TEVA PHARMACEUTICAL INDUSTRIES LIMITED
(An Israeli Corporation)
INDEX

TEVA PHARMACEUTICAL INDUSTRIES LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(U.S. dollars in millions, except earnings per ADR)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	**2000**	**2001**	**2000**
Sales	$505.7	$450.1	$1,510.3	$1,231.4
Cost of Sales	300.0	269.7	902.9	745.2
Gross Profit	205.7	180.4	607.4	486.2
Research and development expenses:				
Total expenses	41.2	36.3	119.5	88.6
Less - grants and participations	18.7	8.6	41.8	14.8
	22.5	27.7	77.7	73.8
Selling, general and administrative expenses	84.2	78.3	265.0	213.1
	99.0	74.4	264.7	199.3
Acquisition of research and development in process	-	-	-	35.7
Operating income	99.0	74.4	264.7	163.6
Financial expenses – net	5.2	12.0	21.7	37.1
Other income – net	2.5	0.2	6.6	7.5
Income before income taxes	96.3	62.6	249.6	134.0
Provision for income taxes	17.5	16.1	50.9	42.3
	78.8	46.5	198.7	91.7
Share in Profits (losses) on equity investments	0.7	(0.7)	0.7	(0.1)
Minority interests	(0.1)	(0.5)	(0.8)	(1.1)
Net income	$79.4	$45.3	$198.6	$90.5
Earnings per ADR:				
Basic	$0.60	$0.35	$1.50	$0.70
Diluted	$0.58	$0.34	$1.45	$0.70
Weighted average number of ADRs (in millions):				
Basic	132.3	130.8	132.2	128.4
Diluted	140.7	133.0	140.3	130.1

The accompanying notes are an integral part of the condensed financial statements

TEVA PHARMACEUTICAL INDUSTRIES LIMITED
CONDENSED CONSOLIDATED BALANCE SHEETS
(U.S. dollars in millions)

	September 30, 2001	December 31, 2000
	(Unaudited)	(Audited)
ASSETS		
Current assets:		
Cash and cash equivalents	$803.3	$420.6
Short-term investments	11.0	3.9
Accounts receivable:		
Trade	591.4	543.6
Other	196.2	137.2
Inventories	536.8	503.5
Total current assets	2,138.7	1,608.8
Investments and other assets	110.0	100.1
Property, plant and equipment, net	548.6	534.1
Intangible assets, net	598.2	612.6
Total assets	$3,395.5	$2,855.6
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term credit – mainly from banks	$207.1	$341.5
Accounts payable and accruals	524.1	442.3
Total current liabilities	731.2	783.8
Long-term liabilities:		
Deferred income taxes	42.9	64.9
Employee related obligations	48.1	40.1
Loans and other liabilities	340.0	263.9
Convertible senior debentures	910.0	550.0
Total long-term liabilities	1,341.0	918.9
Total liabilities	2,072.2	1,702.7
Minority interests	2.5	1.6
Shareholders' equity:		
Ordinary shares of NIS 0.10 par value; September 30, 2001 and December 31, 2000: Authorized-498,586,000 shares; issued and outstanding – 128,081,000 shares and 127,917,000 shares, respectively	31.0	31.0
Additional paid-in capital	479.6	476.2
Deferred compensation	(0.4)	(0.6)
Retained earnings	902.8	728.3
Accumulated other comprehensive loss	(57.5)	(52.6)
Cost of company shares held by subsidiaries – September 30, 2001 and December 31, 2000 – 2,129,000 ordinary shares and 2,119,000 ordinary shares, respectively	(34.7)	(31.0)
Total shareholders' equity	1,320.8	1,151.3
Total liabilities and shareholders' equity	$3,395.5	$2,855.6

The accompanying notes are an integral part of the condensed financial statements

