, increased its market share in the U.S. for multiple sclerosis treatments to a level of 28.4% during December 2003. U.S. Copaxone® sales represented 69% of total global sales in 2003. Copaxone® s global sales growth rate was greater than the growth rate of the global market of MS products. The growth in in-market sales of Copaxone® in the United States also reflected the impact of a 9.4% price increase announced in April 2003 and a 6.7% price increase announced in April 2002 in connection with the introduction of the pre-filled syringe. Sales growth of Copaxone® in Europe also reflected the positive impact of the strengthening of the European currencies against the US dollar.

By the end of 2003, Copaxone® was the leading MS therapy in Austria, and had a substantial market share in Germany, which is the largest MS market in Europe. Growth is expected in France as a result of the fact that Copaxone® has become more widely available in France since October 2003, following 15 months of being available to patients only in a hospital setting.

In 2002, in-market global sales of Copaxone® amounted to $539 million, an increase of 48% over the previous year. U.S. sales in 2002 accounted for 76% of global sales of Copaxone®. In 2002, Teva launched Copaxone® in North America in a ready-to-use pre-filled syringe, which significantly improves the ease of use by patients. In addition, Teva has submitted its Copaxone® pre-filled syringe for approval across the EU and other markets. In October 2003, Copaxone® pre-filled syringes were launched in Israel.

In Europe, Copaxone® sales in 2002 increased dramatically as a result of the fast penetration in several countries, the most significant being Germany, Austria, The Netherlands and the Nordic countries.

In November 2002, Teva announced that an interim analysis of its clinical trial on primary progressive multiple sclerosis (the PROMISE trial) showed that it was improbable that the study, in its current protocol, would reach statistical significance. The scheduled interim analysis by the study s data safety monitoring committee came two years into the three-year study. There were no safety concerns about treatment with Copaxone®. Primary progressive multiple sclerosis is different from relapsing-remitting multiple sclerosis, affecting less than 10% of multiple sclerosis patients worldwide.

Active Pharmaceutical Ingredients Sales

Sales of active pharmaceutical ingredients to third parties in 2003 amounted to $372 million, an increase of 43%. The increase in sales to third parties is the result of higher sales of API products in the U.S. and worldwide, as well as the contribution of twelve months of sales from Teva Pharmaceutical Fine Chemicals as compared to six months in 2002. At the same time, intercompany sales of active pharmaceutical ingredients during 2003 increased 38% and amounted to $283 million. These intercompany sales represent 38% of total raw material consumption of Teva s pharmaceutical businesses. The high proportion of intercompany sales reflected the strategic importance of vertical integration and is one of the reasons for Teva s continued improvement in gross profitability. Total sales of the API division in 2003, including intercompany sales, increased by 41% to $655 million.

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The addition of Sicor s API business, which is based in Italy in proximity to Teva s existing API operations and in Mexico, is expected to have a positive impact on the sales of the combined API business, which will offer an expanded portfolio of products.

Sales in 2002 of active pharmaceutical ingredients to third parties increased by 18% amounting to $259 million. The increase in sales to third parties is the result of higher sales of lovastatin in the U.S. and increased demand for API products worldwide, as well as the first time consolidation (of six months) of sales of Teva Pharmaceutical Fine Chemicals. At the same time, intercompany sales of active pharmaceutical ingredients during 2002 increased 37% and amounted to $206 million. These sales represent 31% of total raw material consumption of Teva s pharmaceutical business. Total sales of the API division in 2002, including intercompany sales, increased by 26% to $465 million.

Other Income Statement Line Items

Gross Profit

Gross profit margins reached 46.4% in 2003, compared with 43.5% in 2002 and 40.8% in 2001, reflecting a continuing improvement of product mix, including higher sales of newly launched products and Copaxone®, as well as the increasing benefits of Teva s vertically integrated API division. Gross margins also improved due to the favorable currency fluctuations and synergies achieved throughout Teva.

The majority of the factors that affected the 2003 increased gross profitability also impacted the 2002 improved margins, though to a lesser extent.

As required under US GAAP, Sicor s acquired inventories are being stepped up to their fair market value. As a result, the sales of these existing inventories will negatively impact Teva s gross profit margins. Such sales should primarily be accounted for during the first quarter of 2004. From that lower level, the addition of Sicor s sales, which historically have had higher gross profit margins, are expected to have a positive impact on gross profit margin during the remainder of 2004. Once a new level of gross margins reflecting the Sicor acquisition has been reached, margins will once again move more modestly in either direction, depending to a large extent upon new product introductions and loss of exclusivity, product mix or other changes in the market.

Research and Development (R&D) Expenses

While gross research and development expenses and net research and development expenses as a percentage of sales remained practically the same, they increased in 2003 in absolute terms by 26% and 29%, respectively, the result of increased spending on both generic R&D and innovative R&D.

Generic R&D expenses in 2003 accounted for 54% of Gross R&D expenses, an increase of approximately 44% compared to 2002, due to increased R&D activity for North America, including R&D efforts for Novopharm, as well as generic R&D efforts for Europe. Innovative R&D expenses amounted to approximately 33% of Gross R&D expenses for 2003, an increase of 8% compared to 2002, due to higher expenditures resulting mainly from MS-related activities and pipeline projects. The balance of 13% was dedicated to the development of other products,

principally new products for the API division.

In 2003, Teva substantially increased its research efforts to enhance the development of its generic pipeline. During the course of the year, Teva submitted an additional 38 ANDAs to the FDA, 20 abbreviated new drug submissions in Canada, an additional 86 product registrations to various European country regulatory agencies and 13 submissions in Israel.

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On the innovative side, in 2003, Teva achieved another milestone in the development of its central nervous system franchise by successfully completing two Phase III studies with rasagiline, its compound for the treatment of Parkinson s disease. Following successful completion of these trials, an NDA was submitted to the FDA in September 2003, for its use as initial therapy in early stage disease and as adjunctive treatment to levodopa in more advanced patients. Shortly thereafter, in October, an application to market rasagiline for the treatment of Parkinson s disease was submitted in the EU and Canada. These applications were based on data from three Phase III clinical trials which included over 1,600 patients with Parkinson s disease at different stages of the disease.

During 2003, Teva also entered into a long-term strategic alliance with Eisai, for the co-development of rasagiline for several additional indications, the initial one being Alzheimer s disease, and for the co-promotion in the United States of rasagiline for the treatment of Parkinson s disease. Payments from Eisai under this alliance accounted for a significant part of 2003 R&D participations.

In January 2003, Teva announced that, although the etilevodopa trial for the treatment of Parkinson s disease found the drug to be well-tolerated and as effective as levodopa, etilevodopa did not demonstrate significant superiority to levodopa in shortening the time to clinical effect.

In 2002, gross R&D expenses increased by 14% as a result of increased spending on generic R&D, reflecting the increased efforts of Teva in generic research. Generic R&D expenses in 2002 accounted for 50% of Gross R&D expenses, an increase of approximately 41%. This was due to increased R&D activity in North America, including R&D efforts for Novopharm, as well as generic R&D efforts for Europe. Innovative R&D expenses amounted to approximately 40% of Gross R&D expenses for 2002, a decrease of 9%, due to lower expenditures resulting mainly from the termination of the two Copaxone® clinical trials. The balance of 10% was dedicated to the development of other products, principally in the area of API.

Selling, General and Administrative Expenses

SG&A expenses in 2003 amounted to $521 million, an increase of 28% over 2002, but as a percentage of sales remained essentially at the same 16% level as for the full year 2002. These results reflect conflicting factors such as increased expenses mainly caused by the consolidation for the twelve month period of two European subsidiaries acquired in mid-2002 and higher insurance premiums, offset by higher sales volumes. It is anticipated that SG&A will continue to fluctuate as a percentage of sales on a quarterly basis within the range of 15%-17%, which is representative of Teva s anticipated quarterly levels in 2004.

SG&A expenses in 2002 increased in absolute terms by 14%, but decreased as a percentage of sales to 16% from 17%. Conflicting trends affected this line item. Higher legal costs resulting from patent challenge litigation in connection with Paragraph IV applications in the U.S., rising insurance premiums, the continued launching activities of Copaxone® in Europe and provisions for doubtful debt in Argentina ($5 million) were more than offset by the impact of the exclusion of the amortization of goodwill due to the application of FAS 142 since January 1, 2002 and related benefits from economies of scale resulting from higher sales volume.

In 2002, Teva reclassified an income statement line item captioned Other Income-Net to conform with industry reporting practices, principally to SG&A, and to a lesser extent to Financial Expenses-Net, and simultaneously made a corresponding reclassification to prior years. Since the amounts of this former line item were approximately the same in both 2002 and 2001, this reclassification did not result in any meaningful change in the period-to-period comparisons.

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Operating Income

Operating income increased as a result of the combined impact of the factors described above.

Financial Expenses

Financial expenses in 2003 decreased 80% to $5 million. This substantial decrease resulted from a combination of the low interest rate on $450 million of 0.375% Convertible Senior Debentures due 2022 which were issued in November 2002, increased cash generated from operations, the conversion in October 2003 of substantially all of the $550 million of 1.5% Convertible Senior Debentures due 2005 and capital gains realized in connection with the liquidation of part of Teva s investment portfolio to generate cash needed for the Sicor acquisition. In addition, gains from transactions to hedge certain exposures of its business activities, which were partially offset in other line items, decreased financial expenses. During 2004, Teva will not recognize interest income on the $0.9 billion of its cash balances expended in connection with the Sicor acquisition and will bear interest and other expenses on the additional $1.1 billion of convertible debentures issued for the financing of the acquisition, which carry a weighted average interest rate of 0.36%.

The 5% decrease in financial expenses (net) for 2002 over 2001 principally reflected the lower interest rates achieved through the two convertible debenture issuances in November 2002 and August 2001, as well as general decreases in global interest rates. In addition to decreased interest charges on its short term credit, Teva took advantage of these lower interest rates by entering into certain interest rate swap transactions.

