

Actavis Group hf.
Consolidated financial statements
Year ended 31 December 2005
Euro

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Endorsement by the board of directors and the president and CEO

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

Net profit for the year amounted to EUR81.0 million, according to the income statement. Total equity amounted to EUR1008.0 million at year-end as shown in the balance sheet. Changes in total equity and appropriation of net profits are further explained in the financial statements. The board of directors does not propose a payment of dividend to shareholders in 2006.

In December the Company issued and sold 100 Class B preference shares each with a nominal value of EUR100,000 for a total of EUR356 million. As preference shares they entitle the shareholders to receive dividend payments before class A common stock shareholders but exclude any voting rights. Outstanding class A common stock was 3,329,102 thousand shares at the end of the year, which had a book value of EUR43.0 million. Each share has a nominal value of one Icelandic krona. The number of shareholders at year-end was 3477, an increase of 578 from the beginning of the year. Two shareholders owned more than 10% of class A voting shares at the year-end, Amber International Ltd. with 35.1% ownership and Landsbanki Luxemburg S.A. with 11.3%.

At the beginning of February 2005 the Company completed the acquisition of Biovena Pharma Sp., a Polish company, specialising in sales and marketing. The results of Biovena Pharma Sp. are included in the financial statements from 1 February 2005.

At the beginning of April 2005 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. are 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 of 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 result of Amide Pharmaceuticals Inc. is included in the financial statements from 1 July 2005.

At the beginning of September 2005 the Company acquired 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 results of Kéri Pharma and Higia AD are included in the financial statements from 1 October and from 1 December 2005, respectively.

At 17 October 2005 the Company signed an agreement to purchase the human generic business of the US listed company Alpharma 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 USD443 million (EUR369 million) preference share offering. The results of Alpharma's human generic business are included in the financial statements from 18 December 2005.

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

The Group's consolidated financial statements for the year 2005 were approved by the board of directors and the president and CEO of Actavis Group hf. on 7 March 2006 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

Board of directors and shareholders of Actavis Group hf.

We have audited the accompanying consolidated balance sheet of Actavis Group hf. (the "Company") as of 31 December, 2005 and the related consolidated income statements, changes in equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company as of 31 December 2005 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Reykjavik, 7 March 2006.

Alexander G. Edvardsson
Audur Thorisdottir

KPMG Endurskodun hf.

Consolidated income statement

	Notes	2005 Q4	2004 Q4	2005	2004
Net sales		185,316	106,237	551,384	424,596
Cost of sales		<u>(89,970)</u>	<u>(54,007)</u>	<u>(276,470)</u>	<u>(225,007)</u>
Gross profit		95,345	52,230	274,913	199,589
Other operating income		9,231	6,191	27,880	28,616
Sales and marketing		(24,311)	(21,799)	(81,374)	(64,892)
Research and development		(21,472)	(7,239)	(54,289)	(32,269)
General and administrative		(24,284)	(8,634)	(60,618)	(39,450)
Impairment losses of goodwill		0	(3,128)	0	(3,128)
		<u>(60,835)</u>	<u>(34,610)</u>	<u>(168,401)</u>	<u>(111,123)</u>
Profit from operations		34,510	17,620	106,512	88,466
Loss from associates		(1,015)	(285)	(1,816)	(1,129)
Financial income and (expenses)	8	<u>3,153</u>	<u>(66)</u>	<u>(13,216)</u>	<u>(12,347)</u>
Profit before tax		36,648	17,269	91,479	74,990
Income tax	9	<u>(1,232)</u>	910	<u>(10,477)</u>	<u>(10,708)</u>
Net profit		<u><u>35,416</u></u>	<u><u>18,179</u></u>	<u><u>81,003</u></u>	<u><u>64,282</u></u>
Attributable to:					
Equity holders of the Parent		34,511	16,360	78,007	60,286
Minority interest		905	1,819	2,995	3,996
Net profit		<u>35,416</u>	<u>18,179</u>	<u>81,003</u>	<u>64,282</u>
Earnings per Share	10				
Basic Earnings per Share (EUR)		<u>0.01038</u>	<u>0.00586</u>	<u>0.02551</u>	<u>0.02162</u>
Diluted Earnings per Share (EUR)		<u>0.01036</u>	<u>0.00586</u>	<u>0.02548</u>	<u>0.02159</u>

Consolidated balance sheet at 31 December 2005

	Notes	2005	2004
Assets			
Non-current assets			
Goodwill	11	784,634	236,801
Other intangible assets	12	547,956	30,622
Property, plant and equipment	13	346,270	145,228
Investment in associated companies		253	2,032
Other investments		701	6,155
Deferred tax assets	27	54,417	21,247
		<u>1,734,232</u>	<u>442,085</u>
Current assets			
Inventories	16	231,367	71,572
Fair value derivatives	17	9,205	0
Trade and other receivables	18	294,742	153,184
Cash and cash equivalents		99,308	17,325
		<u>634,622</u>	<u>242,081</u>
		<u>2,368,854</u>	<u>684,166</u>
Total assets			
Equity and liabilities			
Stockholders' equity			
Issued capital	19	52,961	36,181
Share premium		687,764	98,332
Other reserves	20	10,012	(23,410)
Retained earnings		246,597	170,720
		<u>997,334</u>	<u>281,822</u>
Minority interest		10,695	9,853
		<u>1,008,029</u>	<u>291,676</u>
Total equity			
Liabilities			
Non-current liabilities			
Interest bearing loans	23	868,389	162,983
Retirement benefit obligation	24	11,558	5,753
Obligations under finance leases	25	15,516	4,894
Deferred income tax liabilities	27	78,506	9,493
		<u>973,969</u>	<u>183,123</u>
Current liabilities			
Interest bearing loans		22,383	129,868
Accounts payable and other liabilities		359,888	73,379
Obligations under finance leases	25	2,111	2,158
Provisions	28	2,474	3,962
		<u>386,855</u>	<u>209,367</u>
		<u>1,360,825</u>	<u>392,490</u>
Total liabilities			
Total equity and liabilities			
		<u>2,368,854</u>	<u>684,166</u>

