

# **Actavis Group hf.**

**Consolidated financial statements  
for the year ended 31 December 2004  
Euro**

# Contents

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	pg.		pg.
Endorsement by the board of directors and the president and CEO .....	3	Consolidated balance sheet .....	6
Auditors' report .....	4	Consolidated statement of cash flows .....	8
Consolidated income statement .....	5	Notes to consolidated financial statements .....	9

# Endorsement by the board of directors and the president and CEO

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The Company's financial statements are stated in thousands of euro's and include the consolidated financial statements of Actavis Group hf. and its subsidiaries. The accounting principles applied in preparing the Company's financial statements are consistent with those used in the previous year.

The name of Actavis Goup hf. was formerly Pharmaco hf. but the name was changed in May

At the end of December the company entered into an agreement to buy the Polish company Biovena. Biovena has specialised in the marketing of generics. Neither the income statement nor the balance sheet of the Goup were affected by this agreement during 2004.

Net profit for the year amounted to EUR62.7 million for the Group, according to the income statement. Stockholders' equity amounted to EUR277.4 million at year end according to the balance sheet. Changes in stockholder's equity and appropriation of net profits are further explained in the financial statements. Outstanding capital stock was 2,791,162 thousand shares at beginning of year. Each share has a nominal value of one Icelandic krona. Taking into consideration other changes in capital stock, outstanding shares at yearend were 2,846,150 thousand which had a book value of EUR36.2 million. The number of stockholders at year end was 2,942 a decrease of 103 from the beginning of the year. Two stockholders owned more than 10% share in the Company at year end, Amber International Ltd. with 32.9% ownership and Landsbanki Luxemburg S.A. with 10.3% share.

The board of directors proposes a payment of 10% dividend on the nominal value of capital stock to stockholders in the year 2005 which corresponds to 5,1% of net profit.

The board of directors and the managing director of Actavis Group hf. hereby confirm the Group's financial statements for the year 2004 with their signatures.

Hafnarfjordur, 21 February 2005.

Chairman of the board of directors:

Bjorgolfur Thor Bjorgolfsson

Board of directors:

Andri Sveinsson

Karl Wernersson

Magnús Thorsteinsson

Sindri Sindrason

President and CEO:

Robert Wessman

# Auditors' report

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Board of directors and shareholders of Actavis Group hf.

We have audited the accompanying consolidated balance sheet of Actavis Group hf. as of 31 December 2004 and the related consolidated income statement and consolidated statement of 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 consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements 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 Actavis Group hf. as of 31 December 2004, and the results of its operations and its cash flows for the year then ended, in accordance with law and generally accepted accounting principles in Iceland.

Reykjavik, 21 February 2005.

Alexander G. Edvardsson  
Audur Thorisdottir

***KPMG Endurskodun hf.***

# Consolidated income statement for the year ended 31 December 2004

	Notes	2004	2003
<b>Operating revenue:</b>			
Sales .....	5,6	424.761	293.525
Other revenue .....		26.936	22.626
		451.697	316.151
<b>Operating expenses:</b>			
Direct production expenses / cost of sales .....		214.376	173.124
Sales and marketing expenses .....		61.584	21.279
General and administrative expenses .....		36.973	23.247
Other operating expenses .....		24.056	14.442
Depreciation and amortization .....	30	25.646	13.604
Impairment losses on fixed assets .....		0	18.336
		362.635	264.032
<b>Profit from operations</b> .....		89.062	52.119
Net financial (expenses) income .....	24	( 10.611)	( 1.642)
Special reserve on investment .....		0	( 3.689)
Profit before income tax .....		78.451	46.788
Income tax .....	25	( 11.431)	( 4.434)
Profit before minority interest .....		67.020	42.354
Minority interest .....		( 4.364)	( 1.814)
<b>Net profit</b> .....		62.656	40.540
<b>Earnings per share:</b>			
	7		
Basic earnings per share (EUR) .....		0,0225	0,0143
Diluted earnings per share (EUR) .....		0,0224	0,0142

