

Actavis Group hf.
Consolidated interim financial statements
Nine months ended 30 September 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 amounting to EUR45.6 million, is shown in the income statement on page 5. Total equity amounting to EUR616.7 million at the end of the period is shown in the balance sheet on page 6. Changes in total equity and appropriation of net profits are further explained in the interim financial statements.

Two shareholders 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 11.7%.

At the beginning of February the Company completed the acquisition of Biovena Pharma Sp., a Polish company, specialising in sales and marketing. The results of Biovena Pharma Sp. have been included in the financial statements from 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 results of both Lotus Laboratories Ltd. and Pharma AVALANCHEE s.r.o. have been included in the financial statements from 1 April 2005.

In May 2005 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 acquisition was supported by a EUR263 million share offering and sale 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 debt. The results of Amide Pharmaceuticals Inc. have been included in the financial statements from 1 July 2005.

At the beginning of September 2005 the Company agreed to acquire the Bulgarian company Higia AD, a distributor for pharmaceuticals in Bulgaria. At the end of September the Company acquired the generic business of the Hungarian company Kéri Pharma. Kéri Pharma specialises in the development, sales and marketing of generic pharmaceuticals. The financial statements of the Group were not affected by this agreement during the period.

At 17 October 2005 the Company signed an agreement to purchase the human generic business of the US listed company Alharma Inc., for a total consideration of USD810 million (EUR675 million) in cash. The Company has secured USD1,695 million (EUR1,413 million) in financing for the acquisition and refinancing of the majority of existing debt. The financing comprises a USD970 million (EUR808 million) term loan facility, a USD300 million (EUR250 million) revolving credit facility and a USD425 million (EUR354 million) preference share offering. The financial statements of the Group were not affected by this agreement during the period.

The accompanying financial statements are prepared in accordance with International Financial Reporting Standards (IFRS), as further explained in Note 2 on page 9. The implementation of IFRS on 1 January 2005 resulted in an increase of EUR5.8 million in shareholder's equity.

The Group's consolidated interim financial statements for the nine months ended 30 September 2005 were approved by the board of directors and the president and CEO of Actavis Group hf. on 14 November 2005 and signed on their behalf by:

Board of Directors:

Bjorgolfur Thor Bjorgolfsson
Chairman of the Board

Andri Sveinsson

Karl Wernerson

Sindri Sindrason

Magnus Thorsteinsson

President and CEO:

Robert Wessman

Auditors' report

To the Board of directors of Actavis Group hf.

We have performed a limited review of the interim consolidated balance sheet of Actavis Group hf. and its subsidiaries as of 30 September 2005 and the related consolidated income statement and consolidated statement of cash flow for the nine months then ended. All information included in these interim consolidated financial statements is the representation of the management of Actavis Group hf.

A limited review is confined to the presentation of financial statements information that is the representation of the Group's management. We have not audited or performed a full scope review on the accompanying interim consolidated financial statements and, accordingly, do not express an opinion or any other form of assurance on them.

Reykjavik, 14 November 2005.

Alexander G. Edvardsson
Audur Thorisdottir

KPMG Endurskodun hf.

Consolidated interim income statement for the nine months ended 30 September 2005

	Notes	Third Quarter		Nine months	
		1 July - 30 September 2005	2004	1 January - 30 September 2005	2004
Operating revenues					
Net sales		153,390	97,251	366,068	318,359
Cost of goods sold		<u>(72,864)</u>	<u>(52,601)</u>	<u>(186,500)</u>	<u>(171,000)</u>
Gross profit		80,526	44,650	179,568	147,359
Other income		7,548	7,652	18,649	22,425
Sales and marketing expenses		(22,219)	(14,661)	(57,063)	(43,093)
Research and development expenses		(14,443)	(14,428)	(32,817)	(30,816)
General and administrative expenses		<u>(14,860)</u>	<u>(2,315)</u>	<u>(36,334)</u>	<u>(25,030)</u>
		<u>(43,973)</u>	<u>(23,752)</u>	<u>(107,566)</u>	<u>(76,514)</u>
Profit from operations		36,553	20,898	72,003	70,845
Income / (loss) from associates		(801)	(280)	(801)	(844)
Financial income/(expenses)	6	<u>(8,683)</u>	<u>(2,765)</u>	<u>(16,369)</u>	<u>(12,281)</u>
Profit before tax		27,069	17,853	54,833	57,720
Income tax		<u>(3,864)</u>	<u>(3,628)</u>	<u>(9,245)</u>	<u>(11,618)</u>
Profit for the period		<u>23,204</u>	<u>14,225</u>	<u>45,587</u>	<u>46,102</u>
Attributable to:					
Equity holders of the Company		22,603	12,990	43,496	43,926
Minority interest		601	1,235	2,091	2,176
Profit for the period		<u>23,204</u>	<u>14,225</u>	<u>45,587</u>	<u>46,102</u>
Earnings per Share 7					
Basic Earnings per Share (EUR)		<u>0.00679</u>	<u>0.00465</u>	<u>0.01464</u>	<u>0.01575</u>
Diluted Earnings per Share (EUR)		<u>0.00679</u>	<u>0.00465</u>	<u>0.01464</u>	<u>0.01575</u>