Consolidated statements of cash flows

	Notes	2005	2004
Cash flows from operating activities			
Net earnings		81,003	64,282
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and impairment of fixed assets	13	21,159	13,372
Amortisation of intangible assets	12	20,801	8,793
Impairment of goodwill		0	3,128
Currency fluctuations and indexation		(14,208)	8,025
Changes in deferred taxes		(5,856)	(5,119)
Other changes		6,182	(365)
Working capital provided by operating activities		<u>109,079</u>	<u>92,116</u>
Changes in operating assets and liabilities:			
Inventories, (increase) decrease		(13,630)	9,831
Receivables, decrease (increase)		5,988	(58,289)
Short-term liabilities, increase		1,567	3,052
Changes in operating assets and liabilities		<u>(6,075)</u>	<u>(45,406)</u>
Net cash provided by operating activities		<u>103,004</u>	<u>46,710</u>
Cash flows to investing activities			
Increase in intangible assets		(41,188)	(13,790)
Proceeds from sale of intangible assets		1,426	0
Investment in property, plant and equipment		(62,365)	(43,081)
Proceeds from sale of property and equipment		3,686	1,650
Investment in subsidiaries and other companies net of cash acquired		(884,578)	(8,374)
Proceeds from sale of investment in other companies		3,792	0
Securities, change		18,001	451
Net cash used in investing activities		<u>(961,227)</u>	<u>(63,144)</u>
Cash flows from financing activities			
Changes in capital stock		247,379	(768)
Issuance of preference shares		356,498	0
Dividend paid		(3,554)	(3,182)
Proceeds from long-term borrowings		661,348	36,766
Payments of long-term debt		(163,307)	(18,508)
Changes in bank loans		(160,113)	(9,041)
Changes in finance lease		(471)	0
Net cash generated from financing activities		<u>937,780</u>	<u>5,267</u>
Net change in cash and cash equivalents		79,557	(11,167)
Effects of foreign exchange adjustments		2,426	(1,475)
Cash and cash equivalents at beginning of year		<u>17,325</u>	<u>29,967</u>
Cash and cash equivalents at end of year		<u><u>99,308</u></u>	<u><u>17,325</u></u>
Other information			
Interest paid		(18,756)	(13,714)
Income tax paid		(18,795)	(6,252)

Consolidated statement of changes in shareholders' equity

	Issued capital		Share premium	Other reserves	Retained earnings	Shareholder's equity	Minority interest	Total equity
	Common stock	Preference shares						
Balance at 1 January 2004	36,113	0	99,447	(21,252)	113,609	227,917	7,316	235,233
Research and development.....				(2,158)		(2,158)		(2,158)
Changes in treasury stock	68		(1,115)			(1,047)		(1,047)
Net profit for the year					60,286	60,286	3,996	64,282
Changes in minority interest							(1,459)	(1,459)
Dividend paid					(3,175)	(3,175)		(3,175)
Balance at 31 December 2004	36,181	0	98,332	(23,410)	170,720	281,823	9,853	291,676
Change due to implementation of IAS 39					1,429	1,429		1,429
Adjusted equity at 1 January 2005	36,181	0	98,332	(23,410)	172,149	283,252	9,853	293,105
New shares issued	4,557		160,895			165,452		165,452
Changes in treasury stock	2,223		82,039			84,262		84,262
Preference shares issued		10,000	346,498			356,498		356,498
Translation difference				31,674		31,674		31,674
Accrued stock option				1,748		1,748		1,748
Net profit for the year					78,007	78,007	2,995	81,003
Changes in minority interest						0	(2,153)	(2,153)
Dividend paid					(3,560)	(3,560)		(3,560)
Balance at 31 December 2005.....	42,961	10,000	687,764	10,012	246,596	997,334	10,695	1,008,028

Notes to the consolidated 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 the development, manufacturing and sale of generic pharmaceuticals on international markets. The Group is financially strong and has experienced rapid growth in recent years.

The Group operates across five continents with its headquarters in Iceland. Principal markets include North America, Germany, the United Kingdom, the Nordic Countries, Turkey, Bulgaria and the Netherlands. Teams of pharmacists, chemists and other scientific professionals make up a total workforce of around 10,000 in over 30 countries. The Group maintains modern manufacturing facilities in USA, Bulgaria, China, Iceland, Indonesia, Malta, Turkey and UK. 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 financial statements are presented in thousands of euro, with amounts rounded to the nearest thousand, as the euro is the currency of the primary economic environment in which the group operates.

2. Significant Accounting Policies

Basis of Accounting

The consolidated financial statements are 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 30 - 31.

The consolidated financial statements are 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 financial statements are 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 are 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 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.

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

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 can 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 use 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 are recorded on IS GAAP basis prior to 1 January 2005, 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 took the 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 was 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 by applying these exemptions.

Notes to the consolidated financial statements

Basis of consolidation

-Subsidiaries

The consolidated financial statements incorporate the 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 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 year are included in the 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 Group.

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 financial statements using the equity method of accounting. Investment in associates is 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 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 at the date of acquisition. Goodwill is recognised as an asset and tested for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary, 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 amortised 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 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 obligations have been fulfilled.

Financial income and expenses

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 investment is recognised when the Group's 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 inception of the lease 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 year. 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 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 foreign entities are treated as assets and liabilities of foreign entities and translated at the closing rate.