# Consolidated balance sheet

## Assets

	Notes	2004	2003
<b>Fixed assets:</b>			
Intangible assets:	8,9		
Development expenditure and pharmaceutical know-how .....	27	32.905	24.916
Goodwill .....	28	229.126	235.038
		262.031	259.954
Property and equipment:	10,29		
Property and plant .....		58.174	51.027
Machinery and equipment .....		84.349	63.606
		142.523	114.633
Investment:			
Investment in associated company .....	35	3.338	3.115
Investment in other companies .....	11	5.339	2.947
Securities .....		1.325	1.364
Deferred tax assets .....	16,41	21.217	14.966
		31.219	22.392
<b>Total fixed assets</b>		435.773	396.979
<b>Current assets:</b>			
Inventories .....	12,36	71.572	78.852
Receivables:	13		
Accounts receivable .....		113.974	72.307
Other receivables .....		39.850	19.421
Cash .....		17.325	29.968
<b>Total current assets</b>		242.721	200.548
<b>Total assets</b>		678.494	597.527

# 31 December 2004

## Stockholders' equity and liabilities

	Notes	2004	2003
<b>Stockholders' equity:</b>			
Capital stock .....	14,37	36.181	36.113
Share premium .....		100.066	100.903
Translation reserve .....	(	30.200)	( 28.634)
Accrued stock option .....		47	281
Retained earnings .....		171.286	111.812
Total stockholders' equity	39	277.380	220.475
<b>Provisions:</b>			
Minority interest .....		10.193	7.295
Deferred tax liabilities .....	16,41	9.578	8.333
Employee termination indemnity .....	17	5.753	5.539
		25.524	21.167
<b>Long-term liabilities:</b>			
Long-term liabilities .....	43	166.535	173.974
<b>Current liabilities:</b>			
Bank loans .....		88.826	90.758
Accounts payable .....		41.351	43.765
Current maturities of long-term liabilities .....	44	42.200	18.889
Accrued liabilities and expenses .....		36.678	28.499
		209.055	181.911
Total liabilities and provisions		401.114	377.052
<b>Total stockholders' equity and liabilities</b>		678.494	597.527

# Consolidated statement of cash flows

## for the year ended 31 December 2004

	Notes	2004	2003
<b>Cash flows from operating activities:</b>			
Net earnings .....		62.656	40.540
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortisation .....	30	25.646	31.940
Currency fluctuations and indexation .....		7.867 (	7.615)
Changes in deferred taxes .....		( 4.398)	365
Other changes .....		3.909	5.772
Working capital provided by operating activities		95.680	71.002
Changes in operating assets and liabilities:			
Inventories, decrease (increase) .....		7.356 (	15.063)
Receivables, increase .....		( 56.484)	( 9.627)
Short-term liabilities, increase (decrease) .....		2.280	( 2.529)
Changes in operating assets and liabilities		( 46.848)	( 27.219)
Net cash provided by operating activities		48.832	43.783
<b>Cash flows to investing activities:</b>			
Increase in intangible assets .....		( 15.677)	( 14.547)
Investment in property and equipment .....		( 43.742)	( 28.750)
Proceeds from sale of property and equipment .....		1.650	2.403
Investments in other companies, net of cash acquired .....		( 8.400)	( 52.272)
Proceeds from sale of investment in other companies .....		92	0
Securities, change .....		419	120
		( 65.658)	( 93.046)
<b>Cash flows from financing activities:</b>			
Changes in capital stock .....		( 768)	( 33.058)
Dividend paid .....		( 3.182)	( 673)
Changes in minority interest .....		141	0
Proceeds from long-term borrowings .....		36.766	77.634
Payments of long-term debt .....		( 18.289)	( 49.617)
Bank loans, changes .....		( 9.070)	77.176
		5.598	71.462
<b>(Decrease) increase in cash</b> .....		( 11.228)	22.199
<b>Cash at beginning of year</b> .....		29.968	8.863
<b>Effects of exchange rate changes on beginning balances</b> .....		( 1.415)	( 1.094)
<b>Cash at year end</b> .....		17.325	29.968
<b>Other information:</b>			
Interest paid on long-term debt .....		9.967	8.777
Income tax paid .....		5.438	8.826

# Notes to the consolidated financial statements

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## Summary of accounting principles

### *Basis of preparation*

1. Actavis Group hf., formerly Pharmaco hf. (the Company) is a company domiciled in Iceland. The consolidated financial statements are prepared in accordance with the Icelandic financial statements act and regulation on the presentation and contents of financial statements and consolidated financial statements. The financial statements are presented in euro rounded to the nearest thousand. They are prepared on historical cost basis and are, in all main respects, based on the same accounting principles as in the previous year.

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Associated companies are recorded in the balance sheet at the lower of cost or net realisable value.

### *Foreign currencies*

2. Transactions in foreign currencies are translated into euros at the exchange rate of the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into euros at the foreign exchange rate of that date. Foreign exchange differences arising on translation are recognized in the income statement.