Consolidated interim balance sheet at 30 September 2005

Assets

	Notes	30/9/2005	31/12/2004
Goodwill	8	527,836	236,801
Other intangible assets	9	229,988	30,622
Property, plant and equipment	10	208,080	145,228
Investment in associated companies		87	2,032
Other investments		9,739	6,155
Deferred tax assets	20	20,162	21,247
Non-current assets		<u>995,891</u>	<u>442,085</u>
Inventories	13	96,900	71,572
Trading investments		9,440	0
Trade receivables	14	149,937	113,974
Other receivables	14	76,542	39,210
Cash and cash equivalents		84,858	17,325
Current assets		<u>417,677</u>	<u>242,081</u>
Total assets		<u><u>1,413,568</u></u>	<u><u>684,166</u></u>

Equity and liabilities

Capital stock	15	42,750	36,181
Share premium and statutory reserve		333,348	98,332
Other reserves		16,256	(23,410)
Retained earnings		212,043	170,720
Stockholders' equity		<u>604,397</u>	<u>281,822</u>
Minority interest		12,280	9,853
Total equity		<u>616,677</u>	<u>291,676</u>
Interest bearing loans	18	481,600	162,983
Retirement benefit obligation		7,544	5,753
Obligations under finance leases	19	14,517	4,894
Deferred income tax liabilities	20	56,065	9,493
Provisions	21	262	0
Non-current liabilities		<u>559,988</u>	<u>183,123</u>
Interest bearing loans		44,709	129,868
Accounts payable and other liabilities		188,202	73,379
Obligations under finance leases	19	1,827	2,158
Provisions	21	2,164	3,962
Current liabilities		<u>236,902</u>	<u>209,367</u>
Total liabilities		<u>796,891</u>	<u>392,490</u>
Total equity and liabilities		<u><u>1,413,568</u></u>	<u><u>684,166</u></u>

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

	Notes	<u>Nine months ended 30 September</u>	
		2005	2004
Cash flows from operating activities			
Profit for the period		45,587	46,102
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation and impairment of fixed assets	10	14,524	9,382
Amortisation of intangible assets	9	9,785	6,527
Currency fluctuations and indexation		2,270	1,243
Changes in deferred taxes		5,317	(119)
Other changes		3,663	1,926
Working capital provided by operating activities		<u>81,146</u>	<u>65,061</u>
Changes in operating assets and liabilities:			
Inventories, (increase) decrease		(4,353)	11,149
Receivables, increase		(15,395)	(61,881)
Short-term liabilities, increase (decrease)		16,728	(2,104)
Changes in operating assets and liabilities		<u>(3,020)</u>	<u>(52,836)</u>
Net cash provided by operating activities		<u>78,127</u>	<u>12,225</u>
Cash flows to investing activities			
Increase in intangible assets		(26,059)	(11,712)
Investment in property and equipment ..		(42,609)	(29,262)
Proceeds from sale of property and equipment		3,344	1,557
Investments in subsidiaries and other companies net of cash acquired		(353,989)	(5,119)
Proceeds from sale of investments in other companies		3,657	1,674
Securities, change		17,737	(611)
Net cash used in investing activities		<u>(397,918)</u>	<u>(43,472)</u>
Cash flows from financing activities			
Changes in capital stock		240,422	542
Dividend paid		(3,554)	(3,183)
Proceeds from long-term borrowings		414,657	12,951
Payments of long-term debt		(148,095)	(13,581)
Changes in bank loans		(118,867)	25,864
Changes in finance lease		(1,687)	0
Net cash generated from financing activities		<u>382,876</u>	<u>22,593</u>
Net change in cash and cash equivalents		63,084	(8,653)
Effects of foreign exchange adjustments		4,450	(1,103)
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>84,859</u></u>	<u><u>20,212</u></u>
Other information			
Interest paid		(10,934)	(11,392)
Income tax paid		(6,714)	(4,079)