Notes to the consolidated 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 the income statement.

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 financial statements

Deferred tax liabilities are recognised for taxable temporary differences arising on investment in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences 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.

Earnings per share

Earnings per share is the ratio between profit and weighted average number of common 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. The calculation of dilution due to stock options is made by applying the Treasury Stock method.

Intangible assets

-Research and development

Research and development costs comprise of costs relating to the Group's research and development activities, including clinical studies, amortisation and depreciation, 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 only 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 expected 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 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 costs as well as an appropriate share of overheads. 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.

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 financial statements

Investment

Investment in other companies is valued at acquisition cost less provisions for estimated impairment losses.

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.

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.

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.

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.

Equity instruments

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

Preference share capital

Preference share capital is classified as equity if it is non-redeemable and any dividends are discretionary, or is redeemable but only at the Company's option. Dividend on preference share capital classified as equity are recognised as distributions within equity.

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.

Dividend

Dividend is recognised as a liability in the period declared.

Notes to the consolidated financial statements

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.

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 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 income statement using the 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.

Interest-bearing loans

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.

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.

Notes to the consolidated financial statements

3. Quarterly statements

	Total 2005	Q4 2005	Q3 2005	Q2 2005	Q1 2005
Net sales	551,384	185,316	153,390	115,720	96,958
Cost of sales	(276,470)	(89,970)	(72,864)	(63,090)	(50,546)
Gross profit	274,914	95,345	80,526	52,631	46,412
Other operating income	27,880	9,231	7,548	6,269	4,832
Sales and marketing	(81,373)	(24,311)	(22,219)	(20,722)	(14,122)
Research and development	(54,290)	(21,472)	(14,443)	(9,497)	(8,877)
General and administration	(60,618)	(24,284)	(14,860)	(12,100)	(9,374)
Impairment losses	0	0	0	0	0
Profit from operations	106,513	34,509	36,552	16,580	18,871
Financial income/(expenses)	(13,216)	3,153	(8,683)	(487)	(7,199)
Loss from associates	(1,816)	(1,015)	(801)	0	0
Profit before tax	91,481	36,647	27,068	16,094	11,672
Income tax	(10,477)	(1,232)	(3,864)	(4,802)	(579)
Net profit	81,003	35,415	23,204	11,291	11,093
EBITDA	148,471	52,156	48,303	23,447	24,565

4. Segment reporting

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

	Western Europe	Eastern Europe	USA	Other Segments	Eliminations	Total
Own brand.....	33,945	260,187	68,153	0	0	362,285
Product sales.....	143,388	1,138	0	801	0	145,327
API.....	0	18,519	0	0	0	18,519
Dossier.....	10,717	1,305	0	0	0	12,022
Other sales.....	6,615	18,428	0	0	0	25,043
Other revenue.....	4,209	3,542	3,810	4,506	0	16,067
Total external revenue.....	<u>198,875</u>	<u>303,119</u>	<u>71,963</u>	<u>5,307</u>	<u>0</u>	<u>579,264</u>
Internal revenue.....	<u>165,561</u>	<u>3,061</u>	<u>0</u>	<u>207</u>	<u>(168,829)</u>	<u>0</u>
Total segment revenue.....	<u>364,436</u>	<u>306,180</u>	<u>71,963</u>	<u>5,514</u>	<u>(168,829)</u>	<u>579,264</u>
Segment results.....	<u>41,791</u>	<u>40,736</u>	<u>24,762</u>	<u>1,144</u>	<u>(1,920)</u>	<u>106,513</u>
Net financing cost.....						(15,033)
Income tax.....						(10,477)
Profit for the period.....						<u>81,003</u>
Segment assets.....	1,840,316	314,663	847,551	34,871	(668,547)	2,368,854
Segment liabilities.....	1,382,697	120,717	515,271	9,673	(667,533)	1,360,825
CF from operations.....	15,155	39,915	47,341	593	0	103,004
CF to investments.....	(588,326)	(29,812)	(342,129)	(962)	0	(961,229)
CF from financing.....	1,019,728	(17,011)	(64,872)	(65)	0	937,780
Capital expenditure.....	53,948	36,213	12,428	964	0	103,553

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

Notes to the consolidated financial statements

Segment reporting, continued:

Segment report for the year end 2004:

	Western Europe	Eastern Europe	USA	Other Segments	Eliminations	Total
Own brand.....	24,882	215,258	0	0	0	240,140
Product sales.....	148,604	3,306	0	0	0	151,909
API.....	0	19,770	0	0	0	19,770
Dossier.....	12,776	395	0	0	0	13,171
Other sales.....	0	0	0	0	0	0
Other revenue.....	8,153	20,069	0	0	0	28,222
Total external revenue.....	<u>194,414</u>	<u>258,797</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>453,212</u>
Internal revenue.....	<u>175,837</u>	<u>1,155</u>	<u>0</u>	<u>0</u>	<u>(176,992)</u>	<u>0</u>
Total segment revenue.....	<u>370,251</u>	<u>259,953</u>	<u>0</u>	<u>0</u>	<u>(176,992)</u>	<u>453,212</u>
Segment results.....	<u>47,631</u>	<u>41,311</u>	<u>(477)</u>	<u>0</u>	<u>0</u>	<u>88,465</u>
Net financing cost.....						(13,476)
Income tax.....						(10,708)
Profit for the period.....						<u>64,281</u>
Segment assets.....	682,526	243,504	81	0	(241,945)	684,166
Segment liabilities.....	523,300	110,818	317	0	(241,945)	392,490
CF from operations.....	22,861	23,792	57	0	0	46,710
CF to investments.....	(43,500)	(19,623)	(21)	0	0	(63,144)
CF from financing.....	4,879	106	282	0	0	5,267
Capital expenditure.....	34,498	22,354	21	0	0	56,873
Impairment loss.....	3,023	0	0	0	0	3,023

