

Actavis Group hf.
Consolidated interim financial statements
Six months ended 30 June 2005
Euro

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Endorsement by the board of directors and the president and CEO

The consolidated interim financial statements of Actavis Group include the interim financial statements of Actavis Group hf. (the Company) and its subsidiaries, together referred to as (the Group).

Net profit for the period amounted to EUR22.4 million, according to the income statement. Total equity amounted to EUR597.8 million at the end of the period according to the balance sheet. Changes in total equity and appropriation of net profits are further explained in the interim financial statements. Two stockholders owned more than 10% share in the Company at the end of the period, Amber International Ltd. with 35.3% ownership and Landsbanki Luxemburg S.A. with 11.8% share.

At the beginning of the year Actavis hf. and Omega Farma ehf. were merged under the name of Actavis hf. and all assets, liabilities and commitments of Omega Farma ehf. were transferred to Actavis hf. The merger has no effect on the interim financial statements.

At the beginning of February the Company gained control over the Polish company Biovena Pharma Sp., specialising in sales and marketing. The company is included in the financial statements as of 1 February 2005.

At the beginning of April the Company acquired the Indian company Lotus Laboratories Ltd. and the Czech company Pharma AVALANCHEE s.r.o. Lotus Laboratories specialises in research and development and Pharma AVALANCHEE in sales and marketing of generics. The companies are included in the financial statements as of 1 April 2005.

In May the Company signed a stock purchase agreement for the purchase of the American company Amide Pharmaceuticals Inc., which specialises in developing, manufacturing and marketing pharmaceuticals. The income statement of the Group was not affected by this agreement during the period. The acquisition was supported by a EUR263 million share offering and a sales of treasury shares along with a EUR600 million syndicated credit facility which was also used to refinance the Group's existing short-term and long-term debts.

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) for the second time, as further explained in Note 2. The Group's interim financial statements have previously been prepared in accordance with the Financial Statements Act and generally accepted accounting principles in Iceland. The changes in the stockholder's equity 1 January 2005 as a result of the implementation of IFRS is an increase of EUR5.8 million.

The board of directors and the president and CEO of Actavis Group hf. hereby confirm the Group's consolidated interim financial statements for the six months ended 30 June 2005 with their signatures.

Reykjavik, 9 August 2005.

Chairman of the board of directors:

Bjorgolfur Thor Bjorgolfsson

Board of directors:

Andri Sveinsson
Karl Wernerson
Sindri Sindrason

President and CEO:

Robert Wessman

Auditors' report

To the Board of directors of Actavis Group hf.

We have reviewed the accompanying consolidated balance sheet of Actavis Group hf. (the Group) as of 30 June 2005, and the related consolidated statements of income, changes in equity and cash flows for the six months period then ended (the interim financial information). This consolidated interim financial information is the responsibility of the Group's management. Our responsibility is to issue a report on this interim financial information based on our review.

We conducted our review in accordance with the International Standard on Review Engagements. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information does not give a true and fair view of the financial position of the Company as of 30 June 2005, and the financial performance and cash flows for the interim period then ended, in accordance with IAS 34, 'Interim Financial Reporting'.

Without qualifying our review conclusion, we draw attention to Note 2 to the consolidated interim financial information that explains the Group's transition to International Financial Reporting Standards (IFRS). As explained in Note 2 there is a possibility that the Group's management may determine that changes to the accounting policies adopted in preparing the consolidated interim financial information are necessary when it prepares its first IFRS financial statements as of 31 December 2005.

Reykjavik, 9 August 2005

Alexander G. Edvardsson
Audur Thorisdottir

KPMG Endurskodun hf.

Consolidated interim income statement for the six months ended 30 June 2005

	Notes	Second Quarter 1 April - 30 June		Six months 1 January - 30 June	
		2005	2004	2005	2004
Operating revenues					
Net sales		115,720	103,636	212,678	221,108
Cost of goods sold		<u>(63,090)</u>	<u>(52,962)</u>	<u>(113,636)</u>	<u>(118,399)</u>
Gross profit		52,630	50,674	99,042	102,709
Other income		6,269	2,986	11,101	14,773
Sales and marketing expenses		(20,722)	(14,243)	(34,844)	(28,432)
Research and development expenses		(9,497)	(7,987)	(18,374)	(16,388)
General and administrative expenses		<u>(12,100)</u>	<u>(11,694)</u>	<u>(21,474)</u>	<u>(22,715)</u>
		<u>(36,050)</u>	<u>(30,938)</u>	<u>(63,591)</u>	<u>(52,762)</u>
Profit from operations		16,580	19,736	35,451	49,947
Income / (loss) from associates		0	(282)	0	(564)
Financial income/(expenses)	5	<u>(487)</u>	<u>(7,226)</u>	<u>(7,686)</u>	<u>(9,516)</u>
Profit before tax		16,093	12,228	27,765	39,867
Income tax		<u>(4,802)</u>	<u>(2,175)</u>	<u>(5,381)</u>	<u>(7,990)</u>
Profit for the period		<u>11,291</u>	<u>10,053</u>	<u>22,384</u>	<u>31,877</u>
Attributable to:					
Equity holders of the Company		10,514	9,604	20,893	30,936
Minority interest		777	449	1,491	941
Profit for the period		<u>11,291</u>	<u>10,053</u>	<u>22,384</u>	<u>31,877</u>
Earnings per Share					
	6				
Basic Earnings per Share (EUR)		<u>0.00354</u>	<u>0.00359</u>	<u>0.00725</u>	<u>0.01110</u>
Diluted Earnings per Share (EUR)		<u>0.00352</u>	<u>0.00360</u>	<u>0.00723</u>	<u>0.01109</u>