Changes in total equity for the period ended 30 September 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.....			38,883		38,883		38,883
Changes in treasury stock.....	2,224	82,043			84,267		84,267
Accrued stock option.....			783		783		783
New shares issued.....	4,345	152,974			157,319		157,319
Net profit for the period.....				43,496	43,496	2,091	45,587
Change in minority interest.....					0	336	336
Dividend				(3,560)	(3,560)		(3,560)
Balance at 30 September 2005.....	42,750	333,349	16,256	212,043	604,397	12,280	616,677

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 USA, 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 6.500. 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) as of 1 January 2005. The disclosures required by IFRS 1 concerning the transition from IS GAAP to IFRSs are given in Note 23.

The consolidated interim financial statements have been prepared on a 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 the 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 results of which form the basis of making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

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, only certain adjustments 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. The 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 has been 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 transact 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 valuation 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 Group's 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 prepare 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 Group's 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 in 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:

- It is technically feasible to complete the intangible asset so that it will be available for use or sale.
- It is intended to use or sell the intangible asset.
- The intangible asset is capable of being used or sold.
- The intangible asset will generate probable future economic benefits. The Group has identified amongst other things, 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.
- The expenditure attributable to the intangible asset during its development can be reliably measured.

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. The amortisation charge for each period is recognised as an expense.

Notes to the consolidated interim financial statements

Property, plant and equipment

Property, plant, and equipment are 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, but 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 Group's treasury function. The carrying amount of these assets approximates their fair values.

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 on the basis of 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.

Inventories

Inventories are stated at the lower of cost or net realisable value. Cost comprises direct materials and, where applicable, direct labour 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.

Notes to the consolidated interim financial statements

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

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and 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 had not been vested as of 1 January 2003.

The Group has issued share-based 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.

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 recorded 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.

Notes to the consolidated interim financial statements

3. Quarterly statements

	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004
Net sales	153,390	115,720	96,958	106,237	97,251
Cost of goods sold	(72,864)	(63,090)	(50,546)	(54,007)	(52,601)
Gross profit	80,526	52,630	46,412	52,230	44,650
Other income	7,548	6,269	4,832	6,190	7,652
Sales and marketing expense	(22,219)	(20,722)	(14,122)	(21,800)	(14,661)
Research and development expense	(14,443)	(9,497)	(8,877)	(8,633)	(14,428)
General and administration expense	(14,860)	(12,100)	(9,374)	(7,239)	(2,315)
Impairment of goodwill	0	0	0	(3,128)	0
Profit from operations	36,553	16,580	18,871	17,620	20,898
Financial income/(expenses)	(8,683)	(487)	(7,199)	(66)	(2,765)
Income from associates	(801)	0	0	(285)	(280)
Profit before tax	27,069	16,093	11,672	17,269	17,853
Income tax	(3,864)	(4,802)	(579)	913	(3,628)
Net profit for the period	23,204	11,291	11,093	18,182	14,225
 EBITDA	 48,300	 23,447	 24,565	 27,004	 26,952

4. Segment reporting

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

	Western Europe	Eastern Europe	Other Segments	Eliminations	Total
External revenue.....	127,115	219,564	38,038	0	384,717
Internal revenue.....	114,254	1,290	206	(115,750)	0
Total segment revenue.....	<u>241,369</u>	<u>220,854</u>	<u>38,244</u>	<u>(115,750)</u>	<u>384,717</u>

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.....	<u>11,459</u>	<u>28,153</u>	<u>7,601</u>	<u>(1,626)</u>	<u>45,587</u>
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Segment report for YTD 2004:

	Western Europe	Eastern Europe	Other Segments	Eliminations	Total
External revenue.....	153,931	186,804	49	0	340,784
Internal revenue.....	138,151	902	0	(139,053)	0
Total segment revenue.....	<u>292,082</u>	<u>187,706</u>	<u>49</u>	<u>(139,053)</u>	<u>340,784</u>
Segment results.....	<u>22,312</u>	<u>24,881</u>	<u>(285)</u>	<u>(806)</u>	<u>46,102</u>

Notes to the consolidated interim financial statements

5. Salaries

Salaries and related expenses paid by the Group are specified as follows:

	YTD 2005	YTD 2004
Salaries	65,761	53,293
Related expenses	19,950	16,167
	85,711	69,460
Number of employees at end of period.....	6,532	6,693
Average number of positions.....	6,509	6,849

Allocation of salaries to items of income statement:

	YTD 2005	YTD 2004
Cost of goods sold	31,061	26,049
Sales and marketing	22,029	18,906
Research and development.....	13,778	10,784
General and administrative.....	16,050	12,300
	82,918	68,039

Allocation of salaries to items of balance sheet:

Development	2,793	1,421
	2,793	1,421

Notes to the consolidated interim financial statements

6. Financial income / (expenses)

	YTD 2005	YTD 2004
Net financial income and expenses:		
Interest income.....	2,075	2,366
Interest expenses.....	(12,200)	(12,386)
Currency fluctuations.....	(5,044)	(2,261)
Write-down of investment in associated companies.....	(1,200)	0
	(16,369)	(12,281)

7. Earnings per share

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

	YTD 2005	YTD 2004
Net profit.....	43,496	43,926
Total average number of shares outstanding during the period (in million).....	2,970	2,789
Total average number of shares including potential shares (in million).....	2,972	2,790
Basic Earnings per Share (EUR).....	0.01464	0.01575
Diluted Earnings per Share (EUR).....	0.01464	0.01575

8. Goodwill

	30.9. 2005
At 1 January 2005.....	236,801
Currency adjustments during period	7,685
Recognised on acquisition of subsidiaries	282,238
Other changes	1,112
At 30 September 2005.....	527,836

Notes to the consolidated interim financial statements

9. Other intangible assets

	Development cost and know-how	Others intangibles	Total
Cost			
At 1 January 2005.....	34,345	13,385	47,730
Currency adjustments during period	1,562	559	2,122
Additions due to acquisitions	20,976	162,640	183,617
Additions during period	24,197	1,937	26,134
Disposals during period	(1,144)	(4,178)	(5,322)
At 30 September 2005.....	<u>79,937</u>	<u>174,343</u>	<u>254,280</u>
Amortisation			
At 1 January 2005.....	9,736	7,372	17,108
Currency adjustments during period	289	408	697
Additions due to acquisitions	1,024	5	1,029
Disposals during period	0	(4,098)	(4,098)
Amortised of asset disposals	(156)	(74)	(230)
Amortised during period	<u>4,090</u>	<u>5,695</u>	<u>9,785</u>
At 30 September 2005.....	<u>14,984</u>	<u>9,308</u>	<u>24,292</u>
Net book value	<u>64,953</u>	<u>165,035</u>	<u>229,988</u>

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

	<u>YTD 2005</u>	<u>YTD 2004</u>
Cost of sales.....	613	874
Sales and marketing expenses.....	22	20
Administration.....	849	237
Research and development.....	<u>8,301</u>	<u>5,396</u>
	<u>9,785</u>	<u>6,527</u>

Notes to the consolidated interim financial statements

10. 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	13,028	18,732	31,760
Additions due to acquisition	24,740	28,258	52,998
Additions during period	7,268	26,220	33,488
Revaluation of assets	0	(23)	(23)
Sales during period	(71)	(162)	(233)
Disposals during period	(12,534)	(27,208)	(39,742)
At 30 September 2005.....	<u>118,673</u>	<u>214,070</u>	<u>332,743</u>
Accumulated depreciation			
At 1 January 2005.....	28,142	81,125	109,267
Currency adjustments during period	1,744	10,925	12,669
Additions due to acquisition	3,505	22,862	26,367
Sales during period	(35)	(51)	(86)
Disposals during period	0	(613)	(613)
Depreciation of assets disposed	(11,713)	(25,753)	(37,466)
Impairment loss during period	0	666	666
Depreciation during period	1,903	11,956	13,858
At 30 September 2005.....	<u>23,545</u>	<u>101,118</u>	<u>124,662</u>
Net book value	<u>95,128</u>	<u>112,952</u>	<u>208,080</u>