5. Salaries

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

	2005	2004
Salaries	104,872	83,505
Related expenses	<u>24,889</u>	<u>20,545</u>
	<u>129,761</u>	<u>104,050</u>
Number of employees at end of period.....	10,153	6,602
Average number of positions.....	10,145	6,841

Allocation of salaries to items of income statement:

	2005	2004
Cost of goods sold	44,898	35,587
Sales and marketing	31,789	26,346
Research and development.....	19,811	13,580
General and administrative.....	<u>28,091</u>	<u>24,150</u>
	<u>124,588</u>	<u>99,662</u>

Allocation of salaries to items of balance sheet:

Development	<u>5,173</u>	<u>4,388</u>
	<u>5,173</u>	<u>4,388</u>

Notes to the consolidated financial statements

6. Management salaries and benefits

Payment of salaries to the key executives of the Company for work performed for the companies within the Group, their stock options and ownership in the Company are specified as follows:

	Salaries and bonuses	Stock options in thousands	Shares owned in thousands
Senior executives:			
Robert Wessman, CEO.....	504	377	35,305
Board of directors:			
Bjorgolfur Thor Bjorgolfsson, chairman of the board.....	31	0	1,214,391
Andri Sveinsson.....	15	0	0
Magnus Thorsteinsson.....	15	0	0
Karl Wernersson.....	15	0	269,203
Sindri Sindrason.....	15	0	12,540
Executive vice presidents:			
Guðbjorg Edda Eggertsdóttir, Third-party sales.....	255	1,472	21,574
Sigurður Oli Olafsson, North America sales.....	224	1,472	989
Deputy to the CEO and four executive vice presidents.....	983	6,623	5,122
Four former executives.....	1,312	2,944	2,257
	<u>3,370</u>	<u>12,888</u>	<u>1,561,381</u>

In addition to salaries and benefits the CEO realised 377 thousand shares through the exercise of stock options. The CEO purchased the shares at the exercise price of EUR0.033. The market value of these shares were EUR188 thousand at the same time.

Deputy to the CEO and executive vice presidents realised 6.3 million shares through exercise of stock options. The purchase price was EUR0.528 a share and the market value of these shares was EUR4.1 million at the exercise date.

Deputy to the CEO is Svafa Gronfeldt and four executive vice presidents are Aidan Kavanagh, Stefan J. Sveinsson, Jonas Tryggvason and Mark Keatley who joined the Company in August 2005. Per Edelman and Agust H. Leosson left the Company in 2005. Employment termination agreement with Per Edelman is included in his salaries for the period.

Jonas Tryggvason, Elin Gabriel and Svend Andersen joined the Executive board of Actavis on 19 December 2005. Their remuneration is considered not to be material and is not included in management salaries.

The ownership of shares by the board members includes both direct ownership and indirect ownership through holding companies.

Notes to the consolidated financial statements

7. Fees to Auditors

	2005	2004
Audit of financial statements.....	894	608
Review of interim financial statements.....	166	158
Other services.....	319	196
	1,380	962

The amount includes payments to elected auditors of all companies within the Group.

8. Financial income and (expenses)

	2005	2004
Net financial income and expenses:		
Interest income.....	3,824	2,390
Interest expenses.....	(21,270)	(16,678)
Currency fluctuations.....	5,636	1,941
Write-down of investment in associated companies.....	(1,407)	0
	(13,217)	(12,347)

9. Income tax expense

	2005
Current tax expense	
Current year	22,787
Under/(over) provided in prior years	68
	22,855
Deferred tax expense	
Origination and reversal of temporary differences	(4,261)
Investment tax Credit	(11,246)
Other changes	3,129
	(12,378)
Total income tax expense in income statement	10,477

Reconciliation of effective tax rate

Profit before tax		91,479
Income tax using the domestic corporation tax rate	18%	16,466
Effect of tax rates in foreign jurisdictions	7%	6,822
Investment tax credits	(13%)	(11,464)
Non-deductible expenses	1%	500
Tax exempt revenue	(2%)	(1,767)
Other differences	(0%)	(80)
Total income tax expense in income statement	11%	10,477

Notes to the consolidated financial statements

10. Earnings per share

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

	2005	2004
Net profit attributable to equity holders of common shares.....	78,007	60,286
Basic earnings per common share:		
Outstanding common shares at the beginning of year.....	2,791	2,785
Effect of new shares issued.....	175	0
Effect of treasury shares.....	92	4
Total average number of common shares outstanding during the period (in million).....	3,059	2,789
Basic Earnings per common Share (EUR).....	0.02551	0.02162
Diluted earnings per common share:		
Outstanding common shares at the beginning of year.....	2,791	2,785
Effect of new shares issued.....	175	0
Effect of treasury shares.....	92	4
Effect of stock options.....	2	3
Total average number of common shares outstanding during the period (in million).....	3,061	2,792
Diluted Earnings per common Share (EUR).....	0.02548	0.02159

11. Goodwill

	2005
Cost	
At 1 January 2005.....	240,101
Currency adjustments	408
Recognised on acquisition of subsidiaries	547,425
At 31 December 2005.....	787,934
Accumulated impairment	
At 1 January 2005.....	3,300
At 31 December 2005.....	3,300
Net book value 31 December 2005.....	784,634

The goodwill is allocated among the four cash-generating units (CGU) which reflect the monitoring and management structure of the Group. The four CGU's are the geographical markets Western Europe, Eastern Europe, USA and rest of the world.

The Group tests goodwill on an annual basis for impairment. If there are any indications that goodwill might be impaired, tests are made on a more frequent basis.