Taxes

Taxes as a percentage of pre-tax income amounted to 21% in 2003, as compared with 17% in 2002 and 19% in 2001. The rate of tax fluctuates with the source of taxable income. The statutory Israeli corporate tax rate is 36%. However, Teva s effective consolidated tax rates are considerably lower, since a major portion of Teva s income in Israel is derived from approved enterprises and part of its income is derived in countries where the tax rate is lower than 36% or benefits from other tax incentives. The increased tax rate in 2003 as compared to 2002 mainly represents the expiration of certain tax benefits relating to Copaxone® and one of Teva s Approved Enterprises in Israel. Teva expects to gradually begin to realize new tax benefits on incremental Copaxone® sales as a result of building a second production facility for Copaxone® in the south of Israel in a tax-advantaged zone. On the other hand, the addition of Sicor with its generally higher tax rate is expected ultimately to increase Teva s overall rate of tax.

Expansion projects of Teva and certain of its subsidiaries in Israel have been granted approved enterprise status. Such status confers tax benefits, including a complete tax exemption for the income generated by such projects, for periods of time ranging from two to ten years from the first year in which the approved enterprise first realizes taxable income, depending upon the region of Israel in which such enterprises are located. For the period from the end of the tax exemption until the tenth year in which the approved enterprise first realized taxable income, such enterprises enjoy a reduced corporate tax rate of 20%, subject to certain limitations. Teva s current tax rates in Israel are positively affected by such exemptions that, as they relate to projects of Teva, have terms expiring through 2012.

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Net Income and Earnings per ADR

Net income totaled $691 million in 2003, an increase of 69% as compared with $410 million in 2002. Excluding the one-time items (net of tax) of $73 million in 2003, net income increased by 51% over 2002. Fully diluted earnings per ADR in 2003 amounted to $2.39, an increase of 57% over 2002, and before the one-time items amounted to $2.14, an increase of 41%.

Since the contingent conversion price of approximately $51.50 applicable to Teva s $360 million of convertible debentures due 2021 and the $450 million of convertible debentures due 2022 was triggered, effective as of the third quarter of 2003, Teva included, for the first time, these convertible debentures in its fully diluted EPS calculation. For purposes of calculating EPS for 2003, Teva s weighted average number of outstanding shares increased by nine million shares solely with respect to the applicable period. with a corresponding add back of the related financial expenses to net income (about $2 million per quarter). These two series of debentures will remain convertible in future periods subject to Teva s share price exceeding $51.50 for twenty trading days within the first thirty trading days of each quarter.

In October 2003, as a result of a call for their redemption, $550 million of 1.5% Convertible Senior Debentures due 2005 were converted into approximately 13 million ADRs. These debentures did not have a contingent conversion feature. Therefore this conversion had no dilutive impact, since the shares issued had already been factored into Teva s fully diluted EPS calculations.

In 2002, net income totaled $410 million, an increase of 47% as compared with $278 million in 2001. Fully diluted earnings per ADR in 2002 amounted to $1.52, an increase of 49% over 2001. Before deducting one-time charges from the 2001 net income, the increase in net income and the fully diluted earnings per ADR would each be 43%, as compared with 2001.

At the end of 2002, Teva effected a 2:1 stock split. The comparable earnings per ADR figures have been adjusted to reflect the impact of the stock split.

In January 2004, upon the consummation of the acquisition of Sicor, approximately 23.3 million additional Teva ADRs were issued, which shares will be added to the base of shares outstanding for EPS calculations beginning with the first quarter of 2004. In connection with the Sicor acquisition, a Teva finance subsidiary issued an aggregate of $460 million of 0.50% Series A Convertible Senior Debentures due 2024 and $634.45 million of 0.25% Series B Convertible Senior Debentures due 2024, both of which series have contingent conversion features. Should the closing price of Teva ADRs for at least 20 trading days during the applicable 30 trading day period exceed the contingent conversion price of approximately $98.54 for the Series A debentures and approximately $91.66 for the Series B debentures and in certain other circumstances, then the debentures will become convertible into approximately six million and nine million Teva ADRs, respectively.

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One-Time Charges/Benefits

The following table details one-time charges or benefits for the periods indicated and their respective effect on earnings per ADR:

	One-time benefits/(charges) (after taxes)		
Year	U.S. dollars in millions	U.S. dollars per ADR	Details
2001	(9.7)	(0.04)*	Restructuring expenses resulting mainly from the closure and sale of facilities in connection with Teva s rationalization program.
2003	73	0.25	Receipt of North American rights to Purinethol® from GlaxoSmithKline net of restructuring expenses related to impairment of property, plant and equipment in connection with the shutdown and transfer of an API facility.

* After giving retroactive effect to the 2:1 stock split effected in December 2002.

Impact of Currency Fluctuations and Inflation

Because Teva s results are reported in U.S. dollars, changes in the rate of exchange between the U.S. dollar and the local currencies in the markets in which Teva operates mainly the NIS, Euro, Canadian dollar, Pound Sterling and Hungarian Forint affect Teva s results. During 2003, the European currencies continued to appreciate against the US dollar. The Euro s exchange rate relative to the U.S. dollar reached 0.8:$1.0 at December 31, 2003, representing a 16% year-end to year-end revaluation. However, the difference between the average exchange rates in 2003 and in 2002 was higher, amounting to 20%. The Hungarian Forint and Pound Sterling appreciated by approximately 9% and 8%, respectively (when comparing average to average). While sales in Europe benefited significantly from the strengthening of the European currencies, the impact on consolidated net income was mitigated by the fact that most products sold in Europe were produced in Europe, where costs in dollar terms were higher as a result of the stronger currencies. This was further mitigated by purchases of European raw materials for use in non-European production, the dollar value of which increased.

During 2003, the NIS reversed course and appreciated relative to the U.S. dollar, by a rate of 4% (when comparing average to average). While this revaluation had the effect of increasing the dollar value of Israeli sales, its net effect on the 2003 consolidated results was negative because Teva experienced an excess of NIS-denominated expenses over NIS-denominated income resulting principally from the high level of export from Israel.

Such European currency and NIS revaluations during 2003 had the net effect of increasing sales by approximately $140 million, but had only a minimal positive impact on net income in 2003.

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In terms of the Israeli Consumer Price Index (CPI), 2003 was an exceptional year in which the CPI decreased by 2%.

Historically, the NIS has been devalued in relation to the U.S. dollar and other major currencies principally to reflect the extent to which inflation in Israel exceeded average inflation rates in western economies. Such devaluations in any particular fiscal period were never completely synchronized with the rate of inflation in Israel and therefore may have lagged behind or exceeded the underlying inflation rate.

The table below sets forth the annual rate of inflation in Israel, the annual rate of devaluation of the NIS against the U.S. dollar and the gap between them.

	Year ended December 31,				
	2003	2002	2001	2000	1999
Inflation (CPI)	(2.1)%	6.5%	1.4%	0%	1.3%
Devaluation/(Revaluation)	(7.6)%	7.3%	9.3%	(2.7)%	(0.2)%
Inflation/devaluation gap	5.5%	(0.8)%	(7.9)%	2.7%	1.5%

Critical Accounting Policies

The preparation of Teva s consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions in certain circumstances that affect the amounts reported in the accompanying consolidated financial statements and related footnotes. Actual results may differ from these estimates. To facilitate the understanding of Teva s business activities, certain Teva accounting policies that are more important to the portrayal of its financial condition and results of operations and that require management s subjective judgments are described below. Teva bases its judgments on its experience and various assumptions that it believes to be reasonable under the circumstances. Please refer to Note 1 to Teva s consolidated financial statements included in this Annual Report on Form 20-F for the year ended December 31, 2003 for a summary of all of Teva s significant accounting policies.

Revenue Recognition and Sales Reserves and Allowances

Revenue is recognized generally when title and risk of loss for the products is transferred to the customer. Provisions for chargebacks, estimated returns, customer volume rebates, discounts and shelf-stock adjustments are established concurrently with the recognition of revenue. Accordingly, reported net sales is net of these allowances. The following briefly describes the nature of each provision and how such provisions are estimated.

Teva has arrangements with certain parties establishing prices for its products for which they independently select a wholesaler from which to purchase. A chargeback represents the difference between the invoice price to the wholesaler and the indirect customer s contract price. Provisions for estimating chargebacks are calculated using historical chargeback experience and wholesaler inventory.

Under certain conditions the customer is able to return its purchases to Teva. Teva records a reserve for estimated sales returns in accordance with the provision of FAS No 48, Revenue Recognition When Right of Return Exists. Returns reserves are estimated by applying a historical relationship of customer returns to the amounts invoiced. Applying historical data, Teva determines the amount of returned product that is scrapped (destroyed) versus product that is returned to stock (placed back in inventory to be resold).

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Customer volume rebates are offered to key customers to promote loyalty. These rebate programs provide that, upon the attainment of pre-established volumes or the attainment of revenue milestones for a specified period, the customer receives a rebate. Since rebates are contractually agreed upon, rebates are estimated based on the specific terms in each agreement.

Cash discounts are offered to most customers to encourage prompt payment. Discounts are estimated based on historical discounts taken in relation to sales.

The custom in the pharmaceutical industry is generally to grant customers shelf-stock adjustments based on the customers existing inventory following decreases in the market price of the related product. Provisions for shelf-stock adjustments are determined at the time of the price decline and based on estimated inventory levels.

Historical data has been adjusted, where applicable, in order to give effect to subsequent events, including, primarily, the effect of increased turnover on such provisions.

Income Taxes

The provision for income tax is calculated based on Teva s assumptions as to its entitlement to various benefits under the applicable tax laws in the jurisdictions in which it operates. The entitlement to such benefits depends upon Teva s compliance with the terms and conditions set out in these laws.

Deferred taxes are determined utilizing the asset and liability method based on the estimated future tax effects of differences between the financial accounting and tax bases of assets and liabilities under the applicable tax laws. Valuation allowances are provided if, based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Taxes, which would apply in the event of disposal of investments in subsidiaries, have not been taken into account in computing deferred taxes, as it is Teva s intention to hold these investments, rather than realize them.

Teva intends to permanently reinvest the amounts of tax-exempt income in Israel and does not intend to cause dividend distribution from such income. Therefore, no deferred taxes have been provided in respect of such tax-exempt income.

Since Teva does not expect non-Israeli subsidiaries to distribute dividends in the foreseeable future, consequently it does not provide for related taxes.