TEVA PHARMACEUTICAL INDUSTRIES LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. dollars in millions)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	**2000**	**2001**	**2000**
Cash flows from operating activities:				
Net Income	$79.4	$45.3	$198.6	$90.5
Income and expenses not involving cash flows	20.1	17.3	65.2	96.2
Changes in certain assets and liabilities	(33.4)	(16.2)	(41.0)	(97.6)
Net cash provided by operating activities	66.1	46.4	222.8	89.1
Cash flows from investing activities:				
Purchase of property, plant and equipment	(28.0)	(14.0)	(78.3)	(57.6)
Investment grant related to property, plant and equipment	-	0.6	-	1.6
Acquisition of companies	-	-	-	(2.5)
Acquisition of know-how, patents and product rights	(3.2)	(2.5)	(12.7)	(10.4)
Proceeds from sale of property, plant and equipment	0.6	0.3	4.2	4.0
Loan repaid by an associated company	0.4	(0.1)	0.4	0.3
Acquisition of long-term investments and other assets	(6.0)	(0.5)	(6.8)	(3.7)
Loan advanced	-	-	(22.0)	-
Net decrease (increase) in short-term investments	(3.3)	(0.2)	(6.2)	19.4
Net cash used in investing activities	(39.5)	(16.4)	(121.4)	(48.9)
Cash flows from financing activities:				
Proceeds from exercise of options	1.0	1.3	5.1	11.4
Cost of acquisition of Company shares, net of proceeds from sale	(1.8)	0.2	(3.6)	(5.4)
Exercise of warrants	-	-	-	0.5
Long-term loans and other long-term liabilities received	80.8	135.1	80.8	135.4
Discharge of long-term loans and other liabilities	(3.3)	(3.5)	(64.1)	(147.3)
Net increase (decrease) in short-term credit	17.3	(146.5)	(65.0)	13.7
Issue of senior convertible debentures	352.3	-	352.3	-
Dividends paid	(8.3)	(7.1)	(24.9)	(20.6)
Net cash provided by (used in) financing activities	438.0	(20.5)	280.6	(12.3)
Translation differences on cash balances of certain subsidiaries	2.6	(3.7)	0.7	(5.9)
Net increase in cash and cash equivalents	467.2	5.8	382.7	22.0
Cash and cash equivalents at beginning of period	336.1	93.4	420.6	77.2
Cash and cash equivalents at end of period	$803.3	$99.2	$803.3	$99.2

The accompanying notes are an integral part of the condensed financial statements

TEVA PHARMACEUTICAL INDUSTRIES LIMITED
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 – Basis of Presentation:

The accompanying unaudited condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the financial condition and results of operations of Teva Pharmaceutical Industries Limited (the "Company"). These consolidated financial statements and notes thereto are unaudited and should be read in conjunction with the Company's audited financial statements included in the Company's report on Form 20-F, as filed with the Securities and Exchange Commission. The results of operations for the three months and nine months ended September 30, 2001 are not necessarily indicative of results that could be expected for the entire fiscal year.

NOTE 2 – Earnings per American Depository Receipt ("ADR"):

Basic earnings per ADR are computed by dividing net income by the weighted average number of ADRs/shares (including special shares exchangeable into ordinary shares issued in connection with the acquisition of Novopharm Ltd.), outstanding during the period, net of Company shares held by subsidiaries.

Diluted earnings per ADR are computed by dividing net income by the weighted average number of ADRs/shares (including the special shares) outstanding during the period, net of Company shares held by subsidiaries, taking into account the potential dilution that could occur upon: (1) the conversion of the convertible senior debentures, using the if-converted method; and (2) the exercise of options granted under employee stock option plans, using the treasury stock method.

NOTE 3 – Inventories:

Inventories consisted of the following:

	September 30, 2001	December 31, 2000
	U.S. dollars in millions	
Raw and packaging materials	$151.3	$115.7
Products in process	110.3	85.3
Finished products	226.8	255.5
Purchased products	38.4	35.7
	526.8	492.2
Materials in transit and payments on account	10.0	11.3
	$536.8	$503.5

TEVA PHARMACEUTICAL INDUSTRIES LIMITED
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 4 – Comprehensive income:

Comprehensive income for the Company is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
	U.S. dollars in millions			
Net income	$79.4	$45.3	$198.6	$90.5
Unrealized holding gains (losses) on available-for-sale securities, net	0.3	-	(0.5)	-
Translation of non-dollar-currency financial statements of subsidiaries and Associated companies	0.3	(15.1)	(4.5)	(28.5)
	$80.0	$30.2	$193.6	$62.0

NOTE 5 – Financial information by business segment:

a. Financial data relating to reportable operating segments:

	Pharmaceutical	API	Other	Total
	U.S. dollars in millions			
Three month period ended September 30, 2001:				
Sales:				
To unaffiliated customers	$444.8	$56.0	$4.9	$505.7
Intersegment	-	39.2	0.3	39.5
Total sales	$444.8	$95.2	$5.2	$545.2
Operating income	$77.2	$33.3	$0.4	$110.9
Assets (at end of period)	$1,197.3	$498.9	$22.1	$1,718.3
Depreciation and amortization of segment assets	$18.9	$7.0	$0.2	$26.1
Three month period ended September 30, 2000:				
Sales:				
To unaffiliated customers	$401.2	$43.7	$5.2	$450.1
Intersegment	-	40.6	0.1	40.7
Total sales	$401.2	$84.3	$5.3	$490.8
Operating income	$62.8	$27.0	$1.0	$90.8
Nine month period ended September 30, 2001:				
Sales:				
To unaffiliated customers	$1,337.7	$157.5	$15.1	$1,510.3
Intersegment	0.1	113.6	0.6	114.3
Total sales	$1,337.8	$271.1	$15.7	$1,624.6
Operating income	$215.8	$94.9	$1.5	$312.2
Assets (at end of period)	$1,197.3	$498,9	$22.1	$1,718.3
Depreciation and amortization of segment assets	$57.8	$18.4	$0.5	$76.7
Nine month period ended September 30, 2000:				
Sales:				
To unaffiliated customers	$1,087.8	$127.7	$15.9	$1,231.4
Intersegment	0.3	105.2	0.5	106.0
Total sales	$1,088.1	$232.9	$16.4	$1,337.4
Operating income	$158.8	$76.2	$3.0	$238.0

b. Following is a reconciliation of operating income and assets of the reportable segments to the data included in the condensed consolidated financial statements:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	**2000**	**2001**	**2000**
	U.S. dollars in millions			
Total operating income of reportable segments	$110.5	$89.8	$310.7	$235.0
Other	0.4	1.0	1.5	3.0
Amounts not allocated to segments:				
Profits not yet realized	1.7	(4.0)	(7.5)	(8.3)
General and administration expenses	(9.3)	(9.9)	(31.0)	(27.7)
Other expenses	(4.3)	(2.5)	(9.0)	(2.7)
Acquisition of research and development in process	-	-	-	(35.7)
Financial expenses – net	(5.2)	(12.0)	(21.7)	(37.1)
Other income - net	2.5	0.2	6.6	7.5
Consolidated income before income taxes	$96.3	$62.6	$249.6	$134.0

	September 30, 2001
	U.S. dollars in millions
Assets	
Total assets of reportable segments	$1,696.2
Other assets	22.1
Elimination of intersegment balances	(74.8)
Elimination of unrealized income from inventories	(3.0)
Assets not allocated to segments:	
Current assets	1,010.5
Investments and other assets	110.0
Property, plant and equipment, net	36.3
Intangible assets, net	598.2
Consolidated assets at September 30, 2001	$3,395.5

NOTE 6 – Recently issued accounting pronouncements:

On June 29, 2001, the FASB approved its proposed Statements of Financial Accounting Standards No. 141, BUSINESS COMBINATIONS, and No.142, GOODWILL AND OTHER INTANGIBLE ASSETS. FAS 141 requires that all business combinations subsequent to June 30, 2001 be accounted for under the purchase method of accounting. FAS 142 requires cessation of goodwill amortization and periodic evaluation of the goodwill carrying value. The provisions of FAS 142 will be effective for fiscal years beginning after December 15, 2001. The Company currently is amortizing goodwill in equal annual installments, mainly over the period of 30 years.

OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion and analysis should be read in conjunction with the consolidated financial statements, the related notes to the consolidated financial statements and the Operating and Financial Review and Prospects included in Teva's Annual Report on Form 20-F for the fiscal year ended December 31, 2000 and the unaudited interim condensed consolidated financial statements contained in this Report on Form 6-K and the related notes to such unaudited interim condensed consolidated financial statements.

Except for historical information contained in this report, the matters discussed below are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements are based on current expectations and involve a number of known and unknown risks and uncertainties that could cause the Company's 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 US Food and Drug Administration ("FDA") and other regulatory authority approvals, the regulatory environment and changes in the health policies and structure of various countries, acceptance and demand for new pharmaceutical products and new therapies, the impact of competitive products and pricing, the availability and pricing of ingredients used in the manufacture of pharmaceutical products, 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, exposure to product liability claims, dependence on patent and other protections for innovative products, fluctuations in currency, exchange and interest rates, operating results and other factors that are discussed in the Company's Annual Report on Form 20-F and the Company's other filings with the U.S. Securities and Exchange Commission ("SEC").

The Company undertakes no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. Readers are advised, however, to consult any additional disclosures that the Company may make in its Reports on Form 6-K to the SEC.

Results of Operations

Comparison of Three Months Ended September 30, 2001 to Three Months Ended September 30, 2000

General

The most significant factors affecting the results of the third quarter of 2001 were:

- The launch of four new generic products in the United States, the most significant of which was Nabumetone which enjoys a 180 day marketing exclusivity period, and the continued growth of global sales of Copaxone®.