The recoverable amounts of the CGU's are determined from value in use calculations. For calculation of the value in use the management makes assumptions regarding the rate of growth, the discount rate and profit and cash generation. Management estimates discount rates using the pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on industry growth forecasts. Profit and cash forecasts are based on past experience and management assessment of the market for the next five years.

Notes to the consolidated financial statements

12. Other intangible assets

	Development cost and know-how	Others intangibles	Total
Cost			
At 1 January 2005.....	34,345	13,385	47,730
Currency adjustments	1,094	673	1,766
Additions due to acquisitions	20,607	475,612	496,219
External additions	28,664	6,624	35,287
Internal additions	5,714	86	5,801
Revaluation of assets	0	2,224	2,224
Sales	(1,338)	0	(1,338)
Disposals	(941)	(4,649)	(5,589)
At 31 December 2005.....	<u>88,145</u>	<u>493,955</u>	<u>582,100</u>
Accumulated amortisation			
At 1 January 2005.....	9,736	7,372	17,108
Currency adjustments	349	546	895
Sales	(45)	0	(45)
Disposals	(118)	(4,498)	(4,616)
Impairment losses	3,627	0	3,627
Amortised	5,671	11,503	17,174
At 31 December 2005.....	<u>19,221</u>	<u>14,922</u>	<u>34,143</u>
Net book value 31 December 2005	<u>68,924</u>	<u>479,032</u>	<u>547,956</u>

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

	2005	2004
Cost of sales.....	892	616
Sales and marketing expenses.....	436	1,328
Administration.....	1,472	913
Research and development.....	18,001	5,937
	<u>20,801</u>	<u>8,793</u>

Notes to the consolidated financial statements

13. Property, plant and equipment

	Property and plant	Machinery and equipment	Total
Cost			
At 1 January 2005.....	86,242	168,253	254,495
Currency adjustments	14,100	21,448	35,548
Additions due to acquisitions	41,340	115,140	156,481
Additions	10,273	38,432	48,704
Sales	(70)	(1,321)	(1,391)
Disposals	(14,743)	(29,680)	(44,422)
At 31 December 2005.....	<u>137,142</u>	<u>312,272</u>	<u>449,414</u>
Accumulated depreciation			
At 1 January 2005.....	28,142	81,125	109,267
Currency adjustments	2,116	11,798	13,914
Sales	(36)	(731)	(766)
Disposals	(12,686)	(27,743)	(40,429)
Impairment losses	515	517	1,032
Depreciation	2,760	17,366	20,127
At 31 December 2005.....	<u>20,811</u>	<u>82,334</u>	<u>103,145</u>
Net book value 31 December 2005	<u>116,331</u>	<u>229,939</u>	<u>346,270</u>

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

	2005	2004
Cost of goods sold	13,099	7,922
Sales and marketing expenses	2,292	1,980
Administration	2,392	1,315
Research and development	3,375	2,155
	<u>21,159</u>	<u>13,372</u>

Properties, plants and equipments are pledged to secure general banking facilities granted.

Notes to the consolidated financial statements

14. The Consolidation

At the year-end the Company owned twenty-four subsidiaries that are all included in the consolidation. The subsidiaries owned forty-seven subsidiaries at the year-end. The companies are as follows:

Name of subsidiary	Location	Ownership	Principal activity
Alpharma (China) Holding Ltd.	Hong Kong	100%	Holding company
Alpharma (Foshan) Pharmac. Co. Ltd. ...	China	90%	Sales and Marketing
Alpharma Holdings Ltd.	UK	100%	Holding company
Alpharma (U.K) Ltd.	UK	100%	No activity
Cox Investments Ltd.	UK	100%	No activity
Alpharma Ltd.	UK	100%	Production, S&M and R&D
Alpharma Laboratories Ltd.	UK	100%	No activity
Alpharma (Singapore) Pte. Ltd.	Singapore	100%	Sales and Marketing
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
Alpharma B.V.	Netherlands	100%	Sales and Marketing
Higia AD	Bulgaria	100%	Distribution
Actavis Ltd.	Cyprus	100%	Holding company
Actavis EAD (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
Alpharma USPD Inc.	USA	100%	Production
Amide Holding Inc.	USA	100%	Holding company
Amide Pharmaceuticals Inc.	USA	100%	Production, S&M and R&D
G.F. Reilly Company	USA	100%	Holding company
Point Holdings Inc.	USA	100%	Holding company (Real estate)
Colony Pharmaceuticals Inc.	USA	100%	Legal company
Purepac Pharmaceuticals Co.	USA	100%	Production
Actavis Ireland	Ireland	100%	Sales and Marketing
Actavis Nordic A/S	Denmark	100%	Business Support
Alpharma AB	Sweden	100%	Sales and Marketing
Alpharma Germany GmbH	Germany	100%	Holding company
Alpharma Management GmbH	Germany	100%	Administration
Alpharma-Isis GmbH & Co. KG	Germany	100%	Sales and Marketing
Alpharma International GmbH	Germany	100%	No activity
Alpharma OY	Finland	100%	Sales and Marketing
Alpharma Pharmaceuticals GmbH	Germany	100%	No activity
Actavis A/B (UNP Sweden AB)	Sweden	100%	Sales and Marketing

Notes to the consolidated financial statements

Consolidation, continued:

Actavis A/S	Denmark	100%	Sales and Marketing
Actavis A/S	Norway	100%	Sales and Marketing
Actavis Norway A/S	Norway	100%	Production
Actavis OY	Finland	100%	Sales and Marketing
Nordisk Ibu-Pharma ApS	Denmark	100%	Sales and Marketing
GM Invest BV	Netherlands	100%	Holding company
Kéri Pharma Generics Kft	Hungary	100%	Sales and Marketing
Orbita ApS	Denmark	100%	Holding company
Ophtha A/S	Denmark	100%	Sales and Marketing
UAB Actavis Baltic	Lithuania	100%	Sales and Marketing
Actavis Pharma	India	100%	Research and Development
Biovena Pharma Sp.	Poland	100%	Sales and Marketing
Colotech AS,	Denmark	86%	Research and Development
Fako İlaçları AŞ	Turkey	100%	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
PT Alphanar	Indonesia	100%	Production
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

At the beginning of February 2005 the Group gained control over the Polish subsidiary Biovena Pharma Sp. which specialises in the sales and marketing of generic pharmaceuticals.