Consolidated interim balance sheet at 30 June 2005

Assets

	Notes	30/6/2005	31/12/2004
Goodwill	7	264,872	236,801
Other intangible assets	8	38,819	30,622
Property, plant and equipment	9	175,232	145,228
Investment in associated companies		2,088	2,032
Other investments		2,607	6,155
Deferred tax assets	18	20,121	21,247
Non-current assets		<u>503,739</u>	<u>442,085</u>
Inventories	11	86,911	71,572
Trading investments		7,353	0
Trade receivables	12	141,241	113,974
Other receivables	12	223,594	39,210
Cash and cash equivalents		78,213	17,325
Current assets		<u>537,312</u>	<u>242,081</u>
Total assets		<u><u>1,041,051</u></u>	<u><u>684,166</u></u>

Equity and liabilities

Capital stock	13	42,825	36,181
Share premium and statutory reserve		350,489	98,332
Other reserves		3,386	(23,410)
Retained earnings		189,440	170,720
Stockholders' equity		<u>586,140</u>	<u>281,823</u>
Minority interest		11,704	9,853
Total equity		<u>597,844</u>	<u>291,676</u>
Interest bearing loans	16	146,405	162,983
Retirement benefit obligation		7,117	5,753
Obligations under finance leases	17	4,867	4,894
Deferred income tax liabilities	18	9,515	9,493
Provisions	19	262	0
Non-current liabilities		<u>168,166</u>	<u>183,123</u>
Interest bearing loans		185,237	129,868
Accounts payable and other liabilities		80,992	73,379
Obligations under finance leases	17	1,820	2,158
Provisions	19	6,991	3,962
Current liabilities		<u>275,040</u>	<u>209,367</u>
Total liabilities		<u>443,206</u>	<u>392,490</u>
Total equity and liabilities		<u><u>1,041,051</u></u>	<u><u>684,166</u></u>

Consolidated interim statements of cash flow for the period January to June 2005

	Notes	30/6/2005	30/6/2004
Cash flows from operating activities			
Profit for the period		22,384	31,877
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation, amortization and impairment of fixed assets	9	9,361	6,398
Amortization / impairment of intangible assets	8	3,197	3,457
Currency fluctuations and indexation		11,053	(543)
Changes in deferred taxes		1,854	(419)
Other changes		5,707	2,062
Working capital provided by operating activities		<u>53,556</u>	<u>42,832</u>
Changes in operating assets and liabilities:			
Inventories, (increase) decrease		(9,653)	6,124
Receivables, increase		(7,146)	(36,666)
Short-term liabilities, increase		1,050	4,401
Changes in operating assets and liabilities		<u>(15,749)</u>	<u>(26,141)</u>
Net cash provided by operating activities		<u>37,807</u>	<u>16,691</u>
Cash flows to investing activities			
Increase in intangible assets		(10,502)	(8,434)
Investment in property and equipment ..		(28,161)	(17,248)
Proceeds from sale of property and equipment		221	1,367
Investments in other companies net of cash acquired		(29,569)	(4,240)
Proceeds from sale of investments in other companies		3,583	1,628
Securities, change		1,215	1,674
Net cash used in investing activities		<u>(63,213)</u>	<u>(25,253)</u>
Cash flows from financing activities			
Changes in capital stock		69,664	(1,316)
Dividend paid		(4,204)	(3,182)
Changes in financial lease		(963)	0
Proceeds from long-term borrowings		1,185	61
Payments of long-term debt		(16,543)	(1,509)
Bank loans, increase		35,228	4,545
Net cash generated from (used in) financing activities		<u>84,367</u>	<u>(1,401)</u>
Net change in cash and cash equivalents		58,961	(9,963)
Effects of foreign exchange adjustments		1,927	369
Cash and cash equivalents at beginning of period		<u>17,325</u>	<u>29,968</u>
Cash and cash equivalents at end of period		<u><u>78,213</u></u>	<u><u>20,374</u></u>
Other information			
Interest paid		(6,934)	(6,457)
Income tax paid		(3,530)	(2,895)

Changes in total equity for the period ended 30 June 2005

	Share capital	Share premium	Other reserves	Retained earnings	Shareholder's equity	Minority interest	Total equity
Balance at 1 January 2004.....	36,113	99,447	(21,252)	113,609	227,917	7,316	235,233
Translation difference.....			(2,158)		(2,158)		(2,158)
Purchases of treasury stock.....	(59)	(2,391)			(2,450)		(2,450)
Sales of treasury stock.....	127	1,276			1,403		1,403
Net profit for the year.....				60,286	60,286	3,996	64,282
Change in minority interest.....						(1,459)	(1,459)
Dividends.....				(3,175)	(3,175)		(3,175)
Balance at 31 December 2004.....	36,181	98,332	(23,410)	170,720	281,823	9,853	291,676
Change due to implementation of IAS 39.....				1,387	1,387		1,387
Adjusted equity at 1 January 2005.....	36,181	98,332	(23,410)	172,107	283,210	9,853	293,063
Translation difference.....			26,521		26,521		26,521
Sales of treasury stock.....	2,300	93,859			96,159		96,159
Accrued stock option.....			275		275		275
New shares issued.....	4,344	158,298			162,642		162,642
Net profit for the period.....				20,893	20,893	1,491	22,384
Change in minority interest.....					0	360	360
Dividend.....				(3,560)	(3,560)		(3,560)
Balance at 30 June 2005.....	42,825	350,489	3,386	189,440	586,140	11,704	597,844

Notes to the Consolidated Interim Financial Statements

1. General Information

Actavis Group hf. (the Company), is a limited liability company domiciled in Iceland. Actavis Group and its subsidiaries (the Group) specialises in development, manufacturing and sales of generic pharmaceuticals for international markets. It is financially strong and has experienced rapid growth in recent years.

The Group operates across five continents and has its headquarters in Iceland. Principal markets include Germany, Turkey, Bulgaria, Serbia, Russia and the Nordic Countries. Teams of pharmacists, chemists and other scientific professionals help to make up a total workforce in excess of 7.000. The Group has modern manufacturing facilities in Bulgaria, Malta, Turkey and Iceland that are EU-GMP* approved. Additional manufacturing in Serbia currently services domestic and other markets for own-label products outside the EU. The plants produce a variety of medicines in different formulations including tablets, capsules, injectables, suspensions, suppositories, creams and ointments.