- A more favorable environment in Europe in terms of:

    - The relative stability of the Euro as compared to the comparable quarter of 2000
    - An increased market share in The Netherlands
    - The level of prices in the UK, which stabilized for the first time after the continuous erosion that started in the second quarter of 2000.

- Improved gross margins, mainly due to the newly launched products and cost controls.

- Significantly increased gross R&D expenditures which nevertheless resulted in lower net R&D expenses due to higher participation from strategic partners.

- A continuation of lower SG&A margins resulting from ongoing cost control programs.

- A sharp decrease in financial expenses resulting from the low interest rate of the two convertible debt issuances that we made subsequent to Q3 2000 (October 2000 and August 2001).

- A further reduction in the Company's effective tax rate reflecting a favorable shift in the geographic sources of our income.

Other significant recent events include:

- Copaxone®.

    - 15 European countries agreed to approve Copaxone® through the Mutual Recognition Procedure (MRP).

    - The FDA issued an approvable letter for Copaxone® in a pre-filled syringe formulation. Copaxone® is now expected to become the first relapsing-remitting MS drug therapy in the U.S. to offer improved patient convenience through this delivery method.

    - An interim analysis of the Coral (oral Copaxone®) trial showed a trend for a treatment effect in favor of the higher oral dose in patients who were treated for more than a year, although the difference has not reached statistical significance. If this trend does not achieve statistical significance at the end of the trial, additional trials at higher dosage levels will be required in order to complete the development of oral Copaxone®. Despite disappointment with the interim analysis, Teva is committed to the development of the first oral therapy for relapsing remitting multiple sclerosis patients and is encouraged by the positive trends seen in the trial.

- Hungary

    - As of July 1, 2001, the Hungarian government lifted a two-year price freeze on pharmaceutical products and permitted price increases which enabled Teva to increase its prices by an average of 6%. In addition, Hungarian pharmaceutical companies will once again be able to introduce new generic products to the market. Sales in the second quarter increased in anticipation of the elimination of the price freeze, with the result that the fourth quarter of the year will be the first in which Teva will enjoy the full impact of these price changes.

The following table sets forth certain financial data presented as a percentage of sales and the percentage change, for the periods indicated:

	Percentage of sales Three months ended September 30		**Period to period Percentage Change**
	2001	**2000**	
Sales	100.0%	100.0%	12.4%
Gross profit	40.7	40.1	14.1
Research and development expenses:			
Total expenses	8.2	8.1	13.5
Less grants & participations	(3.7)	(1.9)	117.0
R&D expenses – net	4.5	6.2	(18.7)
Selling, general and administrative expenses	16.7	17.4	7.5
Operating income	19.5	16.5	33.1
Financial expenses – net	1.0	2.7	(56.7)
Other income – net	(0.5)	(0.1)	(--)
Income before income taxes	19.0	13.9	53.8
Net income	15.6	10.1	75.3

As part of its growth strategy, Teva pursues acquisitions to supplement its organic growth. However, significant acquisitions have different effects on sales and net income. Following completion of an acquisition, Teva immediately experiences a substantial increase in sales, which only later is followed by improvements in net income as rationalization programs are implemented. Moreover, as rationalization programs are implemented, sales may be adversely affected by the elimination of unprofitable sales.

Sales – General

Consolidated sales for the three months ended September 30, 2001 were $506 million, an increase of 12% over the comparable period of 2000. Most of this growth arose in North America reflecting increased sales of generic products, as well as increased sales of Copaxone®.

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

Sales by Geographical Areas

Sales for the Period	U.S. Dollars in millions 3rd Quarter 2001	2000	% Change	% of Total
Israel	60.9	62.8	-3.0%	12.0%
North America	312.5	264.5	18.1%	61.8%
Europe	111.3	101.1	10.1%	22.0%
Rest of the World	21.0	21.7	-3.2%	4.2%
Total	505.7	450.1	12.4%	100.0%

Sales by Business Segments

Sales for the Period	U.S. Dollars in millions 3rd Quarter 2001	2000	% Change	% of Total
Pharmaceuticals	444.8	401.2	10.9%	88.0%
A.P.I. *	56.0	43.7	28.1%	11.0%
Other	4.9	5.2	-5.8%	1.0%
Total	505.7	450.1	12.4%	100.0%

*Third party only

Pharmaceutical Sales

Teva's total pharmaceutical sales during the three months ended September 30, 2001, were $445 million, comprising approximately 88% of Teva's total revenue and representing an increase of 11% relative to the comparable period of 2000.