At the beginning of April 2005, the Group 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 2005 the Group acquired through its subsidiary Actavis Inc. the pharmaceutical company Amide Pharmaceuticals Inc. in USA. Amide Pharmaceuticals Inc. develops, manufactures and sells generic pharmaceuticals.

At beginning of October 2005 the Group acquired the holding company GM Invest BV and its subsidiary, Kéri Pharma Generics Kft in Hungary. Kéri Pharma Generics specialises in the sales and marketing of generic pharmaceuticals.

In November 2005 the Group acquired the Danish holding company Orbita ApS and its subsidiary Ophtha A/S and at the beginning of December 2005 the company completed the acquisition of Higia AD. Ophtha A/S specialises in the sales and marketing of generic pharmaceuticals and Higia AD specialises in distribution of generic pharmaceuticals. In December 2005 the Company acquired the remaining 11% stake in Fako İlaçları AŞ.

At the end of December 2005 the Group acquired through its subsidiaries, the human generic business of the US listed pharmaceutical company Alphanar Inc. Due to the acquisitions the Company and its subsidiaries bought 22 new companies.

Notes to the consolidated financial statements

15. Acquisitions

In accordance with the relevant IFRS standard, the Company has carried out an assessment of the fair value of the assets and liabilities of each of the businesses and companies acquired in 2005. This assessment has established the fair values of the tangible assets (such as: land and buildings, machinery and equipment) as well as the intangible assets (such as: in-process R&D, customer relationship assets, brand values, employee knowhow, and contract values) and inventories. The difference between the sum of the fair values less liabilities and the purchase price paid is accounted as goodwill at the time of acquisition, and is subject to an annual impairment test. The assessments have been carried out with the assistance of outside experts.

The IFRS standard allows a period of up to one year from the date of acquisition for the assessments to be completed by the Company. The Company's management considers that the values included in the 2005 balance sheet are without material misstatements.

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

	Alpharma	Amide Pharma. Inc	Other acquisitions	Total
Tangible assets				
Non-current assets.....	123,416	22,314	10,751	156,481
Working capital.....	154,569	799	13,741	169,109
	<u>277,985</u>	<u>23,113</u>	<u>24,492</u>	<u>325,590</u>
Intangible assets				
Intangible assets.....	286,294	178,033	31,893	496,219
Goodwill.....	229,399	272,040	45,985	547,425
	<u>515,693</u>	<u>450,073</u>	<u>77,878</u>	<u>1,043,644</u>
Liabilities and commitments				
Long-term liabilities.....	300,348	9,879	17,309	327,536
Commitment due to earnout.....	0	55,111	0	55,111
Deferred income tax liability.....	0	41,799	1,188	42,987
	<u>300,348</u>	<u>106,789</u>	<u>18,497</u>	<u>425,634</u>
	<u>493,330</u>	<u>366,398</u>	<u>83,873</u>	<u>943,601</u>
Cash and cash equivalents (acquired).....	36,832	19,419	1,609	57,859
Net Cash outflow.....	456,498	346,979	82,265	885,742
	<u>493,330</u>	<u>366,398</u>	<u>83,873</u>	<u>943,601</u>

Notes to the consolidated financial statements

16. Inventories

	2005	2004
Raw material.....	101,299	32,361
Work in progress.....	34,341	14,348
Finished goods	92,999	24,415
Other inventories.....	2,729	448
	231,368	71,572

The Group has pledged certain assets, including inventory to secure general banking facilities granted.

17. Financial instruments

Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business. Derivative financial instruments are used to hedge exposure to fluctuations in foreign exchange rates and interest rates.

18. Trade and other receivables

	2005	2004
Trade receivables.....	232,398	120,127
Other receivables.....	71,034	39,700
Allowances for doubtful accounts.....	(8,690)	(6,643)
	294,742	153,184

Included in other receivables is a loan to the CEO amounting EUR2.7 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 financial statements

19. Share capital

-Class A shares

The Company increased its class A common 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 Company increased its class A common stock again in November to meet exercisable stock options to key employees.

In June the class A common stock was increased by 344,864,993 shares or 11.5% of the total class A common stock. Total class A common stock issued was 2,993,780,301 shares prior to the share increase. Total class A common stock issued after the increase was 3,338,645,294 shares. The new class A common 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 class A common stock. The class A common stock was increased in November by 16,025,823 shares and total common stock was 3,354,671,117 after the increase.

-Class B shares

In December the Company issued and sold 100 Class B preference shares each with a nominal value of EUR100,000 for a total of EUR356 million. As preference shares they entitle the shareholders to receive dividend payments before class A common stock shareholders but exclude any voting rights.

The Company has the right to redeem at any time the Class B shares until May 2011 at a redemption price that equals the original sales price with 11% annual premium for the first year. This premium is increased by 1% each year until maturity. After May 2011 shareholders of Class B shares have the right to convert the Class B shares to Class A common stock shares at an exchange rate that, if exercised in full, would result in 39% shareholding in Class A common stock.