An extensive network of sales and marketing offices enables effective market penetration. Strategic acquisitions, the opening of new sales offices and intensive investment in the development of generic pharmaceuticals are fuelling the growth of the Group and have positioned it to take advantage of future opportunities.

These interim financial statements are presented in thousands of euros rounded to the nearest thousand, being the currency of the primary economic environment in which the group operates.

* Good manufacturing practice (GMP) is a system for ensuring that products are consistently produced and controlled according to quality standards.

2. Significant Accounting Policies

Basis of Accounting

The interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) for the second time. The disclosures required by IFRS 1 concerning the transition from IS GAAP to IFRSs are given in Note 21.

The consolidated interim financial statements have been prepared on historical cost basis, except for the revaluation of certain properties and financial instruments. The principal accounting policies adopted are set out below.

Basis of Preparation

The consolidated interim financial statements have been prepared on the basis of stable platform of International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

The IFRS financial information has been prepared on the basis of all IFRS and Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued by the IASB effective for 2005 reporting.

The preparation of the interim financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the result of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

The IFRS that will be effective or available for voluntary early adoption in the annual financial statements for the period ended 31 December 2005 are still subject to change and to the issue of additional interpretations and therefore cannot be determined with certainty. Accordingly, the accounting policies for that annual period that are relevant to this interim financial information will be determined only when the first IFRS financial statements are prepared at 31 December 2005.

Notes to the Consolidated Interim Financial Statements

Background

- The IFRS project

In June 2002, the Council of the European Union adopted a Regulation requiring listed companies in its Member States to prepare their consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) from 2005. The first Annual Report for the Group prepared under IFRS will be that for the year ending 31 December 2005. The first financial results announcement prepared in accordance with IFRS was for the first quarter of 2005.

The Group's project to convert its financial reporting from IS GAAP to IFRS has now been completed. A training program has been completed, rolled out to all finance staff worldwide and the adjusted historical data, which provides the comparative information under IFRS in 2005, has been prepared.

As 2003 will be the earliest year for which full IFRS financial statements will be presented in the Annual Report 2005, the transition date to IFRS for the Group is 1 January 2003. Normally accounting changes of this nature would require full retrospective application, but under the IFRS transitional rules, certain adjustments only have to be applied with effect from the transition date of 1 January 2003.

- IFRS 1 exemptions

IFRS 1, First-Time Adoption of International Financial Reporting Standards, permits those companies adopting IFRS for the first time to take some exemptions from the full requirements of IFRS in the transition period. The Group intends to take the following key exemptions:

- *Business combinations:* Business combinations prior to the transition date (1 January 2003) have not been restated on IFRS basis.
- *Fair value or revaluation as deemed cost:* An entity may elect to use fair value or a previous GAAP revaluation at the date of the opening balance sheet date as deemed cost. Carrying amount of property, plant and equipment is not recalculated.
- *Share-based payments:* A first-time adopter has an option not to apply IFRS 2 retrospectively to equity instruments granted on or before 7 November 2002. This exemption is taken since it is not allowed to disclose the fair value of those equity instruments which was not disclosed as determined at the measurement date.
- *Financial instruments:* Financial instruments in the Annual Report are recorded on the existing IS GAAP basis, rather than in accordance with IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement'.

The Group adopted IAS 39 in full on 1 January 2005. One of the exemptions available under IFRS 1 relaxes the requirement to comply with IAS 32 and IAS 39 until that time. The Group intends to take advantage of this exemption, and so, in 2003 and 2004, financial instruments are accounted for and presented on a Icelandic GAAP basis. On 1 January 2005 an adjustment to the opening balance sheet are made to reflect the movements from the IS GAAP carrying values to the IAS 32 and IAS 39 values, which for many financial instruments is fair value.

The IFRS financial information has been prepared on the basis of taking these exemptions.

Notes to the Consolidated Interim Financial Statements

Basis of consolidation

-Subsidiaries

The consolidated interim financial statements incorporate the interim financial statements of the Group and enterprises controlled by the Group (its subsidiaries). Control is achieved where the Group has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

The consolidated interim financial statements have been prepared using the purchase method of consolidation accounting. When ownership in subsidiaries is less than 100%, the minority interest in the subsidiaries' income or loss and stockholders equity is accounted for in the calculation of the consolidated income or loss and the consolidated stockholders equity.

The results of subsidiaries acquired or disposed of during the period are included in the interim consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Consolidation.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

-Associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The associates are incorporated in these interim financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognised.

When companies within the Group transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred in which case appropriate provision is made for impairment.

-Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed. On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous IS GAAP amounts subject to being tested for impairment at that date. Goodwill amortized under IS GAAP prior to 2003 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Notes to the Consolidated Interim Financial Statements

Revenue recognition

Revenue is recognised in the income statement when goods or services are supplied or made available to external customers against orders received and when title and risk of loss passes to the customer.

Revenue is recognised as follows for the different activities of the business after deductions for discounts and returns.

- Revenue from sales of pharmaceutical products is recognised on delivery to the customer, at which point the risk and rewards of ownership pass to the customer.
- Revenue from dossier sales is recognised in accordance with contractual milestones, upon confirmation of acceptance of the completion of the milestones by customers.
- Payments received from customers in advance of performance of the groups obligations are included as deferred revenue, and not recognised as income until the group performs its obligations.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payments have been established.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are recognised as assets at their cost value at the date of acquisition and are depreciated on a basis consistent with similar owned assets or the lease term if shorter. The corresponding liability to the lessor is included in the balance sheet as an obligation under finance leases.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Foreign exchange differences arising on translation are recognized in the income statement.

On consolidation, the assets and liabilities of the Group's subsidiaries are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

The interim financial statements of foreign subsidiaries that report in the currency of a hyperinflationary economy are restated in terms of the measuring unit current at the balance sheet date before they are translated into euros.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Notes to the Consolidated Interim Financial Statements

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss.