Contingencies

Teva is from time to time subject to claims arising in the ordinary course of its business, including patent, product liability and other litigation. In determining whether liabilities should be recorded for pending litigation claims, Teva assesses the allegations made and the likelihood that it will successfully defend itself. When Teva believes that it is probable that it will not prevail in a particular matter, it then estimates the amount of the liability based in part on advice of legal counsel.

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Inventories

Inventories are stated at the lower of cost or market. Cost is determined as follows: raw and packaging materials and purchased products - mainly on a moving average basis; finished products and products in process: raw material and packaging component - mainly on a moving average basis; labor and overhead - on an average basis over the production period.

Teva s inventories generally have a limited life cycle and are subject to impairment as they approach their expiration dates. Teva regularly evaluates the carrying value of its inventories and when, in its opinion, factors indicate that impairment has occurred, it establishes a reserve against the inventories carrying value. Teva s determination that a valuation reserve might be required, in addition to the quantification of such reserve, requires it to utilize significant judgment. Although Teva makes every effort to ensure the accuracy of forecasts of future product demand, any significant unanticipated decreases in demand could have a material impact on the carrying value of its inventories and reported operating results. To date, inventory adjustments have not been material.

Valuation of Intangible Assets, Marketable Securities and Long-Lived Assets

Intangible assets:

Goodwill reflects the excess of the purchase price of subsidiaries acquired over the fair value of net assets acquired. As from January 1, 2002, pursuant to FAS 142, Goodwill and Other Intangible Assets, goodwill is no longer amortized but rather is tested annually for impairment.

Intangible assets consist mainly of marketing and other rights relating to products in respect of which an approval for marketing was provided by the FDA or an equivalent agency. In 2002, in accordance with FAS 142, a review was performed of the remaining estimated useful lives for all recorded intangible assets. As a result of this review, one intangible asset, relating to a trade name, was determined to have an indefinite life. Accordingly, as from January 1, 2002, this intangible asset is no longer amortized, but rather tested for impairment at least annually. Other intangible assets are amortized using the straight-line method over their estimated period of useful life. In conjunction with acquisitions of businesses or product rights, Teva allocates the purchase price based upon the relative fair values of the assets acquired and liabilities assumed. In certain circumstances, fair value may be assigned to purchased in-process technology and expensed immediately.

Teva regularly assesses whether indefinite life intangibles and goodwill have been impaired and adjusts the carrying values of these assets whenever events or changes in circumstances indicate that some or all of the carrying value of the assets may not be recoverable. Its judgments regarding the existence of impairment indicators are based on legal factors, market conditions and operating performances of its businesses and products. Future events could cause Teva to conclude that impairment indicators exist and that the carrying values of its intangible assets or goodwill are impaired. Any resulting impairment loss could have a material adverse impact on its financial position and results of operations. No impairment losses relating to goodwill and indefinite life intangible assets have been recorded to date.

Teva evaluates the recoverability and measures the possible impairment of its goodwill under FAS No. 142. The impairment test is a two-step process that begins with the estimation of the fair value of the reporting unit. The first step screens for potential impairment, and the second step measures the amount of the impairment, if any. Teva s estimate of fair value considers publicly available information regarding the market capitalization of the company, as well as (1) publicly available information regarding comparable publicly traded companies in the pharmaceutical industry, (2) the

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financial projections and future prospects of its business, including its growth opportunities and likely operational improvements, and (3) comparable sales prices, if available. As part of the first step to assess potential impairment, Teva compares its estimate of fair value for the company to the book value of its consolidated net assets. If the book value of its consolidated net assets were greater than its estimate of fair value, Teva would then proceed to the second step to measure the impairment, if any. The second step measures the amount of impairment by comparing the implied fair value of goodwill with its carrying value. The implied fair value is determined by allocating the fair value of the reporting unit to all of the assets and liabilities of that unit as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit. The excess of the fair value of the reporting unit over the amounts assigned to its assets and liabilities is the implied fair value of goodwill. If the carrying amount of the reporting unit goodwill is greater than its implied fair value, an impairment loss will be recognized in the amount of the excess.

On a quarterly basis, Teva performs a review of its business to determine if events or changes in circumstances have occurred that could have a material adverse effect on the fair value of the company and its goodwill. If Teva determines that such events or changes in circumstances have occurred, Teva would consult with one or more valuation specialists in estimating the impact of these on its estimate of fair value. Teva believes that the estimation methods are reasonable and reflective of common valuation practices.

Teva has selected December 31 as the date on which it performs its annual impairment test for goodwill and other indefinite life intangible assets. As of December 31, 2003, no impairment was required.

Marketable securities:

Marketable securities consist of held-to-maturity securities, which are debt securities in which Teva has invested with the intention of holding until the maturity dates of the securities. Other marketable securities consist of equity investments and debt securities classified as available-for-sale securities which are carried at market value, with unrealized gains and losses, net of taxes, reported as a separate component of accumulated other comprehensive income (loss). If it is determined, based on valuations, that a decline in the fair value of any of the investments is other than temporary, an impairment loss is recorded and included in the consolidated statements of income as financial expenses.

Long-lived assets:

Teva tests long-lived assets for impairment, in the event an indication of impairment exists. An impairment loss would be recognized, and the assets would be written down to their estimated fair values, if the sum of the expected future cash flows (undiscounted and without interest charges) of the long-lived assets is less than the carrying amount of such assets.

Allowance for doubtful accounts

Teva performs ongoing credit evaluations of its customers for the purpose of determining the appropriate allowance for doubtful accounts and generally does not require collateral. Allowance is made for specific debts doubtful of collection.

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Recent Accounting Pronouncements

FIN 46. In January 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46). Under this FIN, entities are separated into two groups: (1) those for which voting interests are used to determine consolidation; and (2) those for which other interests (variable interests) are used to determine consolidation. FIN 46 explains how to identify Variable Interest Entities (VIE) and how to determine when a business enterprise should include the assets, liabilities, noncontrolling interests and results of activities of a VIE in its consolidated financial statements. In December 2003, the FASB revised FIN 46 (FIN 46-R) by amending some of its provision and providing for new effective dates.

The adoption of FIN 46 did not have a material effect on Teva s consolidated financial statements. Teva believes that the expected adoption of FIN 46-R will not have a material effect on its consolidated financial statements.

FAS 132. In December 2003, the FASB revised FAS No. 132 (FAS 132-R), which deals with employers disclosures about pensions and other postretirement benefits, and amended certain other related FASB statements. This statement requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other postretirement benefit plans. It does not change the measurement or recognition of those plans. Teva is adopting the provisions of FAS 132-R as they become effective.

Liquidity and Capital Resources

On December 31, 2003, Teva s working capital was $2 billion, as compared with $1.4 billion as of December 31, 2002. Total current assets, including cash, cash equivalents, short term investments, accounts receivables and inventories, increased by 28% representing the expansion of Teva businesses and, to a lesser extent, the impact of positive currency rates. Total current liabilities increased by 11%. Short term credit, which included at December 31, 2002 the $550 million of convertible debt due to the debenture s put option in October 2003, includes at December 31, 2003 the $360 million of convertible debentures due to their put option in August 2004 and excludes such $550 million of convertible debentures following their conversion in October 2003.

During 2003, Teva continued to build up its inventories in connection with planned product launches and in order to maintain inventories closer to their markets, which Teva believes to be a cost effective measure in light of present geopolitical circumstances (as further discussed below) and the low interest rate environment. Nevertheless, days sales in inventory decreased after reaching their highest level in mid-2003 (200 days) to 180 days towards the end of 2003.

Cash generated by operations for 2003 amounted to $627 million, as compared with $354 million in 2002. Purchase of fixed assets in 2003 amounted to $208 million, as compared with $160 million in the previous year. Depreciation in 2003 and 2002 represented 45% and 48% of the total investment in fixed assets, respectively.

Among the more significant capital expenditures during 2003 were Teva s expansion of its state-of-the-art API facility in southern Israel and its API plant in Hungary, the deployment of modernized information systems, including Teva North America s new enterprise resource planning system, and the commencement of the construction of Teva s state-of-the-art pharmaceutical facility in Jerusalem.

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Due to its anticipated expansion, Teva is committed to continue investing in increasing its capacity. During 2004, it is anticipated that investment will continue in construction of the state-of-the-art pharmaceutical facility in Jerusalem, a new active pharmaceutical ingredients plant in Hungary and in further development of Teva North America s new enterprise resource planning system.

In connection with certain development, supply and marketing, and research and collaboration or services agreements, Teva is required to indemnify, in unspecified amounts, the parties to such agreements against third party claims relating to (1) infringement or violation of intellectual property or other rights of such third party; or (2) damages to users of the related products. As of December 31, 2003, Teva is not aware of any material pending infringement action that may result in the counterparties to these agreements claiming such indemnification.

In November 2002, Teva raised $450 million by issuing twenty-year convertible senior debentures. Interest on the debentures is payable at 0.375% per annum. The debentures are convertible into Teva ADRs at a conversion price of $42.89 per ADR. Holders of the debentures may require Teva to repurchase the debentures at their principal amount in November 2007, 2012, 2017 and 2022 or upon a change of control or a termination of trading of the Teva shares. The funds from the debentures have been invested in short-term and other liquid interest-bearing investments.

In addition to Teva s financing obligations as reflected by short term debt and long term loans, its major contractual obligations and commercial commitments include leases, royalty payments and participation in joint ventures associated with research and development activities.

Teva is committed to pay royalties to owners of know-how and to parties that financed research and development, at rates ranging mainly from 0.5% to 10% of sales of certain products, as defined in the agreements. In some cases, the royalty period is not defined; in other cases, the royalties will be paid over various periods, not exceeding 20 years, commencing on the date of the first royalty payment. Teva has undertaken to pay royalties to the Government of Israel, at the rates of 2.0% - 3.5% of sales relating to a product or a development resulting from the research funded by the Office of the Chief Scientist. The royalties due to the Government should not exceed the amount of participation, in dollar terms (in respect of research grants commencing 1999 - with the addition of dollar LIBOR interest). The maximum amount of the contingent liability in respect of royalties to the Government at December 31, 2003 amounts to $34 million.