North America

Pharmaceutical sales in North America which were the main driver of the increase in revenue, reached $281 million, an increase of 15% relative to the comparable period of 2000. This increase is attributable to higher sales of generic products, including the newly launched Nabumetone, and to increased Copaxone® sales. In contrast, sales in the Canadian market, were lower due to the increased competitive environment and lack of new products.

According to IMS data, as of the quarter ended September 30, 2001, Teva's United States subsidiary ranked first among all generic pharmaceutical companies in the United States in terms of new prescriptions and, for the first time based upon a rolling twelve month analysis, first among generic companies for total prescriptions

As of October 31, 2001, a total of 55 product applications were awaiting FDA approval. These included 11 applications as to which tentative FDA approval has already been granted. Collectively, the products covered by these 55 applications had a corresponding U.S. annual branded sales market size of approximately $22 billion. Thirty-seven applications awaiting FDA approval were submitted pursuant to a Paragraph IV procedure. To the extent that Teva was the first to file such Paragraph IV certifications, it should be eligible for 180-day marketing exclusivity upon receipt of FDA approval for the related generic products.

The following is a listing of the ANDAs received from the U.S. FDA since the beginning of July 1, 2001, all of which, except for Buspirone, have resulted in product launches:

Generic Product Name	Approval Date	Innovator Product Brand Name
Fluoxetine Oral Solution	August 2001	Prozac® Oral Solution
Buspirone HCl 15 mg	August 2001*	Buspar®
Nabumetone	August 2001	Relafen®
Enalapril HCTZ	September 2001	Vaseretic ®
Flutamide	September 2001	Eulexin ®
Calcitriol	October 2001	Rocaltrol ®

* Tentative Approval

Europe

Pharmaceutical sales in Europe were $92 million in the quarter ended September 30, 2001, an increase, in U.S. Dollar terms, of approximately 15% relative to the third quarter of 2000. The major contributors to this increase were: higher sales of generic products in The Netherlands, which also resulted in an increase in Teva's market share in The Netherlands, higher sales in Hungary, and increased Copaxone® sales.

In the U.K., while prices stabilized this quarter, the U.K. is currently seeking comments on alternative proposals for changes to the current pricing regulations for generic drugs. Teva cannot currently predict the outcome of these deliberations; however, Teva does not anticipate a change in the U.K. pricing system prior to the end of 2002 or early 2003.

Israel

Israeli pharmaceutical sales totaled $57 million during the quarter ended September 30, 2001, representing a decrease of 4% relative to the third quarter of 2000. This decline principally reflects the 5% devaluation of the New Israeli Shekel relative to the US dollar, between the comparative quarters.

Copaxone®

During the third quarter of 2001, global in-market sales of Teva's leading drug, Copaxone®, totaled $95 million, an increase of 44% over the comparable quarter of 2000. North America accounted for 89% of total Copaxone® sales. According to recently published IMS data, Copaxone's® market share in the U.S. increased to over 30% of new prescriptions, as compared to 27% a year ago.

During the reported quarter, 15 European countries agreed to approve Copaxone® through the Mutual Recognition Procedure (MRP). Marketing authorizations for Copaxone® have been granted so far in Germany, (which has the largest MS population in Europe), as well as Ireland, Sweden, Iceland, Finland, Spain, Denmark and the Netherlands. Launch activities in Germany began at the end of September 2001 and launches will take place in Austria and the Nordic countries during the fourth quarter. The other European countries will launch during 2002.

Sales of Active Pharmaceutical Ingredients (API)

API third party sales during the quarter ended September 30, 2001 were approximately $56 million (11% of Teva's consolidated sales for the quarter), representing a 28% increase as compared to the same period last year, mainly as a result of higher sales in North America. These higher sales reflect, in part, purchases in anticipation of major new generic product launches, including Lovastatin, by customers of the API division.

The API division continues to be a substantial supplier to Teva's own pharmaceutical units. The breakdown of total production of API between third party sales and internal consumption changes from quarter to quarter. During the quarter ended September 30, 2001, inter-company API sales amounted to approximately 40% of the total output of the API division.

Gross Profit

The gross profit margin for the quarter was 40.7% compared to 40.1% in the comparable quarter and 39.5% for the year 2000. In North America the Company faced conflicting trends. Gross margins increased due to sales of new products in the US (the most significant of which is Nabumetone) and increased sales of Copaxone® in the US. However, in Canada gross margins decreased as a result of the increased competitive environment and the lack of new generic products for the Canadian market. In addition, increased sales of new products by the API division contributed to the higher overall gross profit margins.