Post retirement benefit

- Defined contribution scheme

The Group's contributions to defined contribution plans are charged to the income statement as incurred.

- Employee termination indemnity

In accordance with the existing social legislation in Turkey, companies are required to make certain lump-sum payments to employees on retirement or on termination for reasons other than resignation or misconduct. These payments are calculated based on a pre-determined formula and are subject to certain upper limits. The accrued liability is based on the present value of the future obligation of the Group that may arise from the retirement of the employees.

- Post retirement payment scheme

Government legislation in Bulgaria requires employers to pay retirement benefits based on an employees final salary and years of service to the Group. A calculation is performed annually by a qualified actuary to determine the Groups obligation in respect of this scheme.

Taxation

The tax expense comprises tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. [Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible]. The Group's liability for current tax is calculated using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Notes to the Consolidated Interim Financial Statements

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

A deferred tax asset is recognised only to the extent that it is probable that future benefits will be available against which the asset can be utilised. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Intangible assets

-Research and development

Research and development costs comprise costs relating to the Group's research and development activities, including clinical studies, amortisation and depreciation, and labour costs which are directly or indirectly attributable to the Group's research and development activities. Research costs are recognised into the income statement as incurred. An internally-generated intangible asset arising from the Group's clinical development is recognised if all of the following conditions are met:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale.
- Its intention to complete the intangible asset and use or sell it.
- Its ability to use or sell the intangible asset.
- How the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Internally-generated intangible assets are amortised on a straight-line basis over their useful lives, generally five years.

-Other intangible assets

Other intangible assets separately acquired or acquired as part of a business combination are amortised over their estimated useful lives from the time they are available for use. Other intangible assets consist of purchased software and dossiers. The amortization charge for each period is recognised as an expense. The useful life applied to other intangible assets is five years.

Notes to the Consolidated Interim Financial Statements

Property, plant and equipment

Property, plant, and equipment is carried at acquisition or manufacturing cost, less depreciation and impairment losses. Subsequent acquisition costs are capitalized. The manufacturing cost of self-constructed property, plant, and equipment is calculated on the basis of the directly attributable unit costs as well as an appropriate share of overheads, including depreciation and impairment losses. In the case of acquisitions denominated in foreign currencies, subsequent exchange rate movements do not affect recognition of the asset at the original acquisition or manufacturing cost.

The depreciable amount of assets is allocated on a straight-line basis over their expected useful lives. The useful life is regularly reviewed and adjusted to the expected life. Impairment losses are charged where required in accordance with IAS 36, and these are subsequently reversed if the original grounds for the write-down no longer apply. The depreciation charge for each year is recognised as an expense, on the following bases:

Property and plant.....	2-8%
Equipment.....	10-33%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or the lease term if shorter.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where assets do not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, not to exceed the carrying amount if no impairment loss has been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. An impairment loss in respect of goodwill is not reversed.

Notes to the Consolidated Interim Financial Statements

Cash and Cash equivalents

Bank balances and cash comprise cash and short-term deposits held by the Consolidation's treasury function. The carrying amount of these assets approximates their fair value.

Trade receivables

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Accounts receivable in other currencies than euro, are valued at the exchange rates prevailing on the balance sheet date.

Investments

Investments in other companies are valued at acquisition cost less provisions for estimated impairment losses on certain investments.

Securities which the company has the expressed intention and ability to hold to maturity are valued at cost, less an allowance for estimated irrecoverable amounts.

Financial Liability and Equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

Bank borrowings

Interest-bearing bank loans are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the profit and loss account using effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Trade payables

Trade payables are not interest bearing and are stated at their nominal value.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Notes to the Consolidated Interim Financial Statements

Inventories

Inventories are stated at the lower of cost or net realisable value. Cost comprises direct materials and, where applicable, direct labor costs and those overhead expenses that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less the estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and are presented as a reduction of net equity. Possible gains or losses on purchase or sale of treasury shares are not reported in the income statement.

Provisions

Provision is recognised when an enterprise has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions for restructuring costs are recognised when the company has a detailed formal plan for the restructuring which has been notified to affected parties.

Share-based Payments

On 1 January 2003, Actavis Group hf. applied the requirement of IFRS 2 Share-based Payments. In accordance with the transition provisions, IFRS 2 will be applied to all options granted after 7 November 2002 that were unvested as of 1 January 2003.

The Group has issued equity-settled payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Notes to the Consolidated Interim Financial Statements

Interest-bearing borrowings

Interest-bearing borrowings are recorded initially at fair value less attributable transaction cost. Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value recognised in profit or loss over the period of the borrowings on an effective interest basis.

Accounts payable

Accounts payable are valued at nominal value and accounts payable in other currencies than euro have been booked at the exchange rates prevailing on the balance sheet date.

Earnings per share

Earnings per share is the ratio between profit and weighted average number of shares for the period and reveals net profit per share. The nominal value of each share amounts to one ISK. Calculation of diluted earnings per share takes into consideration stock options made with the Group's employees and the prospective deliverance of shares related to those options.

3. Segment reporting

Geographical markets are the Groups primary segments. Segment information according to location of assets for YTD 2005:

	Western Europe	Eastern Europe	Other Segments	Eliminations	Total
External revenue.....	76,288	146,048	1,443	0	223,779
Internal revenue.....	68,263	746	109	(69,118)	0
Total segment revenue.....	144,551	146,794	1,552	(69,118)	223,779

Inter-segment transfers or transactions are entered into under the normal commercial terms and conditions that would also be available to unrelated third parties.