Teva entered into joint venture agreements during 2001 to 2003 with several companies pursuant to which it is to participate in the funding of research and development conducted by these companies in a total amount of $43 million, payable upon achievement of certain milestones. As of December 31, 2003, an amount of $5.3 million was paid by Teva.

Certain of Teva s loan agreements and debentures contain restrictive covenants, mainly the requirement to maintain certain financial ratios. Teva currently meets all applicable financial ratios.

Teva s principal sources of short-term liquidity are its existing cash and quasi cash, as well as internally generated funds, which Teva believes are sufficient to meet its operating needs and anticipated capital expenditures over the near term. Teva s existing cash is generally invested in liquid securities that bear fixed and floating interest rates.

Teva continues to review additional opportunities to acquire companies in the generic and API industries and to acquire complementary technologies or product rights. To the extent that any such acquisitions involve cash payments, rather than the issuance of shares, they may require Teva to draw upon credit lines available to Teva from Israeli and other banks, or may involve raising additional funds from debt or

equity markets.

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The acquisition of Sicor, which was consummated on January 22, 2004 involved an aggregate purchase price of approximately $3.46 billion, comprised of $2.0 billion in cash and $1.4 billion in Teva ADRs. On January 21, 2004, in order to provide funds to consummate the Sicor acquisition, Teva USA effected short term borrowings from the U.S. affiliates of Bank Leumi and Bank Hapoalim to provide an aggregate of $1.13 billion in cash toward the cash portion of the Sicor acquisition price. The balance of approximately $890 million in cash was derived from Teva s existing cash resources, including funds derived from prior convertible debt issuances. On January 22, 2004, Teva announced the closing of the Sicor acquisition and simultaneously announced the pricing of two issues of Convertible Senior Debentures of a U.S. finance subsidiary in a registered public offering taken down from a $2.0 billion omnibus shelf registration statement filed with the SEC and declared effective on January 16, 2004. Including securities purchased pursuant to the underwriters over-allotment option in such offering, an aggregate of $460 million of 0.50% Series A Convertible Senior Debentures due 2024 and $634.45 million of 0.25% Series B Convertible Senior Debentures due 2024 were sold, yielding aggregate net proceeds of approximately $1.076 billion. Such proceeds, together with additional available cash resources, were used to repay in full the bank borrowings from Bank Leumi and Bank Hapoalim. The acquisition of Sicor also added an additional approximately $300 million of cash resources to the consolidated group.

The $460 million of 0.50% Series A Convertible Senior Debentures due 2024 are convertible into Teva ADRs at a price of approximately $75.80 per ADR and have a first put option at par on August 1, 2008. The $634.45 million of 0.25% Series B Convertible Senior Debentures due 2024 are convertible into Teva ADRs at a price of approximately $70.51 per ADR and have a first put option at par on February 1, 2010. Subsequent put option dates of both series are February 1, 2014 and February 1, 2019. Holders of such debentures may also require their repurchase in certain circumstances involving a change of control of Teva or upon a termination of trading of its securities.

Geopolitical Considerations. As security has become a global issue since September 11, 2001, Teva is committed to taking security seriously on all levels of its management and operations. In the past, Teva has had to operate during regional conflicts. During all of these difficult periods, Teva has always continued to serve its customers and operate in an uninterrupted manner without the market noticing. In order to reinforce its operations and service to its customers, Teva has implemented measures at its corporate headquarters and key operating facilities designed to provide continuity of normal operations and supply during a crisis. Furthermore, Teva has increased inventories, expanded its supply logistics to include redundant alternatives and enhanced its ability to shift production facilities if necessary.

Research & Development, Patents and Licenses

Teva s gross research and development spending totaled $243 million, $193 million and $169 million for the years 2003, 2002 and 2001, respectively. Its research and development teams are categorized by the three main R&D groups generic, innovative and API. See Item 4. Information on the Company Research and Development.

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Trend Information

Please see Item 5. Operating and Financial Review and Prospects and Item 4. Information on the Company for trend information.

Off-Balance Sheet Arrangements

Teva does not have any material off-balance sheet arrangements, as defined in Item 5.E of the instructions to Form 20-F.

Aggregate Contractual Obligations

The following table summarizes Teva s contractual obligations and commitments as of December 31, 2003:

	Payment due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	U.S. $ in millions				
Long-term debt obligations	1,169.3	360.6*	265.4	525.8**	17.5
Operating lease obligations	64.1	16.5	23.3	12.0	12.3
Purchase obligations (including purchase orders)	527.7	524.0	3.7		
	1,761.1	901.1	292.4	537.8	29.8

* Includes $352.5 million 0.75% Convertible Senior Debentures due 2021 with a first redemption date of August 20, 2004.
** Includes $449.9 million 0.375% Convertible Senior Debentures due 2022 with a first redemption date of November 18, 2007.

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ITEM 6: DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Directors and Senior Management

The following table sets forth information as to the executive officers and directors of Teva as of February 15, 2004:

Executive Officers

Name	Age	Officer Since	Position
Israel Makov	64	1995	President and Chief Executive Officer
Haim Benjamini	65	1988	Vice President Human Resources
William A. Fletcher	56	1983	Group Vice President North America, and President and CEO Teva North America
Chaim Hurvitz (1)	43	1995	Group Vice President International
Meron Mann	52	1989	Group Vice President Europe, and President and CEO Teva Pharmaceuticals Europe B.V.
Marvin Samson	62	2004	Group Vice President Injectables and Biogeneric Resources
Eli Shohet	47	1999	Vice President Business Development
Dan S. Suesskind	60	1978	Chief Financial Officer
Dr. Ben-Zion Weiner	60	1986	Group Vice President Global Products
Aharon Agmon	59	1989	Vice President International Pharmaceutical Sales
Yehuda Arad	57	2003	Vice President Safety and Environment
George S. Barrett	48	1999	President & CEO Teva Pharmaceuticals USA, Inc.
Rodney Kasan	62	1999	Vice President and Chief Technology Officer
Moshe Manor	48	1995	Vice President Global Products Division
Michael Netz	42	2002	Vice President Israel Pharmaceutical Sales
Christopher Pelloni	53	2002	Vice President Global Generic R&D
Dr. Irit Pinchasi	52	2002	Vice President Innovative R&D
Dr. David Reisman	57	1999	Vice President Israel Pharmaceutical Operations
Dr. Aharon Schwartz	62	1985	Vice President Strategic Business Planning and New Ventures
Jacob Winter	53	1991	Vice President Global Pharmaceutical Operations
Aharon Yaari	52	2002	Vice President API Division
Ron Grupel	53	1993	Internal Auditor
Uzi Karniel	61	1979	General Counsel and Corporate Secretary

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Directors

Name	Age	Director Since	Term Ends	Name	Age	Director Since	Term Ends
Eli Hurvitz Chairman (l)(2)	71	1968	2005	Dr. Leora Meridor (3)	57	2002	2005
Ruth Cheshin (2)	67	1989	2005	Dr. Max Reis	76	2001	2006
Abraham E. Cohen	67	1992	2004	Carlo Salvi	67	2004	2006
Leslie Dan	74	2001	2004	Prof. Michael Sela	80	1987	2005
Amir Elstein	48	1995	2006	Dov Shafir	72	1969	2004
Prof. Meir Heth	71	1977	2004	Gabriela Shalev (3)	62	2003	2006
Prof. Moshe Many	75	1987	2004	Harold Snyder	82	1996	2005

(1) Eli Hurvitz and Chaim Hurvitz are father and son.
(2) Ruth Cheshin and Eli Hurvitz are sister and brother in-law.
(3) Statutory independent director elected in accordance with the Israeli Companies Law.

Executive Officers

Israel Makov has been the President and Chief Executive Officer of Teva since April 2002. Previously he served as Teva s Chief Operating Officer from January 1, 2001, Executive Vice President from 1999 and Vice President for Business Development from 1995-1999. Prior to joining Teva, Mr. Makov was Chief Executive Officer of Gottex from 1993-1995, Chief Executive Officer of Yachin Hakal Ltd. from 1991-1993 and Chairman of Axiom Ltd. from 1987-1991. Mr. Makov has also been a director of Bank Hapoalim Ltd. since October 2002. He received his B.Sc. in Agriculture from the Hebrew University in 1963 and his M.Sc. in Economics from the Hebrew University in 1965.

Haim Benjamini, Brigadier General (retired) of the Israel Defense Forces, has been with Teva since 1988 as the Vice President Human Resources. Before joining Teva, Mr. Benjamini was Vice President of Human Resources & Organization at Scitex Corp. Ltd., Israel, from February 1982 through May 1988. He received his B.A. in Social Sciences (Sociology and Political Science) from the Hebrew University in 1964 and his M.A. in Organizational Behavior from the University of Chicago in 1980.

William A. Fletcher has served as Group Vice President North America since April 2002 and as President and Chief Executive Officer of Teva North America since April 2000. He previously served as President and Chief Executive Officer of Teva USA from 1983 through March 2000. Mr. Fletcher has also served as Vice President-North American Pharmaceutical Sales since 1995. Prior to joining Teva USA, he was Business Development Manager and International Marketing Manager of Synthelabo, a subsidiary of L Oreal in Paris. He graduated in International Marketing from Woolwich Polytechnic, London (now Greenwich University) in 1969.

Chaim Hurvitz has served as Group Vice President International since April 2002. He served as Vice President Israeli Pharmaceutical Sales from January 2002 until April 2002 and was the President of Teva Pharma B.V. and Vice President European Pharmaceutical Sales from 1995 to 1999. From 1993 to 1994, he served as the General Manager of Teva s European Office in The Netherlands and from 1990 to 1993 as the head of the pharmaceutical and OTC departments of Abic Ltd., a Teva subsidiary. He received his B.A. in Political Science and Economics from Tel Aviv University in 1985.

Meron Mann has been with Teva since 1978, where he has served as Group Vice President Europe since 2002 and has been the President and CEO of Teva Pharmaceutical Europe B.V. since 2002. From 1990 to 2002, he served as President of Teva s Active Pharmaceuticals Ingredients division. He received his M.Sc. in Industrial Engineering from the Haifa Technion-The Israel Institute of Technology in 1978 and his B.Sc. from Tel Aviv University in 1976.