Changes in the nominal value of common stock during the year are as follows:

	Number of shares in thousands	EUR
Outstanding common 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 common stock at 1 January 2005.....	2,791,162	36,181
New shares issued.....	360,891	4,557
Purchase of treasury shares.....	(22,318)	(288)
Sale of treasury shares.....	199,366	2,512
Outstanding common stock at 31 December 2005.....	<u>3,329,101</u>	<u>42,962</u>

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

	Number of shares in thousands	Ratio	EUR
Outstanding common stock at the end of the period.....	3,329,101	99.2%	42,962
Treasury shares at the end of the period.....	<u>25,569</u>	<u>0.8%</u>	<u>288</u>
Total common stock issued.....	<u>3,354,671</u>	<u>100.0%</u>	<u>43,250</u>

Notes to the consolidated financial statements

20. Other reserves

Included in other reserves are translation reserve, stock option reserve and statutory reserve.

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations and is recognised directly as a separate component of equity.

21. Stock options

During the year Actavis Group granted its employees stock options exercisable in the years 2006 - 2007. The Company intends to use treasury shares and / or increase share capital to meet the obligations. These stock options at the end of the period amounted to 35,9 million shares.

Contract rate (ISK)/Conditions/Date granted	Number of shares		Total
	2006	2007	
2,64/Conditional/June 2001.....	377	0	377
38.5/Conditional/June 2005.....	18,294	17,249	35,543
	<u>18,671</u>	<u>17,249</u>	<u>35,920</u>

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

	2005	
	Number of shares in thousands	Weighted average contract rate in ISK
Outstanding stock options at beginning of year.....	833	3.57
Granted during the year.....	57,836	38.50
Forfeited during the year..... (6,267)	38.50
Exercised during the year..... (16,482)	37.55
Outstanding stock options at the end of year.....	<u>35,920</u>	<u>38.12</u>

Notes to the consolidated financial statements

22. 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.

- Foreign exchange 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 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 financial statements

23. Interest bearing loans

Interest bearing loans are specified as follows:

	Weighted average rate	2005	2004
Loans in USD	5.44%	171,673	31,003
Loans in EUR	3.41%	689,476	133,257
Loans in CHF		0	12,209
Loans in GBP		227	2,301
Loans in JPY		0	11,923
Loans in SEK		0	1,442
Loans in MTL	1.76%	8,488	8,272
Loans in BGL	5.00%	1,534	3,268
Loans in ISK	8.10%	16,362	229
Loans denominated in other currencies	10.80%	673	527
		<u>888,433</u>	<u>204,431</u>
Current maturities, included in interest bearing loans		(20,043)	(41,448)
Interest bearing loans		<u>868,389</u>	<u>162,983</u>

Aggregated annual maturities are as follows:

On demand or within 12 months	20,043	41,448
Within 24 months	20,796	30,027
Within 36 months	126,197	23,346
Within 48 months	128,290	82,407
Within 60 months	576,575	6,420
Subsequent years	<u>16,531</u>	<u>20,783</u>
	<u>888,432</u>	<u>204,431</u>

The Company has pledged certain assets to secure banking facilities granted. The EUR808 million loan facility and the EUR250 million revolving credit facility include certain financial convenats; both standard for such a facility as well as company specific. Included in the loan agreement is various provisions which limits Company's actions without prior consultancy with the lender. The main, being certain net dept/EBITDA requirements and restrictions on further M&A activity.

24. Retirement benefit obligation

The retirement benefit obligation represents an employee termination indemnity due to the Turkish subsidiaries. In accordance with the existing social legislation in Turkey, companies are required to make certain lump-sum payments to employees whose employment is terminated due to retirement or for reasons other than resignation or misconduct. Such payments which are calculated on the basis of an agreed formula, are subject to certain upper limits and are recognized in the accompanying financial statements as accrued. The reserve has been calculated by estimating the present value of the future obligation of the Group that may arise from the retirement of the employees.

Notes to the consolidated financial statements

25. Obligation under finance leases

Accounts payable under finance leases:	Min. lease payments 2005	Min. lease payments 2004	Remaining balances 2005	Remaining balances 2004
Obligation under finance leases	26,414	8,092	17,626	7,052
Current maturities	(3,084)	(2,507)	(2,111)	(2,158)
Long term obligation under finance leases	23,330	5,585	15,516	4,894
Aggregated annual maturities are as follows:				
On demand or within 12 months	3,084	2,507	2,111	2,158
Within 24 months	3,047	2,203	2,583	1,907
Within 36 months	1,885	919	1,251	820
Within 48 months	1,371	681	766	516
Subsequent years	17,026	1,782	10,916	1,651
	26,414	8,092	17,626	7,052
Less: future finance charges	(8,788)	(1,040)		
Remaining balances	17,626	7,052		

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.

26. Operating lease arrangements

	2005	2004
Minimum lease payments recognised in income statements during the year	3,444	3,071

The Group had commitments under non-cancellable operating leases outstanding at the end of the year. The commitments will fall due as follows:

On demand or within 12 months	2,953	1,184
Within 24 months	967	2,526
Within 36 months	932	33
Within 48 months	80	24
Subsequent years	42	20
	4,974	3,786

Notes to the consolidated financial statements

27. Deferred tax

	Deferred tax asset	Deferred tax liabilities	Net
At 1 January 2005	21,247	(9,493)	11,754
Recognised directly in equity	0	(2,830)	(2,830)
Additions due to acquisitions	25,321	(68,308)	(42,987)
Calculated tax for the period	595	(11,072)	(10,476)
Income tax payable for the period	6,033	12,036	18,069
Exchange differences	1,220	1,161	2,381
At 31 December 2005.....	<u>54,417</u>	<u>(78,506)</u>	<u>(24,089)</u>