Segment results.....	4,101	19,131	437	(2,776)	20,893
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Segment report for YTD 2004:

	Western Europe	Eastern Europe	Other Segments	Eliminations	Total
External revenue.....	114,724	121,157	0	0	235,881
Internal revenue.....	101,660	541	30	(102,231)	0
Total segment revenue.....	216,384	121,698	30	(102,231)	235,881
Segment results.....	22,284	12,857	(169)	(4,036)	30,936

Notes to the Consolidated Interim Financial Statements

4. Salaries

Salaries and related expenses paid by the Group are specified as follows in thousands of euro:

	YTD 2005	YTD 2004
Salaries	55,217	39,468
Related expenses	2,250	4,701
	57,467	44,169
Number of employees at end of period.....	7,177	6,953
Average number of positions.....	7,032	6,840

Allocation of salaries to items of income statement:

	YTD 2005	YTD 2004
Cost of goods sold	20,217	15,832
Sales and marketing	14,345	12,216
Research and development.....	10,754	6,444
General and administrative.....	9,894	8,352
	55,210	42,844

Allocation of salaries to items of balance statement:

Development	2,119	1,325
Other intangible assets.....	67	0
Allocation to tangible asset.....	71	0
	2,257	1,325

Notes to the Consolidated Interim Financial Statements

5. Financial income / (expenses)

	YTD 2005	YTD 2004
Net financial income and expenses:		
Interest income.....	1,398	2,362
Interest expenses.....	(6,839)	(8,094)
Currency fluctuations.....	(2,245)	(3,784)
	(7,686)	(9,516)

6. Earnings per share

The calculation of Earnings per Share is based on the following data:

	YTD 2005	YTD 2004
Net profit.....	20,893	30,936
Total average number of shares outstanding during the period (in million).....	2,882	2,788
Total average number of shares including potential shares (in million).....	2,890	2,789
Basic Earnings per Share (EUR).....	0.00725	0.01110
Diluted Earnings per Share (EUR).....	0.00723	0.01109

7. Goodwill

	YTD 2005
At 1 January 2005.....	236,801
Currency adjustments during period	4,187
Recognised on acquisition of subsidiaries	23,884
At 30 June 2005.....	264,872

Notes to the Consolidated Interim Financial Statements

8. Other intangible assets

	Development- cost	Others intangibles	Total
Cost			
At 1 January 2005.....	34,345	13,385	47,730
Currency adjustments during period	1,808	658	2,466
Additions during period	9,022	1,814	10,837
Disposals during period	(643)	(4,097)	(4,739)
At 30 June 2005.....	<u>44,532</u>	<u>11,759</u>	<u>56,293</u>
Amortization			
At 1 January 2005.....	9,737	7,372	17,109
Currency adjustments during period	923	338	1,261
Disposals during period	(1)	(4,096)	(4,097)
Amortised during period	<u>2,556</u>	<u>642</u>	<u>3,198</u>
At 30 June 2005.....	<u>13,215</u>	<u>4,257</u>	<u>17,472</u>
Net book value	<u>31,317</u>	<u>7,502</u>	<u>38,819</u>

The amortization of other intangible assets, classified by operational category, is specified as follows:

	YTD 2005	YTD 2004
Cost of sales.....	430	637
Sales and marketing expenses.....	21	19
Administration.....	448	86
Research and development.....	<u>2,299</u>	<u>2,078</u>
	<u>3,198</u>	<u>2,819</u>

Notes to the Consolidated Interim Financial Statements

9. Property, plant and equipment

	Property and plant	Machinery and equipment	Total
Cost			
At 1 January 2005.....	86,242	168,253	254,495
Currency adjustments during period	5,178	19,361	24,539
Additions during period	6,458	21,845	28,303
Revaluation of assets	0	(85)	(85)
Sales during period	(73)	(82)	(155)
Disposals during period	(71)	(2,003)	(2,074)
At 30 June 2005.....	<u>97,734</u>	<u>207,290</u>	<u>305,024</u>
Accumulated depreciation			
At 1 January 2005.....	28,142	81,125	109,267
Currency adjustments during period	2,351	10,677	13,028
Sales during period	(36)	(10)	(46)
Disposals during period	(67)	(1,751)	(1,818)
Impairment loss during period	583	0	583
Depreciation during period	1,157	7,621	8,778
At 30 June 2005.....	<u>32,131</u>	<u>97,662</u>	<u>129,792</u>
Net book value	<u>65,604</u>	<u>109,628</u>	<u>175,232</u>

Depreciation and impairment loss, classified by operational category, is shown in the following schedule:

	YTD 2005	YTD 2004
Cost of goods sold	6,083	3,020
Sales and marketing expenses	958	589
Administration	907	2,041
Research and development	1,413	748
	<u>9,361</u>	<u>6,398</u>

Notes to the Consolidated Interim Financial Statements

10. The Consolidation

At the end of the period the Company owned seventeen subsidiaries that are all included in the consolidation. The subsidiaries owned twenty-two subsidiaries at the end of the period. The companies are as follows:

Name of subsidiary	Location	Ownership	Principal activity
Actavis hf. (Delta hf.)	Iceland	100%	Production, Sales and Marketing (S&M)
Actavis BV (Medis Holland BV)	Netherlands	100%	Holding company
Actavis Ltd. (Pharmamed Ltd)	Malta	100%	Production, S&M and R&D
Actavis Trading Ltd	Malta	100%	Trading
Actavis Ltd.	Cyprus	100%	Holding company
Balkanpharma Healthcare Int.	Cyprus	100%	Sales and Marketing
MM Pharma LLC	USA	100%	Sales and Marketing
Verben S.A.	Uruguay	50%	Production, Sales and Marketing
Actavis AD (Balkanpharma AD)	Bulgaria	100%	Holding company/S&M
Balkanpharma Dubnitsa AD	Bulgaria	95%	Production
Balkanpharma Troyan AD	Bulgaria	98%	Production
Balkanpharma Razgrad AD	Bulgaria	94%	Production
Balkanpharma Security AD	Bulgaria	100%	Security services
Balkanpharma Macedonia	Macedonia	100%	Production
Balkanpharma OOO	Russia	100%	Sales and Marketing
Actavis OOO	Russia	90%	Sales and Marketing
Actavis UK Ltd.	UK	100%	Administration
Actavis Inc. (Pharmaco Inc.)	USA	100%	Business Development
Actavis Nordic A/S	Denmark	100%	Business Support
Actavis AS	Denmark	100%	Sales and Marketing
Nordisk Ibu-Pharma ApS	Denmark	100%	Sales and Marketing
Actavis OY	Finland	100%	Sales and Marketing
Actavis A/S	Norway	100%	Sales and Marketing
Actavis A/B (UNP Sweden AB)	Sweden	100%	Sales and Marketing
Biovena Pharma Sp.	Polland	100%	Sales and Marketing
Colotech AS,	Denmark	86%	Research and Development (R&D)
Fako İlaçları AŞ	Turkey	89%	Production, S&M and R&D
Lotus Laboratories Ltd	India	100%	Clinical Research Organization
Medis GmbH	Germany	60%	Sales and Marketing
Medis Ltd.	Isle of Man	100%	Sales and Marketing
Medis ehf.	Iceland	100%	Third party sales
Medis Danmark AS	Denmark	100%	Third party sales
NM Pharma ehf.	Iceland	100%	Sales and Marketing
Pharma AVALANCHEe s.r.o.	Czech rep.	100%	Sales and Marketing
Pharma AVALANCHEe s.r.o.	Slovakia	100%	Sales and Marketing
Zenara Pharma Ltd.	UK	50%	Joint venture
Zdravlje AD	Serbia	73%	Production, S&M and R&D
Zdravlje T Trade Ltd.	Serbia	100%	Sales and Marketing
Zdravlje ITR.	Serbia	100%	Distribution

In the beginning of February the Company gained control over the Polish subsidiary Biovena Pharma Sp. In the beginning of April, the Company acquired 100% of the issued share capital of the Indian Clinical Research Company Lotus Laboratories Ltd. and Pharma AVALANCHEe s.r.o. in Czech Republic. Pharma AVALANCHEe specialises in sales and marketing of generic pharmaceuticals.

Notes to the Consolidated Interim Financial Statements

11. Inventories

	YTD 2005	2004
Raw material.....	33,625	32,361
Work in progress.....	19,510	14,348
Finished goods	30,234	24,415
Other inventories.....	3,543	448
	86,911	71,572

12. Trade and other receivables

	YTD 2005
Trade receivables.....	148,526
Other receivables.....	223,815
Allowances for doubtful accounts.....	(7,506)
	364,835

Included in other receivables are subscription agreements due to the share offering amounting to EUR190 million collected in July and a loan to the CEO amounting EUR2.4 million.

An allowance has been made for doubtful accounts and sales returns, this allowance has been determined by management in reference to past default experience. The directors consider that the carrying amount of trade receivables approximates their fair value.

13. Share capital

The Company increased its capital stock in a share offering in June 2005. The share offering was a part of the Company's financing of the acquisition of the US based generic pharmaceutical company, Amide Pharmaceuticals Inc.

The capital stock was increased by 344,864,993 shares or 11.5% of the total capital stock. Total capital stock issued was 2,993,780,301 shares prior to the share increase. Total capital stock issued after the increase is 3,338,645,294 shares. The new capital stock was only offered to existing shareholders. The board of directors also decided to sell 198,613,449 treasury shares. In total 543,478,442 shares were sold to shareholders or 18.15% of the total capital stock.

Changes in the nominal value of capital stock during the period are specified as follows:

	Numer of shares in thousands	EUR
Outstanding capital stock at 1 January 2004.....	2,785,394	36,113
Purchase of treasury shares.....	(5,108)	(59)
Sale of treasury shares.....	10,876	127
Outstanding capital stock at 1 January 2005.....	2,791,162	36,181
New shares issued.....	344,865	4,344
Sale of treasury shares.....	199,366	2,300
Outstanding capital stock at 30 June 2005.....	3,335,393	42,825

Notes to the Consolidated Interim Financial Statements

Capital stock is as follows in thousands of shares and EUR thousands, the nominal value of each share is one Icelandic krona.

	Shares	Ratio	EUR
Outstanding capital stock at the end of the period.....	3,335,393	99.9%	42,825
Treasury shares at the end of the period.....	3,251	0.1%	212
Total capital stock issued.....	3,338,645	100.0%	43,037

14. Stock Option

During the period Actavis Group granted it's employees stock options exercisable in the years 2005 - 2007. The Company will use treasury shares and increase share capital to meet the options. These stock options at the end of the period amount to 44.2 million shares.

Contract rate (ISK) / conditions / date granted	Number of shares (in thousands)			
	Nov.05	Nov.06	Nov.07	Total
38.5 / conditional / June 2005.....	14,719	14,719	14,719	44,156

All options are terminated if employees leave the Group before the options vest. The stock options are exercisable in 10 days from exercise date which is 10th of November 2005 - 2007. The employees are obligated to hold their shares for one year after the exercise date.

15. Risk management

The principal objective of risk management is to reduce financial risk in the Group and to increase its financial stability. The Group's risk management policy constitutes a framework of guidelines and rules covering areas such as foreign exchange, interest, and use of derivatives, as well as liquidity and credit risk. The Group's treasury and risk management function is centralised and supports this objective by identifying, evaluating and hedging financial risk. The Group's Treasury guarantees cost-efficient funding and acts as an internal bank for the subsidiaries.

- Market risk

Foreign exchange risk, transaction and translation exposure. The Group operates internationally and is exposed to foreign exchange risk from various currencies. The underlying net foreign exchange transaction exposure is hedged with derivatives, mainly foreign exchange contracts. These instruments all mature within one year. The Group only hedges foreign exchange currency cash flow forecast of less than 12 months. Translation risk arises as a result of converting the Group's financial results to the functional currency. Translation risk is not hedged.

- Interest rate risk

Fluctuations in interest rates have a direct impact on earnings. The interest rates used in the Group's budget are based on forward rates and the Group policy is to have the majority of funding on floating interest rates.

- Credit risk

The Group has no significant credit risk. To minimise credit risk it focuses on ensuring that customers have an appropriate credit history and various guarantees are given. There is an active monitoring.