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Marvin Samson joined Teva in January 2004 as the Group Vice President for Injectables and Biogeneric Resources following Teva s acquisition of Sicor. Mr. Samson previously served as President and Chief Executive Officer of Sicor since September 2001 and as a director of Sicor since September 2000. He is an expert in injectable manufacturing and delivery systems and was a founder, President and Chief Executive Officer of Elkins-Sinn, Inc. (now a division of Baxter Healthcare Corporation) and Marsam Pharmaceuticals Inc. He is the founder and Chief Executive Officer of Samson Medical Technologies, L.L.C., a privately held company providing hospital and alternate site pharmacists with injectable drug delivery systems and programs. Mr. Samson served as the chairman of the Generic Pharmaceutical Industry Association from 1997 to 2000. Mr. Samson is the holder of five U.S. patents pertaining to pharmaceutical manufacturing.

Eli Shohet has been with Teva since 1986. Since 1999, he has served as Vice President of Business Development. He previously served as Chief Economist and assistant to Teva s CEO from 1989 to 1993, president of Plantex USA from 1993 to 1996 and director of Business Development for Teva s API division from 1996 to 1999. He received his B.A. in Economics from Bar-Ilan University in 1986.

Dan S. Suesskind has been with Teva since 1976 and has been Chief Financial Officer since 1978. From 1970 until 1976, he was a consultant and securities analyst with International Consultants Ltd. He received his B.A. in Economics and Political Science from the Hebrew University in 1965 and an M.B.A. from the University of Massachusetts in 1969. He served as a director of Teva until 2001. Mr. Suesskind was a director of Lanoptics Ltd. until 1998, a director of ESC Medical Systems Ltd. until 1999 and a director of First International Bank until 2003. He is currently a board member of Migdal Insurance Company Ltd, a member of the Jerusalem Foundation, Investment Advisory Committee, and of the Board of Trustees of the Hebrew University.

Dr. Ben-Zion Weiner has been with Teva since 1975 and has been the Group Vice President Global Products since April 2002. Previously, he served as Vice President Research & Development from 1986 to 2002. In 1975, he received a Ph.D. in Chemistry from the Hebrew University, where he also earned B.Sc. and M.Sc. degrees. He did post-doctorate research at Schering-Plough Corporation in the United States.

Aharon Agmon has been Vice President International Pharmaceutical Sales since 1995. During 1994 he served as Vice President Israel Pharmaceutical Sales. He served as the Managing Director of Teva Medical from 1984 to 1993. He received his B.A. in Economics and Political Sciences from the Hebrew University in 1968 and his M.B.A. from Tel Aviv University in 1971.

Yehuda Arad has served as Teva s Vice President Safety and Environment since January 2003. Before joining Teva, Mr. Arad was Senior Vice President of Rotem Amfert Negev Ltd. from January 2001 through December 2002 and Technical Vice President Dead Sea Bromine Group from January 1995 through December 2001. He received his B.Sc. in Mechanical Engineering from Polytechnic Institute of New York in 1979 and his M.B.A. from Ben Gurion University in 1998.

George S. Barrett is President and CEO of Teva USA since March 1999. Prior to joining Teva in 1999, Mr. Barrett was President and CEO of Diad Research, a technology start-up based at the Johns Hopkins School of Medicine. From 1991 to 1997, Mr. Barrett was with Alpharma Inc. He began his tenure as President of its subsidiary Barre National, and was appointed President of Alpharma s U.S. Pharmaceutical group in 1994. From 1981 to 1991, Mr. Barrett served in various positions with NMC

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Laboratories, serving as President from 1988 through its acquisition by Alpharma Inc. Mr. Barrett received his Bachelor s Degree from Brown University in 1977 and his M.B.A. from New York University in 1988. Mr. Barrett serves as Chairman of the Board of Directors for the Generic Pharmaceutical Industry Association and is a director of The American Foundation for Pharmaceutical Education and The University of Maryland School of Pharmacy.

Rodney Kasan has been with Teva since 1980. He currently serves as Vice President and Chief Technology Officer. Prior to that he served as Vice President Global Product Development Generic Pharmaceuticals. He served as Head of Pharmaceutical Research and Development until 1995 and subsequently as Director of Pharmaceutical Research and Development for the Operations Division. He received his degree in Pharmacy in Pretoria, South Africa.

Moshe Manor has been the Vice President Global Products Division since 2002. Previously, he served as Vice President of Strategic Product Planning from 2000 to 2002, and as Vice President Israel Pharmaceutical Sales from 1995 to 2000. He served as the General Manager of Teva-labeled products in Israel from 1993 to 1994 and as the Marketing Director of the Israeli Pharmaceutical Division from 1989 to 1993. He received his B.A. in Economics from the Hebrew University in 1982 and his M.B.A. from Tel Aviv University in 1985.

Michael Netz has been with Teva since 1989, when he started as an economist in the Economic and Planning Department. From 1992 to 1998, he was responsible for pharmaceuticals sales to private and institutional pharmacies and was Counterpart Operational Manager of Hungary s Biogal and in charge of the Branded Generic Business Unit in Israel. From 1998 to 2002, he was General Manager of the Teva-Abic Pharma division. Mr. Netz is now Vice President Israel Pharmaceutical Sales. He received his B.A. in Economics and Business Administration in 1989 and his M.B.A. in Marketing and International Management in 1993 from Tel Aviv University.

Christopher Pelloni has been with Teva since November 1997. He is currently Vice President of Global Generic Research and Development (GR&D). Previously, he was Vice President of GR&D for Teva USA from June 2000 to May 2002 and Senior Director of Pharmaceutical GR&D from November 1997 to June 2000. Prior to that, he served in various management positions with Geneva Pharmaceuticals Inc. during 28 years of service. He received a BS in Business Administration in 1986 and an MBA in 1989 from Regis College (now Regis University), in Denver, Colorado.

Dr. Irit Pinchasi has been with Teva since 1986, serving in different positions within the Global Innovative R&D Division, and has served as Vice President for the Global Innovative R&D Division since May 2002. Dr. Pinchasi received her Ph.D. in Neurobiochemistry from Tel-Aviv University in 1984, where she also earned her B.Sc. and M.Sc. degrees. She did her post-doctorate research at the Weizmann Institute of Science, Rehovot, Israel.

Dr. David Reisman has been with Teva since 1980. Since 1999, he has served as Vice President Israel Pharmaceutical Operations. From 1996 to 1999, he served as quality assurance director of the Chemical Division. He received his Ph.D. in Chemistry from Bar Ilan University in 1985.

Dr. Aharon Schwartz has been with Teva since 1975 and has served as Vice President Strategic Business Planning and New Ventures since April 2002. He previously served as Vice President Global Products Division since 1999 and Vice President of the Copaxone® Division from 1995-1999. From 1993 to 1995, he served as Vice President Business Development/Export Division and served as head of the Pharmaceutical Division from 1989 to 1993. He received his Ph.D. in Chemistry from the Weizmann Institute in 1975.

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Jacob Winter has been with Teva since 1986 and has served as Vice President Global Pharmaceutical Operations since March 1999. Previously, he served as Vice President/Manager of the Israeli Pharmaceutical Operations Division from 1991 through 1998. He served as the Manager of Teva s Jerusalem pharmaceutical plants from 1986 through 1991. He received his B.Sc. in Industrial Engineering and Management from Tel Aviv University in 1976.

Aharon (Arik) Yaari has served as Vice President API division since 2002. He joined Teva in 1981. Among his various assignments in Teva was Vice President Marketing and Sales of Teva API and President of Plantex USA. He received his B.A. and M.A. in Economics from the Hebrew University in 1981 and 1988, respectively.

Ron Grupel has been the Internal Auditor of Teva since 1993. He received his B.A. in Economics and Accounting in 1975 and his M.B.A. in 1979 from Tel Aviv University.

Uzi Karniel is serving as the General Counsel and Corporate Secretary. He has been with Teva since 1971. He received his L.L.B. from the Hebrew University in 1969. He is a member of the Executive Committee of the Israeli Association of Publicly Traded Companies.

Directors

Eli Hurvitz has served as Chairman of the Board of Teva since April 2002. Previously, he was Teva s President and Chief Executive Officer for over 25 years and has been employed at Teva for over 40 years. He serves as Chairman of the Board of The Israel Democracy Institute (IDI), Chairman of the Board of NeuroSurvival Technologies Ltd. (NST) (a private company), Member of the Belfer Center for Science and International Affairs at John F. Kennedy School of Government at Harvard University, and a director of Vishay Intertechnology and of Koor Industries Ltd. He served as the President of the Israel Manufacturers Association from 1981 through 1986. He received his B.A. in Economics and Business Administration from the Hebrew University in 1957.

Ruth Cheshin is the President of the Jerusalem Foundation, a multi-national organization which raises funds around the world for the creation of social, educational and cultural projects for all the citizens of Jerusalem. Ms. Cheshin is also an active member in many of the city s most important boards.

Abraham E. Cohen served as Senior Vice President of Merck & Co. and from 1977 to 1988 as President of the Merck Sharp & Dohme International Division. Since his retirement in January 1992, Mr. Cohen has been active as an international business consultant. He is presently a director of Akzo Novel NV., Chugai Pharmaceutical Co. USA, Pharmaceutical Product Development, Smith Barney World Funds and Vasomedical, Inc.

Leslie Dan is the Chairman of Novopharm, which he founded and managed until its acquisition by Teva in 2000. Mr. Dan serves on several hospital boards in Canada and is a director of Draxis Pharmaceutical Company and Viventia Biotech.

Amir Elstein is the Co-General Manager of Intel Electronics Ltd. Jerusalem and has been employed by Intel Corp. since 1982. He received his B.Sc. in Physics and Mathematics from the Hebrew University in 1980 and his M.Sc. in the Solid State Physics Department of Applied Physics, the Hebrew University in 1982. In 1992, he received his diploma of Senior Business Management from the Hebrew University.