Recognised deferred tax assets and (liabilities)

	2005
Intangible assets	(77,366)
Operating fixed assets	(4,890)
Inventories	57
Receivables	(3,442)
Liquid funds	(159)
Long-term liabilities	20,487
Current liabilities	3,661
Carry forward income tax losses	13,789
Investment tax credits	23,772
Net tax liability	<u>(24,089)</u>

28. Provisions

	Other provisions
At 1 January 2005.....	3,962
Additional provision during the period.....	2,021
Utilisation of provision.....	(3,580)
Exchange difference.....	57
Currency adjustments.....	13
At 31 December 2005.....	<u>2,474</u>

29. Commitments

	Commitments
Contingent liability due to earn-out clauses.....	35,830
Loan guarantee granted to subsidiaries	12,000
Commitment to invest in Serbia during next three years	4,300
Commitment to increase share capital in subsidiary during next three years	2,000
At 31 December 2005.....	<u>54,130</u>

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 31 December 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 financial statements

30. Explanation of Transition to IFRSs

As stated in Note 2, these are the Group's first annual financial statements prepared in accordance with IFRS. The Accounting policies in note 2 have been applied in preparing the consolidated financial statements for the year ended 2005, the comparative information for the year 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 twelve months ended 31 December 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
13. Property, plant and equipment	142,523	1,502	1,203	145,228
11. Goodwill	229,126	6,995	680	236,801
12. 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
16. 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
23. 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
25. 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 financial statements

31. Explanation of Transition to IFRSs, *continued*

Reconciliation of income statement for YTD 2004

	2004 Previous GAAP	Effect of transition to IFRSs	2004 IFRSs
Net sales.....	424,761	(165)	424,596
Cost of sales	(214,376)	(10,631)	(225,007)
Gross Profit	210,385	(10,796)	199,589
Other income.....	26,936	1,680	28,616
Sales and marketing expenses.....	(61,584)	(3,308)	(64,892)
Research and development expenses.....	0	(32,269)	(32,269)
General and administrative expenses.....	(36,973)	(2,477)	(39,450)
Other operating expenses.....	(24,056)	24,056	0
Depreciation and amortisation.....	(25,646)	25,646	0
Impairment losses on goodwill.....	0	(3,128)	(3,128)
Income / (Loss) from associates.....	0	(1,129)	(1,129)
Finance income (expenses).....	(10,611)	(1,736)	(12,347)
	(131,934)	7,335	(124,599)
Profit before tax.....	78,451	(3,461)	74,990
Income Tax.....	(11,431)	723	(10,708)
Net profit (loss).....	67,020	(2,738)	64,282

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 losses of goodwill is presented as a separate line in the income statement. Previously the impairment losses were 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 financial statements

32. 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 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 financial statements

33. Contingent liabilities

German authorities required the Group's German subsidiary to provide updated safety and efficiency data on one of its major product on or before November 2004. The subsidiary complied but has received a non-approval letter. The subsidiary has appealed this decision to the Administrative Court which has suspended effect. If market authorization for the product is withdrawn, the subsidiary's operating income would be significantly impacted. The subsidiary was included in the acquisition of the Alharma subsidiaries effective on 18 December. In the purchase price allocation the fair value of this product was determined taking this uncertainty into consideration.

In June 2003, Alharma Ltd. UK received a request for certain information from the United Kingdom Office of Serious Fraud. The Serious Fraud Office (SFO) requested documents related to the Company's dealings with several of its competitors with respect to activities in certain specified drugs during the late 1990s. The Company responded to this request and has been informed by the SFO that it has initiated a criminal investigation of possible violations of laws by the Company and its former UK executives. If the Company is found guilty it could be subject to a fine in an amount not limited by statute.

34. Related party transactions

-Identity of related parties:

The Group has a related party relationship with its subsidiaries (see note 13) and with its directors and executive officers (see note 6).

-Transactions with key management personnel:

Directors of the Company own directly or indirectly through holding companies 44.6 per cent of the voting shares of the Company. Loans to CEO amounted EUR2.7 million with market interests at the year ended 31 December 2005. The loan to CEO is included in other receivables (see note 16).

-Other related party transactions:

Subsidiaries

The Company has a intercompany positions with its subsidiaries which is eliminated in the consolidated financial statements.

Notes to the consolidated financial statements

35. Events after the balance sheet date

-Changes in shareholder structure

At 9 January 2006 an investment company owned by the Chief Executive Officer, Mr. Robert Wessman acquired shares in the Company. Through its investment company Aceway, the CEO purchased a forward contract to buy 64.8 million shares in Actavis Group with a redemption date at 9 July 2006. In addition Aceway purchased 25.6 million of Actavis Group treasury shares. Aceway also purchased a put option for 25.6 million shares, dated 1 June 2008.

At 9 January 2006 Milestone ehf. and Dialog Global Investment Ltd., investment companies owned by one of the directors of the board, Mr. Karl Wernerson and related parties sold 98.6 million shares in the company. Mr. Karl Wernerson holds control over 170.6 million shares after the transaction or 5.1 per cent of total share of the Company.

36. Other matters

The directors of Actavis Group hf. support high standards of corporate governance and have taken into account the guidelines on corporate governance adopted by the Icelandic Stock Exchange, the Confederation of Icelandic Employers and the Chamber of Commerce.

37. Financial ratios

The main financial ratios for the Group are as follows:

	2005	2004
Equity ratio.....	0.43	0.43
Current ratio.....	1.64	1.16
	2005	2004
Return on equity.....	19.6%	27.8%
EBITDA.....	148,471	113,759
EBITDA as a percentage of revenues.....	25.6%	25.1%
Working capital provided by operating activities.....	109,079	92,116