Research and Development

Gross R&D expenses during the quarter ended September 30, 2001 amounted to $41 million, an increase of approximately 14% as compared to the same period last year. Nevertheless, net R&D expenses decreased by 19% due to a larger portion of gross R&D that was covered by third parties (mainly by Lundbeck and Aventis) and due to a milestone payment from Aventis following the approval of Copaxone® in Germany, which amounted to $3.75 million net of royalties. This was the second out of three European based milestone payments arising from the 1996 agreement with Aventis, the first of which was received in the third quarter of 2000 upon receipt of approval in the UK and the last of which is expected to be received in the fourth quarter of 2001 or first quarter of 2002.

Financial Expenses

Net financial expenses in the quarter ended September 30, 2001 decreased by 57% to $5 million, as compared with the same period last year, mainly due to reduced interest expenses resulting from two issuances of convertible senior debentures made, respectively, in October 2000 ($550 million) and in August 2001 ($360 million).

Tax Rate

The rate of tax for the third quarter of 2001 was 18.2%, as compared to 25.7% in the third quarter of 2000 and 24.4% in the whole of 2000. The lower rate reflects the anticipation of a lower effective tax rate for the fiscal year 2001. This lower rate results from various income streams sourced from jurisdictions with lower tax rates, such as Israel and Hungary. The rate of tax fluctuates with the nature and source of taxable income.

Commencing 2002 certain tax exemptions applicable to Copaxone® activities will expire. This together with other partially compensating effects is estimated to increase Teva's annual tax rate to a percentage in the low 20's.

Net Income

Net income for the third quarter ended September 30, 2001 totaled $79 million, or $0.58 per share fully diluted, an increase over the comparable quarter of 2000 of 75% and 70% respectively. Net income as a percentage of sales reached 15.6% in the third quarter of 2001, an all time high, as compared to 10.1% in the comparable quarter of 2000 and 10.5% for the whole of 2000.

The number of shares used in the calculation of fully diluted EPS increased by 6%. The dilutive effect of the convertible debentures issued in October 2000 was the main factor contributing to the difference between the rate of increase of net income and of EPS. The number of shares for the purpose of calculating the fully diluted EPS excludes the potential diluted effect of the new convertible debenture issued in August 2001 due to a contingent conversion feature included in the said debentures.

Comparison of Nine Months Ended September 30, 2001 to Nine Months Ended September 30, 2000

General

Most of the factors described above relating to the comparison of the results of the third quarter of 2001 and 2000 also impacted the comparison of the first nine months of 2001 compared to the first nine months of 2000. However, the comparative results of the nine month periods were also significantly influenced by the inclusion of the results of operations of Novopharm Limited, which was acquired in April 2000, for the full nine months of 2001, as compared to only six months in the first nine months of 2000.

The following table sets forth certain financial data presented as a percentage of sales and the percentage change, for the periods indicated, excluding for purposes of comparison, a one-time charge of $35.7 million which was recorded in the second quarter of 2000 with respect to acquisition of R&D in process resulting mainly from the acquisition of Novopharm:

	Percentage of Sales Nine months ended September 30,		Period to Period Percentage Change
	2001	2000	
Sales	100.0%	100.0%	22.6%
Gross Profit	40.2	39.5	24.9
Research and Development Expenses:			
Total expenses	7.9	7.2	34.7
Less grants & participations	(2.8)	(1.2)	182.0
R&D Expenses — net	5.1	6.0	5.2
Selling, General and Administrative Expenses	17.5	17.3	24.4
Operating Income	17.6	16.2	32.8
Financial Expenses — net	1.4	3.0	(41.4)
Other Income — net	0.4	0.6	(12.0)
Income Before Income Taxes	16.6	13.8	47.1
Net Income	13.1	10.2	57.4

Sales – General

Consolidated sales for the nine months ended September 30, 2001 were $1,510 million, an increase of 23% over the comparable period of 2000. Novopharm, which Teva acquired in April 2000, was only consolidated as of the second quarter of 2000.