Notes to the Consolidated Interim Financial Statements

- Liquidity and refinancing risk

The Group has uncommitted and committed credit lines in place to maintain sufficient liquidity and flexibility in funding. The Company is a net borrower and surplus liquidity is used to repay external debt.

16. Interest bearing loans

Interest bearing loans are specified as follows in thousands of EUR:

	YTD 2005	2004
Loans in USD	33,045	31,003
Loans in EUR	127,754	133,257
Loans in CHF	12,360	12,209
Loans in GBP	2,905	2,301
Loans in JPY	12,961	11,923
Loans in SEK	1,931	1,442
Loans in MTL	9,112	8,272
Loans in BGL	0	3,268
Loans in ISK	816	229
Loans denominated in other currencies	836	527
	201,719	204,431
Current maturities, included in interest bearing loans	(55,314)	(41,448)
Interest bearing loans	146,405	162,983

Aggregated annual maturities are as follows:

On demand or within 12 months	55,314	41,448
Within 24 months	22,583	30,027
Within 36 months	23,789	23,346
Within 48 months	79,584	82,407
Within 60 months	2,282	6,420
Subsequent years	18,167	20,783
	201,719	204,431

Notes to the Consolidated Interim Financial Statements

17. Obligation under finance leases

Accounts payable under finance leases:	Minimum lease payments YTD 2005	Minimum lease payments 2004	Remaining balances YTD 2005	Remaining balances 2004
Obligation under finance leases	7,681	8,092	6,687	7,052
Current maturities	(2,187)	(2,507)	(1,820)	(2,158)
Long term obligation under finance leases	5,493	5,585	4,867	4,894

Aggregated annual maturities are as follows:

On demand or within 12 months	2,187	2,507	1,820	2,158
Within 24 months	1,906	2,203	1,673	1,907
Within 36 months	1,237	919	1,086	820
Within 48 months	765	681	683	516
Subsequent years	1,585	1,782	1,425	1,651
	<u>7,681</u>	<u>8,092</u>	<u>6,687</u>	<u>7,052</u>
Less: future finance charges	<u>(993)</u>	<u>(1,040)</u>		
Remaining balances	<u><u>6,687</u></u>	<u><u>7,052</u></u>		

The management estimates that the fair value of the consolidated lease obligations approximates their carrying amount.

The obligations under finance leases are pledged by the lessor's charge over the leased assets.

18. Deferred tax

	Deferred tax asset	Deferred tax liabilities	Net
At 1 January 2005	21,247	(9,493)	11,754
Additions due to merger	0	1,016	1,016
Calculated tax for the period	(1,994)	(3,387)	(5,381)
Income tax payable for the period	(325)	2,722	2,398
Exchange differences	1,193	(373)	820
At 30 June 2005.....	<u>20,121</u>	<u>(9,515)</u>	<u>10,607</u>

Notes to the Consolidated Interim Financial Statements

19. Provisions

	Restructuring provisions
At 1 January 2005.....	3,962
Additional provision during the period	6,955
Utilisation of provision	(3,664)
At 30 June 2005.....	7,253
On demand or within 12 months.....	(6,991)
Non-current provisions.....	262

20. Commitments

The Company is committed to increase the share capital of its subsidiary, Colotech AS by EUR2.0 million. The payments will be made by four installments during the next three years.

The Company is committed on behalf of its subsidiary Zdravlje AD to invest EUR8.5 million in Serbia during the next three years.

The Company has guaranteed a loan granted to its subsidiary, Fako İlaçları AŞ, amounting to EUR12.0 million.

According to the purchase agreement of Biovena Pharma Sp. there is an earnout clause of up to EUR5.0 million subject to certain conditions.

Notes to the Consolidated Interim Financial Statements

21. Explanation of Transition to IFRSs

As stated in Note 2, these are the Group's second interim financial statements prepared in accordance with IFRS. The Accounting policies in note 2 have been applied in preparing the consolidated interim financial statements for the six months ended 30 June 2005, the comparative information for six months ended 30 June 2004, the financial statements for the year ended 31 December 2004 and 2003 and the preparation of an opening IFRS balance sheet at 1 January 2003 (the Group's date of transition).

In preparing its opening balance sheet, comparative information for the six months ended 30 June 2004 and financial statements for the year ended 31 December 2004, the Group has adjusted amounts previously reported in financial statements prepared in accordance with previous GAAP.

An explanation of how the transition from previous GAAP to IFRSs has effected Groups financial position and financial performance is set out in the following tables and the notes that accompany the tables.

Reconciliation of equity at 31 December 2004

Note	Previous GAAP	Effect of 01/01/2004 transition to IFRSs	Effect of 2004 transition to IFRSs	IFRSs
9. Property, plant and equipment	142,523	1,502	1,203	145,228
7. Goodwill	229,126	6,995	680	236,801
8. Intangible Assets	32,905	(993)	(1,290)	30,622
Deferred tax asset	21,217	12	18	21,247
Financial Assets	10,002	(688)	(1,127)	8,187
Total non-current assets	435,773	6,828	(516)	442,085
Trade receivables	113,974	0		113,974
11. Inventories	71,572	2,469	(2,469)	71,572
Other receivables	39,850	0	(640)	39,210
Cash and cash equivalents	17,325	0	0	17,325
Total current assets	242,721	2,469	(3,109)	242,081
Total assets	678,494	9,297	(3,625)	684,166
16. Interest bearing loans	297,561	(4,753)	45	292,852
Trade and other payables	78,029	(5,769)	1,119	73,379
Employee benefits	5,753	0	0	5,753
Restructuring provision	0	5,071	(1,110)	3,961
17. Obligation under finance leases	0	6,661	391	7,052
Deferred tax liability	9,578	621	(706)	9,493
Total liabilities	390,921	1,831	(261)	392,490
Total assets less total liabilities	287,573	7,466	(3,364)	291,676
Outstanding capital stock	135,297	(503)	(281)	134,513
Accrued stock option	47	(281)	234	0
Other reserves	(29,250)	6,432	(593)	(23,410)
Retained earnings	171,286	1,797	(2,364)	170,720
Stockholders equity	277,380	7,445	(3,004)	281,823
Minority interest	10,193	21	(361)	9,853
Total equity	287,573	7,466	(3,365)	291,676