Prof. Meir Heth has served on Teva s Board since 1977 and as Chairman of the Board from 1994 to 2002. During his service at Teva, Prof. Heth served as Chairman of the Executive

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Committee for an extended period. Recently, Prof. Heth was designated as the financial expert on Teva s audit committee. Prof. Heth has served as Chairman of the Board of Bank Leumi Le Israel Ltd. and as Chairman of Bank Leumi Trust Company of New York from 1987 to 1988. From 1978 to 1986, Prof. Heth was Chairman of the Tel Aviv Stock Exchange. Prof. Heth served at The Bank of Israel beginning in 1962 in various positions, including Senior Economist from 1962-1968, Supervisor of Banks from 1969 to 1975 and Senior Advisor to the Governor from 1975 to 1977. Prof. Heth is a Professor at the Law School of the College of Management and serves as Chairman of Psagot-Ofek Investment House Ltd. and as a director of Nilit Ltd.

Prof. Moshe Many, M.D., Ph.D. has served as president of the Ashqelon Academic College since January 2002. He previously served as the President of the Tisom International School of Management. He is a former President of Tel Aviv University, the former Medical Director of the Ramat Marpeh Hospital and the former Deputy Chairman of Maccabi Health Care Fund. He has been a Department Head at Tel Hashomer Hospital since 1976. He has served as a director at Elbit Medical Imaging since 1997 and at Israel Laser Industries from 1994 to 1998. He received his M.D. degree from Geneva University in 1952 and his Ph.D. in Surgery from Tufts University in 1969.

Dr. Leora (Rubin) Meridor has been a director of Teva since December 2002. She has been the Chairman of the Board of Bezeq International, Poalim Capital Markets and Walla since 2001. From 1996 to 2000, Dr. Meridor served as Senior Vice President and Head of the Credit and Risk Management Division of the First International Bank of Israel. Between 1983 and 1996, Dr. Meridor held various positions in the Bank of Israel, the last of which was Head of the Research Department. Dr. Meridor has held various teaching positions with the Hebrew University and holds a Bachelor s degree in mathematics and physics, a Master s degree in Mathematics and a Ph.D. in Economics from the Hebrew University, Jerusalem. She serves on several boards of directors (NICE Systems Ltd, Isrolet Ltd., Vitalgo Textile Works Ltd., Weizmann Institute of Science and the New Israeli Opera) and qualifies as an independent director under Israeli law.

Dr. Max Reis has a PhD in Chemical Engineering from the Imperial College, London and attended the Advanced Management Program of the Harvard Business School. From 1971 until 1986 he was Chairman or Managing Director of half a dozen companies in the Israel Chemicals Group. From 1986 until 1990 he served as President of Technion Israel Institute of Technology. From 1992 until 1999 he was Chairman of the Audit Committee of the Board of Directors of the Union Bank of Israel. Today he is Chairman of Degem Systems and serves on the Boards of Oridion Medical, Yachin Hakal, and Gaon Holdings.

Carlo Salvi commenced his service on the Board of Teva upon completion of the acquisition by Teva of Sicor in January 2004. Previously, Mr. Salvi served as Vice Chairman of Sicor from August 2001. Mr. Salvi was Sicor s President and Chief Executive Officer from August 1998 to September 2001. In addition, Mr. Salvi has served as a director of Sicor since February 1997 and was Chairman of the Board of Sicor S.p.A. from February 1997 to June 1999. Prior to the merger of Gensia Inc. and Rakepoll Holdings in 1997, Mr. Salvi was a consultant to Alco Chemicals Ltd. from 1995 to 1997 and served as General Manager of Alco from 1986 to 1995. Mr. Salvi was appointed to Teva s Board of Directors as provided in the Sicor acquisition agreement.

Prof. Michael Sela is a Professor of Immunology. He was the President of the Weizmann Institute of Science from 1975 through 1985 and has served as a Deputy Chairman of the Board of Governors of the Weizmann Institute of Science since 1985. He received his Ph.D. degree in Biochemistry from the Hebrew University in 1954.

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Dov Shafir, Colonel (retired) of the Israel Defense Forces, served as chairman of the Executive Committee of the Board from 1992 until 2002 and presently serves as a director of Ofer Technologies Ltd.

Prof. Gabriela Shalev has been a member of the Faculty of Law of the Hebrew University since 1964, where from 1986 she held the position of Professor of Contract Law. Having retired from the Hebrew University in 2002, she is currently President and Rector of Ono Academic College. Over the years she has been a visiting professor in many law schools in Europe and the U.S. Prof. Shalev was a member of the board of directors and chairperson of the audit committee of Bank Hapoalim Ltd., Israel s largest commercial bank, from 1990 until 1996. Since 1995 she has been a member of the board of directors and chairperson of the audit committee of the Israel Electric Company. Currently she is also a director of Koor Industries Ltd. and Osem Investments Ltd., as well as a member of various committees serving non-profit organizations. Prof. Shalev qualifies as an independent director under Israeli law.

Harold Snyder was Senior Vice President of Teva USA and the former President of Biocraft Laboratories, Inc. Mr. Snyder founded Biocraft Laboratories in 1964. He had previously served as President of Stoneham Laboratories Inc. He received his B.S. in Science from New York University in 1948 and his M.A. in Natural Science from Columbia University in 1950.

Compensation

The aggregate direct compensation paid or accrued on behalf of all directors and executive officers as a group during 2003 was $9,886,904. This amount includes directors fees and expenses for non-employee directors of $342,000 and amounts set aside or accrued to provide pension, retirement or similar benefits of $200,000. This amount does not include $32,377,673 from the exercise of previously granted stock options, nor expenses (including business travel, professional and business association dues and expenses) reimbursed to officers and directors and other fringe benefits commonly reimbursed or paid by companies in Israel. None of the non-employee directors have agreements with Teva that provide for benefits upon termination of service.

Teva has adopted a number of stock option or stock incentive programs in the past, as have certain of its subsidiaries, principally Teva USA and its predecessor entities, covering either ordinary shares or ADRs. In 2003, Teva s executive officers were granted options to purchase an aggregate of 1,285,000 ordinary shares or ADRs, at an average exercise price of $42.94 per share or ADR and an average expiration date in 2009.

As of December 31, 2003, options for an aggregate of 18,179,440 shares, with an average exercise price of $28.68 per share, are outstanding under Teva s stock option and incentive programs, with options for an aggregate of 5,875,842 shares available for future grant. For further information regarding outstanding Teva options, see Note 9 to the Notes to Consolidated Financial Statements.

Board Practices

Teva s Board of Directors is comprised of 14 persons, of which ten have been determined to be independent within the meaning of applicable Nasdaq regulations. The Board includes two independent directors mandated under Israeli law and subject to additional criteria to help ensure their independence. See Statutory Independent Directors below. The terms of the directors are set forth in the table above.

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All directors are entitled to review and retain copies of Teva s documentation and examine Teva s assets, as required to perform their duties as directors and to receive assistance, in special cases, from outside experts at the expense of Teva (subject to approval by the Board or by court).

Board Practices and Procedures. Historically, Teva s Board members have been elected for terms of three years. Teva believes that this system of multi-year terms allows Teva s directors to acquire and provide Teva with the benefit of a high level of expertise with respect to its complex business.

Board Meetings. Meetings of the Board of Directors are generally held every 4-6 weeks throughout the year, with additional special meetings scheduled when required. The Board held 14 meetings in 2003.

Directors Service Contracts. Teva does not have any contracts with any of its non-executive directors that would for provide for benefits upon termination of employment.

Home Country Practice. Teva is in compliance with corporate governance standards as currently applicable to Teva under Israeli, U.S., SEC and Nasdaq laws and regulations.

As further described below, Teva is in the process of adopting an audit committee charter formalizing its procedures and duties and also considering a nominating procedure, each pursuant to applicable laws and regulations.

Communications with the Board. Stockholders or other interested parties can contact any director or committee of the Board by writing to them care of Teva Pharmaceutical Industries Limited, 5 Basel Street, Petach Tikva, Israel, Attn: Corporate Secretary or Internal Auditor. Comments or complaints relating to Teva s accounting, internal controls or auditing matters will also be referred to members of the audit committee as well as other bodies of the Company. The Board has adopted a global whistleblower policy, which provides employees and others an anonymous means of communicating with the audit committee.

Statutory Independent Directors

Under Israeli law, publicly held Israeli companies such as Teva are required to appoint two independent directors, who must also serve on the audit committee. All other Board committees must include at least one independent director. Such statutory independent directors are appointed by the general meetings by the holders of a majority of Teva s ordinary shares and must meet certain non-affiliation criteria all as provided under Israeli law. An independent director is appointed for an initial term of three consecutive years, and may be reappointed for one additional three-year term. Regulations promulgated under Israeli law set the minimum and maximum compensation that may be paid to independent directors. At present, Prof. Gabriela Shalev and Dr. Leora Meridor serve in this capacity.

Committees of the Board

Teva s Articles of Association provide that the Board of Directors may delegate its powers to one or more committees of the Board as it deems appropriate to the extent such delegation is permitted under the Israel Companies Law. Each committee must include at least one independent director. The Board has appointed audit, compensation, finance, science and technology, and community affairs committees.

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Audit Committee

Israel s Companies Law mandates the appointment of an audit committee comprised of at least three directors. The audit committee must include both statutory independent directors and may not include certain members of the Board. Under the Israeli Companies Law, the audit committee is responsible for overseeing the business management practices of the company in consultation with the company s internal auditor and independent auditors, making recommendations to the Board to improve such practices and approving any transactions with affiliates, as described below under Item 10 Additional Information Memorandum and Articles of Association Directors Powers. In accordance with the Sarbanes-Oxley Act and Nasdaq requirements, Teva s audit committee is directly responsible for the appointment, compensation and oversight of Teva s independent auditors. In addition, the audit committee is responsible to assist the Board in monitoring Teva s financial statements and the effectiveness of its internal controls. Teva is in the process of implementing a formal audit committee charter embodying these responsibilities.

The current members of Teva s audit committee are Dov Shafir (Chairman), Prof. Gabriela Shalev, Dr. Leora Meridor, Dr. Max Reis, Prof. Moshe Many and Prof. Meir Heth (the audit committee financial expert, as discussed below), all of whom have been determined to be independent as defined by the applicable Nasdaq rules and those of the SEC. During 2003, the audit committee held 10 meetings.

The Board has determined that Prof. Meir Heth is an audit committee financial expert as defined by applicable SEC regulations. See Item 16A: Audit Committee Financial Expert below.