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

Sales by Geographic Areas

Sales for the Period	U.S. Dollars in millions Nine months ended September 30, 2001	2000	% Change	% of Total
Israel	180.1	183.5	-1.9%	11.9%
North America	926.7	700.1	32..4%	61.4%
Europe	335.9	295.0	13.9%	22.2%
Rest of the World	67.6	52.8	28.0%	4.5%
Total	1,510.3	1,231.4	22.6%	100.0%

Sales by Business Segments

Sales for the Period	U.S. Dollars in millions Nine months ended September 30, 2001	2000	% Change	% of Total
Pharmaceuticals	1,337.8	1,087.8	23.0%	88.6%
A.P.I. *	157.5	127.7	23.3%	10.4%
Other	15.0	15.9	-5.7%	1.0%
Total	**1,510.3**	**1,231.4**	**22.6%**	**100.0%**

*Third party only

Pharmaceutical Sales

Teva's total pharmaceutical sales during the nine months ended September 30, 2001, were $1,338 million, comprising approximately 89% of Teva's total revenue and representing an increase of 23% relative to the comparable period of 2000.

North America

Pharmaceutical sales in North America which were the main driver of the increase in revenue, reached $835 million, an increase of 31% relative to the comparable period of 2000. This increase is attributable to the inclusion of Novopharm for the entire period, as compared to only two quarters in 2000, the sales of generic products introduced in late 2000 and during 2001 including the recently launched Nabumetone, and increased sales of Copaxone®. Price erosion in some of Teva's older generic products was milder than in the past.

Europe

Pharmaceutical sales in Europe were $279 million in the first nine months of 2001, an increase of approximately 16% relative to
the first nine months of 2000. This increase was due to the consolidation of Novopharm's Hungarian subsidiary, Human, with Teva's financial results. Excluding Human, the first nine months of European pharmaceutical sales in terms of local currencies were down 8%, mainly due to the bad market conditions that prevailed in the first half in the U.K. and in Hungary. In dollar terms, sales decreased by 12% (the gap is attributable to the devaluation of the European currencies between the periods - the average exchange rate between the Euro and the dollar in the first nine months of 2001 was 4% lower than during the comparable period).

Israel

Israeli pharmaceutical sales totaled $170 million during the first nine months of 2001, representing a decrease of 2% relative to the comparable period of 2000. This decrease is due to the devaluation of the NIS (3% between the periods).

Copaxone®

In-market sales of Copaxone® continued to grow at more than twice the market rate and amounted to a record $261 million, up 49% from the comparable period in 2000.

Sales of Active Pharmaceutical Ingredients (API)

API third party sales during the period January - September 2001 were approximately $157 million (10% of Teva's consolidated sales for the period), representing a 23% increase as compared to the same period last year. Inter-company API sales to Teva's pharmaceutical units increased by 8% to a total of $114 million (42% of total API sales). Combined, API sales amounted to
$271 million, an increase of 16%.

Gross Profit

Teva's overall gross margin at 40.2% grew from the comparable period (39.5%). The same factors that influenced the quarterly gross margins also influenced the nine month period. Counteracting these factors, in part, were Human's sales, which were included for the entire nine months of 2001 as compared with only part of 2000, with their lower margins.

Research and Development

Gross R&D expenses during the nine month period amounted to $119 million, an increase of approximately 35% as compared to the same period last year.

Net R&D expenses, which amounted to $78 million in the first nine months of 2001, were 5% higher than during the comparable period of 2000. In the first nine months of 2001 a larger portion of gross R&D was covered by third parties, mainly Lundbeck and Aventis. These participations reflect Teva's strategy of limiting the effect of innovative R&D expenses on its results.

Financial Expenses

Net financial expenses in the nine month period, decreased by 41% to $22 million, as compared with the same period last year, despite the consolidation of Novopharm, mainly due to reduced interest expenses resulting from the $550 million and $360 million of convertible senior debentures raised in October 2000 and August 2001 respectively.

Tax Rate

The rate of tax for the first nine months of 2001 was 20 %, as compared to 25% in the comparable period of 2000. The rate of tax
fluctuated with the nature and source of taxable income.

Net Income

Net income for the first nine months totaled $199 million, or $1.45 per share fully diluted, an increase over the comparable period of 2000 of 57% and 49% respectively. Net income as a percentage of sales was 13.1% in the first nine months of 2001, as compared to 10.2% in the comparable period of 2000.

The difference between the rate of increase of net income and of EPS is largely due to a significantly higher number of shares used in the calculation of fully diluted EPS (up 8%) in the reported period. The allotment of ordinary and exchangeable shares to the previous shareholder of Novopharm and the dilutive effect of the convertible debentures issued in October 2000 are the main factors for this increase. The number of shares for the purpose of calculating the fully diluted EPS excludes the potential diluted effect of the new convertible debenture issued in August 2001 due to a contingent conversion feature included in the said debentures.