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

	YTD 2005	YTD 2004
Cost of goods sold	9,102	5,521
Sales and marketing expenses	1,462	849
Administration	1,602	1,193
Research and development	2,358	1,819
	<u>14,524</u>	<u>9,382</u>

Notes to the consolidated interim financial statements

11. The Consolidation

At the end of the period the Company owned seventeen subsidiaries that are all included in the consolidation. The subsidiaries owned twenty-four 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
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
Actavis AD (Balkanpharma AD)	Bulgaria	100%	Holding company and S&M
Actavis Operations Ltd.	Bulgaria	100%	Holding company
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 OOO	Russia	100%	Sales and Marketing
Actavis OOO	Russia	90%	Sales and Marketing
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 UK Ltd.	UK	100%	Administration
Actavis Inc. (Pharmaco Inc.)	USA	100%	Business Development
Amide Holding Inc.	USA	100%	Holding company
Amide Pharmaceuticals Inc.	USA	100%	Production, S&M and R&D
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
UAB Actavis Baltic	Lithuania	100%	Sales and Marketing
Biovena Pharma Sp.	Poland	100%	Sales and Marketing
Colotech AS,	Denmark	86%	Research and Development
Fako İlaçları AŞ	Turkey	89%	Production, S&M and R&D
Lotus Laboratories Ltd	India	100%	Clinical Research Organisation
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

* S&M = Sales and Marketing

* R&D = Research and Development

Notes to the consolidated interim financial statements

At the beginning of February the Company gained control over the Polish subsidiary Biovena Pharma Sp. At 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 the sales and marketing of generic pharmaceuticals. At the beginning of July the Company acquired through its subsidiary Actavis Inc., the pharmaceutical company Amide Pharmaceuticals Inc. in USA. Amide Pharmaceuticals Inc. develops, manufactures and sells generic pharmaceuticals.

12. Acquisitions

In accordance with IFRS 3 *Business combinations*, the allocation of business combination costs to the assets acquired and the liabilities and contingent liabilities assumed is provisional. The allocation will be completed prior to year end 2005.

All acquisitions have been accounted for by applying the purchase method. The acquisitions had the following effect on the Group's assets and liabilities.

	Amide Pharma. Inc	Other acquisitions	Total
Tangible assets			
Fixed assets.....	22,527	4,104	26,631
Working capital.....	7,312	2,839	10,151
	<u>29,839</u>	<u>6,943</u>	<u>36,782</u>
Intangible assets			
Know-how.....	22,257	2,500	24,757
Trade mark.....	6,187	1,235	7,422
Customer relationship.....	74,361	1,294	75,655
Pipeline.....	74,247	507	74,754
Goodwill.....	267,057	15,181	282,238
	<u>444,109</u>	<u>20,716</u>	<u>464,825</u>
Liabilities and commitments			
Long-term liabilities.....	9,879	683	10,562
Commitment due to earnout.....	55,111	0	55,111
Deferred income tax liability.....	42,318	1,009	43,326
	<u>107,307</u>	<u>1,692</u>	<u>108,999</u>
	<u>366,641</u>	<u>25,967</u>	<u>392,608</u>
Cash and cash equivalents (acquired).....	19,419	945	20,364
Net cash outflow.....	347,222	25,022	372,244
	<u>366,641</u>	<u>25,967</u>	<u>392,608</u>

Fair value adjustments of inventories at Amide Pharmaceuticals Inc. on acquisition were EUR2.3 million and in respect of other acquisitions were EUR0.8 million.

Notes to the consolidated interim financial statements

13. Inventories

	30.9. 2005	31.12.2004
Raw material.....	47,503	32,361
Work in progress.....	15,090	14,348
Finished goods	31,166	24,415
Other inventories.....	3,141	448
	96,900	71,572

14. Trade and other receivables

	30.9. 2005
Trade receivables.....	158,935
Other receivables.....	76,801
Allowances for doubtful accounts.....	(9,256)
	226,479

Included in other receivables is a loan to the CEO amounting EUR2.6 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.