Compensation Committee

The compensation committee is responsible for determining, or recommending for determination, the compensation of Teva s executive and other officers and making proposals to the board with respect to the terms of employment of such individuals. The current members of Teva s compensation committee are Prof. Meir Heth, chairman, Harold Snyder, Amir Elstein, Dov Shafir and Prof. Gabriela Shalev or, in her absence, Dr. Leora Meridor, all of whom have been determined to be independent as defined by the applicable Nasdaq rules and those of the SEC. During 2003, the compensation committee held two meetings.

Finance Committee

The finance committee is responsible for overseeing financial strategies and financing policies, as well as a variety of other financial-related matters. The current members of the committee are Eli Hurvitz, Chairman, Dr. Leora Meridor, Prof. Gabriela Shalev, Amir Elstein and Prof. Meir Heth. The committee held four meetings in 2003.

Science and Technology Committee

The science and technology committee is primarily engaged in the review and analysis of the annual budgets and plans of the innovative and generic R&D divisions and Teva s relationship with the scientific community. The current members of the committee are Prof. Moshe Many (Chairman), Eli Hurvitz, Prof. Gabriela Shalev/Dr. Leora Meridor, Prof. Michael Sela, Amir Elstein, Dr. Max Reis, Dov Shafir, Abraham Cohen

and Harold Snyder. The committee held three meetings in 2003.

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Community Affairs Committee

The community affairs committee is primarily engaged in the review and oversight of Teva s programs relating to community and public policy issues. These activities include financial and other participation with respect to various medical, educational and cultural institutions and events. The current members of the committee are Eli Hurvitz (Chairman), Ruth Cheshin, Prof. Gabriela Shalev, Prof. Meir Heth, Dov Shafir, Leslie Dan and Prof. Michael Sela. The committee held two meetings in 2003.

Employees

As of December 31, 2003, Teva employed approximately 10,960 employees. Teva considers its labor relations with its employees around the world to be good.

Over the past three years, the number of Teva employees by geographic area were as follows:

	December 31,		
	2003	2002	2001
Geographic Area			
Israel	3,430	3,128	2,906
Europe	4,129	3,766	3,427
North America	2,940	2,569	2,543
Rest of the World	461	114	110
Total	10,960	9,576	8,986

Grouped by function, approximately 56% of Teva s employees work in pharmaceutical production, 19% in sales and marketing, 11% in research and development and 14% in general and administrative function. In addition to the above numbers, as of December 31, 2003, Sicor employed 2,104 employees worldwide.

Share Ownership

As of December 31, 2003, all the directors and executive officers as a group beneficially held 19,896,806 ordinary shares (approximately 7.1% of Teva s outstanding shares). This figure includes 4,871,880 shares beneficially owned by Eli Hurvitz, representing approximately 1.7% of Teva s outstanding shares, and 4,233,159 shares beneficially owned by Harold Snyder, representing approximately 1.5% of Teva s outstanding shares. Such persons are the only directors or officers who hold 1% or more of Teva s outstanding shares as of December 31, 2003. In addition, as a result of the Sicor acquisition, Carlo Salvi beneficially owned, as of January 23, 2004, 4,257,186 shares, representing approximately 1.5% of Teva s outstanding shares as of such date.

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ITEM 7: MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

To the best knowledge of Teva, as of February 15, 2004, there is no shareholder who beneficially owns 5% or more of Teva s ordinary shares. All holders of Teva ordinary shares have one vote per share.

In connection with the Novopharm acquisition in 2000, Teva entered into a registration rights agreement with Dan Family Holdings Ltd., an affiliate of Mr. Leslie Dan, a director of Teva, and his children. Under the agreement, Dan Family Holdings Ltd. and certain affiliates of Mr. Dan and his children have the right to request that Teva file a registration statement under the Securities Act (on up to an aggregate of three occasions) covering the sale of certain Teva ordinary shares or ADRs beneficially owned by such persons. In addition, under the agreement, if Teva proposes to register any of its ordinary shares or ADRs, whether or not for sale for its own account, Dan Family Holdings Ltd. and such affiliates of Mr. Dan and his children may require Teva to include all or a portion of such shares or ADRs in the registration and any related underwriting. As a result of various transactions during 2002 and 2003, Teva believes that the registration rights now apply to up to 9,292,023 ordinary shares beneficially owned by such persons. In general, all fees and expenses of such registration (other than underwriting discounts and selling commissions) will be paid by Teva.

In September 2003, Teva purchased 14,021,000 units issued by Viventia Biotech Inc., a publicly traded Canadian biotech company, for CDN $2.8 million. Each unit is comprised of one common share and one common share purchase warrant. Leslie Dan, a director of Teva, is a major shareholder and director of Viventia. In addition, in February 2004, Teva s audit committee and Board of Directors approved the purchase of certain property in Canada owned by Mr. Dan. The property serves as the manufacturing facility for Teva s penicillin manufacturing operations. The sale price for the transaction, which is scheduled to close shortly, is approximately CDN $6.25 million.

As of January 30, 2004, there were approximately 1,600 record holders of ADRs, whose holdings represented approximately 73% of the total outstanding ordinary shares, substantially all of which record holders were in the United States.

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Legal Proceedings

General

Teva and its subsidiaries are from time to time subject to claims arising in the ordinary course of their business, including product liability claims. In addition, as described below, as a result of patent challenge procedures under applicable law, Teva is frequently subject to patent litigation. Teva believes it has meritorious defenses to the actions to which it has been made a party and expects to pursue vigorously the defense of each of the ongoing actions described below. Based upon the status of these cases, the amounts involved relative to insurance coverage, the advice of counsel given with respect to such cases, and management s assessment of such cases, no provision has been made in our accounts for any of the matters described below. Teva believes that none of the proceedings described below will have a material adverse effect on its financial condition; however, if one or more of such proceedings were to result in judgments against Teva, such judgments could be material to its results of operations in a given period.

Teva from time to time seeks to develop generic products for sale prior to patent expiration in various territories. In the United States, to obtain generic approval for a product prior to the expiration of the originator patent, Teva must challenge the patent under the procedures set forth in the Hatch-Waxman Act of 1984, as amended by the Medicare Prescription Drug Improvement and Modernization Act of 2003. To the extent that it seeks to utilize such patent challenge procedures, Teva is involved and expects to be involved in patent litigation regarding the validity, enforceability or infringement of the originator s patent. Additionally, Teva may be involved in patent litigation involving the extent to which alternate manufacturing process techniques may infringe on originator or third party process patents. Although the underlying generic industry legislation is different in Canada, Europe and Israel, from time to time Teva is also involved in similar patent litigation regarding corresponding patents in several of these jurisdictions.

Teva s business inherently exposes it to potential product liability claims. From time to time, the pharmaceutical industry has experienced difficulty in obtaining product liability insurance coverage for certain products or coverage in the desired amounts or with the desired deductibles. As a result, Teva sells and shall continue to sell, pharmaceutical products that are not covered by insurance and may also be subject to product liability claims that are not covered by insurance or that exceed Teva s policy limits.

Product Liability Matters

Teva USA is a manufacturer of Adipex-P brand phentermine hydrochloride, and has been sued in both class actions and individual lawsuits relating to the alleged negative health effect of phentermine and fenfluramine. While neither drug had been indicated or approved for combination use by the FDA, physicians sometimes prescribed the two together in a combination treatment for weight control known as fen-phen. Plaintiffs have filed lawsuits from August 1997 to the present in a variety of state and federal jurisdictions seeking monetary damages in unspecified amounts. The federal actions have been consolidated for pretrial purposes in the United States District Court for the Eastern District of Pennsylvania in a multidistrict litigation proceeding.

In August 2000, a claim was filed in the Tel Aviv District Court, and is now pending against Teva, with respect to damages caused to the plaintiff as a result of the use of a product containing the ingredient diethylstilbestrol (DES). In July 2003, the claim was dismissed by the district court on the basis of the statute of limitations. This decision is subject to appeal.

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In May and November 2001, 69 plaintiffs filed an additional claim against Teva, in the District Court of Jerusalem, for damages caused by the use of two products containing DES. In July 2002, the plaintiffs amended their claim to include the Clalit Health Services as a further defendant (in addition to the Ministry of Health). Due to the addition and withdrawal of some plaintiffs, the current claim involves 72 claimants. The aggregate amount of the two claims is approximately $10 million, not including general damages.

On April 5, 2001, a claim was filed against Teva in the Tel Aviv District Court with respect to the use of a pharmaceutical product known as Chorigon Ampoules 5000 Units. The plaintiffs allege that they were administered with allegedly defective ampoules of the product during the course of an in vitro fertilization treatment, resulting in the failure of the treatment and causing financial damages and mental anguish. The plaintiffs have filed a petition to certify the claim as a class action, which has not yet been decided.

Bayer and Bayer s marketing joint venturer GSK have been named in extensive litigation for personal injuries allegedly related to the use of the product Baycol®, a blood lipid reducing agent, which Bayer withdrew from the market in August 2001. Teva is the manufacturer of gemfibrozil, the generic version of Lopid®, another blood lipid reducing drug, which was at times prescribed in combination with Baycol®. Teva USA has been named as co-defendant of Bayer and GSK in nine cases where there allegedly was concomitant use of Baycol® and gemfibrozil, seven of which remain pending in the state courts of Pennsylvania and Georgia. The complaints in each of these cases allege that plaintiff was injured as a result of exposure to gemfibrozil, either alone or in combination with Baycol®.

Intellectual Property Proceedings

In May 2002, Teva USA won a judgment in the U.S. District Court in Norfolk, Virginia in a declaratory judgment action it brought against GSK regarding seven U.S. patents related to potassium clavulanate, an active ingredient in Augmentin® (or amoxiclav). The court ruled that all seven patents were invalid based on double patenting. Following the district court decision, and subsequent FDA approval, Teva USA launched its amoxiclav product, which contains potassium clavulanate. On November 21, 2003, the Court of Appeals for the Federal Circuit affirmed the district court s ruling, and the period for GSK to petition the Supreme Court has now expired. The 2002 annual sales of the branded product in the U.S. were estimated to be in excess of $1 billion.