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 local currencies – mainly the New Israeli Shekel (NIS), Euro, Canadian dollar, Pound Sterling and Hungarian Forint – affect Teva's results. During the reported quarter, a 7% revaluation of the Euro against the U.S. dollar was recorded. Although the Euro devalued relative to the U.S. dollar by 2% as compared to the comparable quarter last year (average compared with average), sales in dollar terms increased at the same rate as in Euro terms, reflecting the fact that for the first time currency fluctuations had almost no adverse effect on the Company's results. The Hungarian Forint revalued by approximately 2%.

In Israel, the dollar value of sales was affected by the devaluation of the Shekel by 5% between the reported quarter and the third quarter of 2000. The impact of this decrease in sales on the Company's net income was partially offset by decreased local expenses. Such decrease in local expenses also increased the profitability of export products manufactured in Israel.

Liquidity and Capital Resources

On September 30, 2001, Teva's working capital was $1,408 million, as compared to $825 million at December 31, 2000. The significant increase resulted from the recent (August 2001) sale of convertible debentures ($360 million) the funds from which have been deposited in a short-term interest bearing investment, a credit facility with Bank Leumi New York for the refinancing of Novopharm, and from the cash generated from operations during the period January-September 2001. In addition, inventories have been built up in connection with the plant rationalization program and in order to maintain inventories closer to their markets.

Purchase of property, plant and equipment in the third quarter of 2001 amounted to $28 million, compared to $14 million in the comparable quarter last year. Depreciation and amortization amounted to $27 million in the third quarter of 2001, as compared to $25 million in the comparable quarter of 2000.

Net cash provided by operations for the third quarter of 2001 amounted to $66 million and for the full nine months period to $223 million, as compared with $166 million generated during all of 2000. Cash and cash equivalents at September 30, 2001 amounted to $803 million, as compared to $421 million at December 31, 2000 and $336 million at June 30, 2001.

The Company's principal sources of short-term liquidity are its existing cash and internally generated funds, which Teva believes are sufficient to meet its operating needs and anticipated capital expenditures over the near term. The Company continues to review additional opportunities to acquire companies in the generic industry 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 the Company to draw upon credit lines available to the Company from Israeli and other banks, or may involve raising additional funds from debt or equity markets.

Quantitative and Qualitative Disclosures About Market Risk

Reference is made to the Quantitative and Qualitative Disclosures About Market Risk section (Item 11) in Teva's Annual Report on Form 20-F for the year ended December 31, 2000.

In August 2001 an amount of $360 million was raised from a second convertible debentures offering carrying a 0.75% coupon. The proceeds have been invested in short term investments which bear floating interest rates. There have been no other material changes in the Company's market risk during the nine months ended September 30, 2001.

Legal Proceedings

Reference is made to the Legal Proceedings section in Teva's Annual Report on Form 20-F for the year ended December 31, 2000, and in the Quarterly Reports that were filed with the SEC during 2001. The following provides updated information on events, which occurred subsequent to their submission:

In August 2001, Teva won a judgment in an action pending in the U.S. Federal District Court in Boston, Massachusetts, brought against us by SmithKline Beecham regarding the U.S. patent covering Nabumetone, the active ingredient in Relafen®. The judge ruled in our favor, holding that SmithKline's U.S. patent was not only invalid, based on the doctrine of anticipation, but also unenforceable due to SmithKline's inequitable conduct before the United States Patent & Trademark Office. Annual sales of the branded product in the U.S. during the twelve months ended June 30, 2001 were estimated to be approximately $266 million. Following the District Court decision, Teva launched its Nabumetone product. As the first applicant to challenge the listed patent for this drug, Teva is entitled to a 180-day period of generic marketing exclusivity. SmithKline has, however, appealed the judgment. While Teva believes that the findings of fact and legal conclusions of the District Court are well founded and that the decision will be upheld, were SmithKline to be successful in its appeal, Teva could be required to pay damages to SmithKline related to the sales of Teva's Nabumetone product.

Teva from time to time develops generic products for sale prior to patent expiration in various territories. To the extent that it seeks to utilize patent challenge procedures (such as paragraph IV to the Waxman - Hatch Act) Teva is involved and expects to be involved in patent litigation regarding the validity or infringement of the originator patent. It is Teva's policy to vigorously defend paragraph IV patent infringement challenges which have become a norm amongst the innovative drug companies in an effort to prolong their exclusivity.