Notes to the consolidated interim financial statements

15. Share capital

The Company increased its capital stock in a share offering in the end of 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:

	Number 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	4,345
Purchase of treasury shares.....	(22,318)	(288)
Sale of treasury shares.....	199,366	2,512
Outstanding capital stock at 30 September 2005.....	<u>3,313,075</u>	<u>42,750</u>

Capital stock is as follows and the nominal value of each share is one Icelandic krona.

	Number of shares in thousands	Ratio	EUR
Outstanding capital stock at the end of the period.....	3,313,075	99.2%	42,750
Treasury shares at the end of the period.....	25,569	0.8%	288
Total capital stock issued.....	<u>3,338,645</u>	<u>100.0%</u>	<u>43,038</u>

16. Stock Option

During the period Actavis Group granted its employees stock options exercisable in the years 2005 - 2007. The Company intends to use treasury shares and / or increase share capital to meet the options. These stock options at the end of the period amounted to 56.1 million shares.

Contract rate (ISK)/Conditions/Date granted	Number of shares			
	Nov.05	Nov.06	Nov.07	Total
38.5/Conditional/June 2005.....	18,709	18,709	18,709	56,126

Options are terminated if an employee leaves the Group before the options vest. The stock options are exercisable in 10 days from exercise date which falls on 10 November in 2005, 2006 and 2007 respectively.

Notes to the consolidated interim financial statements

17. 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 process within the Group.

- 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.

Notes to the consolidated interim financial statements

18. Interest bearing loans

Interest bearing loans are specified as follows:

	30.9. 2005	31.12.2004
Loans in USD	5,933	31,003
Loans in EUR	468,404	133,257
Loans in CHF	3,777	12,209
Loans in GBP	3,309	2,301
Loans in JPY	1,944	11,923
Loans in SEK	2,150	1,442
Loans in MTL	8,996	8,272
Loans in BGL	0	3,268
Loans in ISK	883	229
Loans denominated in other currencies	748	527
	<u>496,144</u>	<u>204,431</u>
Current maturities, included in interest bearing loans	(14,545)	(41,448)
Interest bearing loans	<u>481,600</u>	<u>162,983</u>

Aggregated annual maturities are as follows:

On demand or within 12 months	14,545	41,448
Within 24 months	3,798	30,027
Within 36 months	9,198	23,346
Within 48 months	433,906	82,407
Within 60 months	16,374	6,420
Subsequent years	18,323	20,783
	<u>496,144</u>	<u>204,431</u>

Notes to the consolidated interim financial statements

19. Obligation under finance leases

Accounts payable under finance leases:	Min. lease payments 30.9. 2005	Min. lease payments 2004	Remaining balances 30.9. 2005	Remaining balances 2004
Obligation under finance leases	25,300	8,092	16,344	7,052
Current maturities	(2,643)	(2,507)	(1,827)	(2,158)
Long term obligation under finance leases	22,657	5,585	14,517	4,894

Aggregated annual maturities are as follows:

On demand or within 12 months	2,643	2,507	1,827	2,158
Within 24 months	2,495	2,203	1,767	1,907
Within 36 months	1,831	919	1,163	820
Within 48 months	1,363	681	745	516
Subsequent years	16,966	1,782	10,842	1,651
	<u>25,299</u>	<u>8,092</u>	<u>16,344</u>	<u>7,052</u>
Less: future finance charges	(8,955)	(1,040)		
Remaining balances	<u>16,344</u>	<u>7,052</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.

20. Deferred tax

	Deferred tax asset	Deferred tax liabilities	Net
At 1 January 2005	21,247	(9,493)	11,754
Recognised directly in equity	0	2,201	2,201
Additions due to merger	0	(43,327)	(43,327)
Calculated tax for the period	(2,308)	(6,937)	(9,245)
Income tax payable for the period	316	2,968	3,284
Exchange differences	907	(1,477)	(570)
At 30 September 2005.....	<u>20,162</u>	<u>(56,065)</u>	<u>(35,903)</u>

Notes to the consolidated interim financial statements

21. Provisions

	Restructuring provisions
At 1 January 2005.....	3,962
Additional provision during the period	166
Utilisation of provision	(3,664)
Exchange difference	1,956
Currency adjustments	6
At 30 September 2005.....	2,426
On demand or within 12 months.....	(2,164)
Non-current provisions.....	262