In August 2002, GSK filed a complaint against Teva USA in the Pennsylvania Court of Common Pleas. Ranbaxy Pharmaceuticals, Inc. is a defendant in the same case, though GSK does not allege any connection between Teva USA and Ranbaxy. The complaint alleges that Teva USA s amoxiclav products are derived from a strain of streptomyces clavuligerus stolen from GSK. The complaint asserts causes of action for alleged trade secret misappropriation, unfair competition and conversion. The suit seeks equitable relief and imposition of a constructive trust related to Teva USA s amoxiclav products. Teva USA filed its answer to the amended complaint on October 8, 2003, denying all allegations of wrongdoing. Although Teva believes that the likelihood of GSK prevailing is low, if GSK s allegations are proven true, Teva USA could be required to pay damages to GSK related to the sales of Teva USA s amoxiclav products and be enjoined from selling those products.

On August 5, 2002, Lek Pharmaceuticals D.D. filed a complaint against Teva USA in the United States District Court for the District of New Jersey. Lek has accused Teva USA of misappropriating Lek s trade secrets and proprietary information pertaining to certain formulations for Teva USA s amoxiclav products. In its complaint, Lek seeks equitable relief and unspecified damages. Teva USA filed its answer on September 24, 2002, denying all allegations of wrongdoing. Although Teva believes that the likelihood of Lek prevailing is low, if Lek s allegations are proven true, Teva USA could be required to pay damages to Lek related to the sales of Teva USA s amoxiclav products and enjoined from selling those products.

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On September 12, 2002, Teva USA obtained summary judgment from the U.S. District Court for the Northern District of Illinois regarding a U.S. patent on a combination of Hydrocodone Bitartrate and Ibuprofen. The district court ruled that the U.S. patent is invalid as obvious. The patent expires on December 18, 2004. The patent was asserted by Knoll Pharmaceutical Company, now a subsidiary of Abbott Laboratories, which markets the combination as Vicoprofen®. The 2002 annual sales of the branded product in the U.S. were estimated to be approximately $108 million. In April 2003, following FDA approval, Teva USA launched its product, Hydrocodone Bitartrate and Ibuprofen Tablets, 7.5 mg/200 mg. Knoll has appealed the district court s judgment and that appeal is fully briefed and argued.

On March 24, 2003, Teva USA obtained summary judgment from the U.S. District Court for the District of New Jersey, which held that Teva USA s Moexipril Hydrochloride Tablets did not infringe a U.S. patent licensed by Warner Lambert Company to Schwarz Pharma, Inc. and Schwarz Pharma AG, which market their moexipril formulation as Univasc. In May 2003, following FDA approval, the Company launched its product, Moexipril Hydrochloride, 7.5 mg./15 mg. The 2002 annual sales of the branded product in the U.S. were estimated to be approximately $70 million. On January 29, 2004, the U.S. Court of Appeals for the Federal Circuit vacated the district court s summary judgment decision and remanded the case for further proceedings, which will involve Teva USA s allegations of inequitable conduct, invalidity and non-infringement. Were Schwarz Pharma to be successful on its allegation of patent infringement, Teva USA could ultimately be required to pay damages related to the sales of moexipril hydrochloride tablets and be enjoined from selling that product.

On February 12, 2002, Merck filed a lawsuit against Biogal and Biogal-Teva Pharma Ltd (BTP) alleging infringement of a certain patent registered in Hungary relating to certain chemical characteristics of simvastatin manufactured by Biogal, and requesting, among others, unspecified damages. Merck has also requested the court to issue a temporary injunction to enjoin Biogal and BTP from continuing the alleged infringement. Upon their objection and after Merck deposited the court requested security in the amount of HUF 1 billion ($5 million), in June 2002 the court issued a temporary injunction ordering Biogal and BTP to stop the manufacturing and distribution of the product and enjoining them from further illegal action. Biogal s appeal to the Hungarian Highest Court in July 2002 and further requests to the Metropolitan Court to remove the injunction were denied. In the meantime, Biogal has filed its answer in the infringement law suit denying Merck s allegations. No further action has taken place in the infringement lawsuit, and none is expected until after final adjudication of the proceedings for the annulment of the Merck patent in question as described in the following. Concurrently with the filing of the lawsuit by Merck, Biogal filed on March 11, 2002 with the Hungarian Patent Office (HPO) a petition for the annulment of the Merck patent in question. In March 2003, the HPO nullified in its entirety the Merck patent that is the basis of its infringement claim against Biogal and BTP. Merck has filed with the Metropolitan Court which has jurisdiction in the matter a request for reconsideration of the HPO decision. Biogal has filed its objection in the matter. On December 5, 2003, the Metropolitan Court remanded the case on a technicality to the HPO for further investigation on certain points. Biogal decided not to appeal the decision. There is no date set yet by the HPO for the renewed proceedings.

Commercial Matters

Teva s Hungarian subsidiary, Biogal Pharmaceutical Works Ltd., was sued in July 1999 in the County Court of Debrecen, Hungary by a Hungarian institute (Gyógyszerkutató Intézet Kft) for additional royalties arising out of a series of contracts for the development of a pharmaceutical active ingredient. Although the plaintiff has not made any claims for a specific amount, the court, in an interim decision, ordered Biogal to submit an accounting on the contested terms. Biogal has appealed the decision.

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On March 1, 2004, a subsidiary of Teva received notification from an affiliate of Biovail Corporation that it has initiated an arbitration proceeding in connection with a dispute regarding payments made to Biovail under its 1997 marketing and product development agreement with Teva s subsidiary. Biovail seeks to recover its share in the $98 million that Biovail alleges was improperly deducted by Teva s subsidiary from product sales commencing in 2000 on which the companies are to share profit. Biovail further seeks to terminate the agreement for what it characterizes as material contractual breaches. The arbitration demand also includes a RICO claim, for which Biovail seeks treble damages, and further requests punitive damages in amounts to be determined. Teva disputes Biovail s allegations, will vigorously defend itself against Biovail s claims and believes that Biovail s allegations will be found without merit in the upcoming arbitration proceeding.

Competition, Pricing and Regulatory Matters

Teva USA is a defendant, along with Biovail Corp. and Elan Corporation, plc, in several civil actions currently pending in the federal district court in the District of Columbia. The cases allege generally that arrangements between Biovail and Elan relating to sales of Nifedipine Extended Release Tablets CC, in connection with which Teva USA acted as a distributor for Biovail, were unlawful under the federal antitrust laws and various state laws. The challenged arrangements were previously the subject of a consent decree entered into by the U.S. Federal Trade Commission with Biovail and Elan, to which Teva USA was not a party. The cases seek injunctive relief, unspecified monetary damages, attorneys fees, and costs. The cases were brought on behalf of alleged classes of persons who purchased both directly and indirectly Nifedipine Extended Release Tablets CC made by Elan or Biovail and sold in the United States by Teva USA. On October 15, 2003, Teva USA, Biovail and Elan moved to dismiss the complaints on various grounds.

On February 25, 2003, two motions requesting permission to institute a class action were filed in the Superior Court for the Province of Quebec against all major Canadian generic drug manufacturers, including Novopharm. The claims seek to proceed with a class action for damages based on alleged marketing practices of generic drug manufacturers in the Province of Quebec. In Quebec, a class action cannot be instituted without court approval and Novopharm intends to contest the authorization of both as class actions.

In May 2003, Teva USA accepted service in U.S. *ex rel.* King v. Alcon Laboratories, Inc., et al., a *qui tam* action, filed in U.S. District Court for the Northern District of Texas, against 28 pharmaceutical companies, comprising a substantial portion of the U.S. pharmaceutical industry. The complaint, brought by an individual on behalf of the United States pursuant to provisions of the federal False Claims Act, alleges that defendant pharmaceutical companies defrauded the United States government by selling products to the United States and its instrumentalities that were not manufactured in full compliance with FDA Current Good Manufacturing Practices, and were therefore adulterated within the meaning of the Food and Drug Act. The complaint seeks the recovery of $30 billion collectively from defendants. The United States Department of Justice has twice declined to intervene in the lawsuit to pursue the claims directly on behalf of the United States. The defendants motion to dismiss the complaint was denied on February 24, 2004, on the ground that the motion was moot in view of the filing of a further amended complaint. Teva USA plans to refile its motion to dismiss against the newly filed amended complaint.

On September 25, 2003, the Attorney General of the Commonwealth of Massachusetts filed a lawsuit in the U.S. District Court in Boston against thirteen leading manufacturers of generic

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drugs, including Teva USA. The lawsuit alleges that the defendants failed to comply with Medicaid rules and regulations pertaining to the reporting of prices for pharmaceutical products, resulting in inflated reimbursements to the businesses that provide such products to eligible consumers. On January 29, 2004, Teva USA, along with the other defendants, filed a motion to dismiss the complaint on various grounds.

Teva and its subsidiaries expect to pursue vigorously the defense of each of the ongoing actions described in this section. If Teva s efforts were to be unsuccessful, some of these actions could result ultimately in Teva or its subsidiaries paying damages, which in some cases (in particular with respect to some of the cases listed under Intellectual Property Proceedings) may be computed based on or related to the sales of the relevant product or may result in our being ordered to cease sales of a product in our portfolio.

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ITEM 9: THE OFFER AND LISTING

ADRs

In February 2000 and in December 2002, Teva effected a 2 for 1 stock split. Each holder of an ordinary share, or an ADR, as the case may be, was issued another share. All figures in this annual report have been adjusted to reflect the stock splits.

Teva s ADRs have been traded in the United States since 1982 and were admitted to trading on the Nasdaq National Market in October 1987. The ADRs are quoted under the symbol TEVA. The Bank of New York serves as Depositary for the ADRs. In November 2002, Teva was added to the NASDAQ 100 Index. Each ADR represents one ordinary share.

The following table sets forth information regarding the high and low prices of the ADR on Nasdaq for the periods specified in U.S. dollars.

Period	High	Low
Last six months:		
March 2004 (until March 9)	66.70	64.10
February 2004	62.25	67.36
January 2004	63.33	57.00
December 2003	62.35	55.91
November 2003	61.45	54.48
October 2003	59.57	52.00
September 2003	61.56	54.55
Last eight quarters:		
Q4 2003	62.35	52.00
Q3 2003	61.56	52.20
Q2 2003	58.41	42.01
Q1 2003	43.95	34.50
Q4 2002		