Notes to the Consolidated Interim Financial Statements

21. Explanation of Transition to IFRSs, *continued*

Reconciliation of income statement for YTD 2004

	YTD 2004 Previous GAAP	Effect of transition to IFRSs	YTD 2004 IFRSs
Revenue.....	221,108	0	221,108
Cost of sales	(112,460)	(5,939)	(118,399)
Gross Profit	108,648	(5,939)	102,709
Other revenue.....	13,535	1,238	14,773
Sales and marketing expenses.....	(27,222)	(1,210)	(28,432)
Research and development expenses.....	0	(16,388)	(16,388)
General and administrative expenses.....	(20,683)	(2,032)	(22,715)
Other operating expenses.....	(12,189)	12,189	0
Depreciation and amortisation.....	(10,792)	10,792	0
Income / (Loss) from associates.....	0	(564)	(564)
Finance income (expenses).....	(7,268)	(2,248)	(9,516)
	(64,619)	1,777	(62,842)
Profit before tax.....	44,029	(4,162)	39,867
Tax expense.....	(8,735)	745	(7,990)
Minority interest.....	(1,219)	278	(941)
Net profit (loss).....	34,075	(3,139)	30,936

Presentation

Depreciation of fixed assets is now allocated to appropriate line items in the income statement such as cost of goods sold, sales and marketing, research and development and general and administrative instead of presenting it in a separate line as previously. Impairment of goodwill is presented as a separate line in the income statement. Previously the impairment was included in the line depreciation and amortization.

Balance sheet items have been reclassified to be in conformity with newly applied IFRS rules.

Investment in subsidiaries

In March 2004 the International Accounting Standards Board issued revised rules on business combinations. The Group's accounting methods concerning acquisition of subsidiaries have been adjusted to the new regulations

All business combinations are accounted for by applying the purchase method. Goodwill has been recognized in acquisitions of subsidiaries and represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortized but is tested annually for impairment.

Notes to the Consolidated Interim Financial Statements

21. Explanation of Transition to IFRSs, *continued*

Negative goodwill arising on an acquisition is recognized directly in the income statement.

The effect of applying IFRS to business combinations concerning subsidiaries is an increase in net equity at year-end 2004 by the amount of EUR12.7 million. The effect on the income statement for the year 2004 is an increase in net earnings of EUR48 thousand.

Development expenses

According to IFRS companies that undertake product development should capitalise such cost if an entity can demonstrate that the projects meet certain conditions and it can be demonstrated that future economic benefit will flow to companies. The Group has capitalised development cost that meets such conditions.

The Group retained the service of specialists to assist in reviewing the Group's compliance with IFRS concerning capitalised development expenses. The specialists submitted a detailed report on the matter which was used as a guide when the accounting methods concerning capitalisation of development cost were established.

The changes made to the capitalised development expenses resulted in a reduction of EUR4.2 million at year-end 2004. The effect on the operation in the year 2004 is a reduction in net earnings amounting to EUR1.6 million.

Associates

The associates are incorporated in these interim financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognised

The effect of new accounting methods concerning associates results in a reduction of net equity in the amount of EUR2.2 million. Net earnings for the year 2004 is reduced by EUR1.1 million by this change.

Translation reserve

Accumulated foreign exchange difference arising on the translation of financial statements of foreign subsidiaries to the Group's reporting currency is eliminated as of 1 January 2003. Other changes in the translation reserve relate to the changes made to the financial statements of the subsidiaries when applying IFRS.

Changes in translation differences in the Group's stockholder's equity due to the implementation of IFRS by foreign subsidiaries is a reduction of EUR2.8 million.

Other changes

Other changes made to the Group's financial statements on the implementation of IFRS relate to the recognition of leased assets, changes in depreciation of fixed assets and share based payments.

The total increase in the Group's stockholders' equity at year-end 2004 due to other changes amounts to EUR0.9 million. Net earnings for the year 2004 are reduced by EUR0.4 million due to these other changes.

The Group applied IAS 39 as of 1 January 2005. The application results in a recognition of derivatives which are recognised at fair value and interest-bearing loans are stated at amortized cost with any difference between cost and redemption value recognised in profit or loss over the period of the borrowings on an effective interest rate. The effect of applying IAS 39 is an increase in net equity at 1 January 2005 amounting to EUR1.3 million.

Notes to the Consolidated Interim Financial Statements

22. Events after the balance sheet date

-Business combination

In July the Company gained control through its subsidiary Actavis Inc. over Amide Holding, which is the parent company of Amide Pharmaceuticals Inc. Amide specialises in developing, manufacturing and marketing pharmaceuticals. The cost of the acquisition has an initial gross consideration of EUR414 million in cash with up to an additional EUR83 million payable over two years subject to performance.

-Refinancing

At the end of July the Company signed a EUR600 million credit facility with a 5 year maturity. The Facility supported Actavis' acquisition of Amide Pharmaceuticals Inc., a privately owned US generic pharmaceuticals company and is further used to refinance Actavis' existing short-term and long-term debt. The margin for the next 12 months period is 0.70% over LIBOR. For the remaining period the margin is subject to change in the ratio of net debt to EBITDA and can be within the range of 0.50% - 0.80% over LIBOR.

23. Financial ratios

The main financial ratios for the Group are as follows:

	<u>YTD 2005</u>	<u>YTD 2004</u>
Equity ratio.....	0.57	0.43
Current ratio.....	1.95	1.16
Return on equity.....	13.39%	27.47%
Internal value of shares.....	13.69	7.79
EBITDA.....	48,010	59,802
EBITDA as a percentage of revenues.....	21.5%	25.4%
Working capital provided by operating activities.....	53,556	42,832