22. Commitments

	Commitments
Contingent liability due to earn-out clauses.....	32,900
Loan guarantee granted to subsidiaries	12,000
Commitment to invest in Serbia during next three years	7,800
Commitment to increase share capital in subsidiary during next three years	2,000
At 30 September 2005.....	54,700

Purchase agreements in respect of acquired businesses include earn-out clauses based on performance. The total value of these earn-out clauses is capped at EUR88.0. Within this amount, the earn-out clause in respect of the acquisition agreement for Amide Pharmaceuticals Inc. represents a value of up to EUR83.0 million. As at 30 September 2005, EUR55.1 million of the Amide Pharmaceutical Inc. earn-out had been recognised. Subject to conditions, the balance of up to EUR27.9 million will be payable in March 2007.

Notes to the consolidated interim financial statements

23. Explanation of Transition to IFRSs

As stated in Note 2, these are the Group's first year's 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 nine months ended 30 September 2005, the comparative information for nine months ended 30 September 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 nine months ended 30 September 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
10. Property, plant and equipment	142,523	1,502	1,203	145,228
8. Goodwill	229,126	6,995	680	236,801
9. 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
13. 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
18. 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
19. 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

23. 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.....	318,359	(0)	318,359
Cost of sales	(162,472)	(8,528)	(171,000)
Gross Profit	<u>155,887</u>	<u>(8,528)</u>	<u>147,359</u>
Other revenue.....	21,422	1,003	22,425
Sales and marketing expenses.....	(41,350)	(1,743)	(43,093)
Research and development expenses.....	0	(30,816)	(30,816)
General and administrative expenses.....	(29,389)	4,359	(25,030)
Other operating expenses.....	(18,005)	18,005	0
Depreciation and amortisation.....	(15,441)	15,441	0
Income / (Loss) from associates.....	0	(844)	(844)
Finance income (expenses).....	(10,107)	(2,174)	(12,281)
	<u>(92,870)</u>	<u>3,231</u>	<u>(89,639)</u>
Profit before tax.....	63,017	(5,297)	57,720
Tax expense.....	(12,427)	809	(11,618)
Minority interest.....	(2,495)	319	(2,176)
Net profit (loss).....	<u>48,095</u>	<u>(4,169)</u>	<u>43,926</u>

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 amortisation.

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 amortised but is tested annually for impairment.

Notes to the consolidated interim financial statements

23. 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 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 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

24. Events after the balance sheet date

-Business combination

In October the Company signed an agreement to purchase the human generic business of the US listed pharmaceutical company Alharma Inc. The acquired business unit of Alharma Inc. develops, manufactures and sells a broad range of generic pharmaceutical products. The human generic business of Alharma Inc. employs approximately 2,800 people and operates in 11 countries around the world. The cost of the acquisition has a total consideration of USD810 million (EUR675 million) in cash.

At the end of October the Company acquired the Danish company Ophtha which specialises in the selling and marketing of ophthalmic products. The acquisition is not expected to have any material effect on the Group's financial results in 2005.

-Refinancing

In October the Company secured USD1,695 million (EUR1,413 million) in financing for the acquisition of Alharma human generic business and refinancing of the majority of existing debt. The financing is combined of a USD970 million (EUR808 million) Term Loan Facility, a USD300 million (EUR250 million) Revolving Credit Facility and the placement of USD425 million (EUR354 million) equivalent in Preferred Shares. The Term Loan Facility has a 5 year maturity. The Revolving Credit Facility, which will initially be undrawn, has a 5 year maturity and is for general corporate purposes. The Preferred Shares, denominated in either ISK og EUR carry a cumulative preferred dividend and can be redeemed by the Company at any time. They carry no voting rights and, if not redeemed, have a conversion right six months after the fifth anniversary of the issue into 39% of total ordinary shares of the Issuer.

25. Financial ratios

The main financial ratios for the Group are as follows:

	30.9. 2005	31.12.2004
Equity ratio.....	0.44	0.43
Current ratio.....	1.76	1.16
Internal value of shares.....	14.14	7.79
	30.9. 2005	31.12.2004
Return on equity.....	16.3%	26.6%
EBITDA.....	96,312	86,754
EBITDA as a percentage of revenues.....	25.0%	25.5%
Working capital provided by operating activities.....	81,146	65,061