### *Financial statements of subsidiaries*

3. The operations of subsidiaries are not considered an integral part of the parent Company's operations. Accordingly, the assets and liabilities of subsidiaries, including goodwill and fair value adjustments are translated into euros at exchange rates of the balance sheet date. The revenue and expenses of subsidiaries are translated into euros at the average conversion rates for the period. Translation differences are recognised directly in equity.

### *Derivative financial instruments*

4. The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities.

### *Revenue recognition*

5. Revenue from sale of products is recognised in the income statement when significant risk and rewards are transferred to the buyer. Revenue is not recognised if there is an uncertainty about the collectability of receivables, related expenses or possible return of products.

## Notes - cont.:

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6. A portion of the Group's revenue comes from the sale of dossiers. Revenue from the sale of dossiers is recognised when certain milestones, included in the contracts, are met.

### *Earnings per share*

7. Earnings per share is the ratio between profit and weighted average number of shares for the year and reveals net profit per share. The net earnings for the year amounted to EUR62.7 million and the weighted average number of shares 2,790 million shares, when taken into consideration purchases and sales of treasury shares. The nominal value of each share amounts to one ISK. Earnings per share for the year amount to EUR0.0225. Calculation of diluted earnings per share takes into consideration stock options made with the Company's employees and the prospective deliverance of shares related to those options, which amounts to 833 thousand shares. The Company has not entered into agreements to issue any convertible bonds.

### *Intangible assets*

8. Development expenditure is capitalised in the balance sheet as development expenditure and pharmaceutical know-how. If development leads to production of marketable products the relevant cost is amortised over a period of five years. The amortisation period starts when the first sale is made. If it becomes evident that future economic benefits are not probable the cost is then charged to the income statement.
9. Goodwill arising on acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less amortisation to year end 2002. From the beginning of the year 2003 the goodwill is not amortised but tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. If recoverable amount of goodwill is less than its carrying amount, the difference will be amortised. At year end an impairment test was conducted resulting in a loss of EUR3.0 million which was recognised in the income statement.

### *Property and equipment*

10. Property and equipment are valued at cost less depreciation. Depreciation is calculated as a fixed annual percentage based on the asset's expected economic life and its salvage value. Expected economic life is specified as follows:

Property and plant .....	12 - 50 years
Equipment .....	3 - 10 years

### *Investment*

11. Investment in other companies are carried at acquisition cost less provisions for estimated impairment losses on certain investment.

### *Inventories*

12. Manufactured products are valued at their average production cost, consisting of both direct and indirect production cost. Inventories of purchased goods and materials are valued at cost.

## Notes - cont.:

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### *Accounts receivable and other receivables*

13. Receivables and securities are reduced by an allowance for doubtful accounts. This allowance is not a final write-off, but a reserve to meet possible future losses. The allowance is deducted from appropriate balance sheet items. Receivables amounting to EUR154 million at the year end have been written down by EUR7 million in the balance sheet.

### *Repurchase of share capital*

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

### *Stock option agreements*

15. The Company has stock option agreements with certain employees which may be exercised in the years 2001 - 2005. The Company's cost is calculated according to the Black-Scholes method of evaluating stock option agreements. Thus, valued cost is expensed over the lifetime of the contract and is recognised in the income statement with a corresponding increase in stockholders' equity.

### *Deferred tax assets and liabilities*

16. Deferred tax assets and deferred tax liabilities are included in the financial statements. Their calculation is based on the difference between balance sheet items as reported in the Group's financial statements and tax returns of the companies within the Group. This difference occurs because expenses are generally expensed earlier for tax purposes than in the financial statements and due to investment tax credits. Deferred tax assets and liabilities are balanced if they are associated to taxes that are imposed by the same authorities.

### *Employee termination indemnity*

17. The employee termination indemnity relates to the Turkish subsidiary. 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 are calculated on the basis of an agreed formula, are subject to certain upper limits and are recognised in the accompanying financial statements as accrued. The reserve has been calculated by estimating the present value of the future obligation of the Company that may arise from the retirement of the employees.

### *International accounting standards*

18. According to an EC Directive, companies listed on European Stock Exchanges must prepare consolidated financial statements in accordance with international financial reporting standards (IFRS) as of the year 2005. The Company will present its report for the first quarter of 2005 in accordance with IFRS. The main changes from the Company's current financial statements relate to the valuation of intangible assets. Furthermore, presentation of the income statement as well as the balance sheet will be altered and notes to the financial statements will be more detailed.

## Notes - cont.:

### Changes in the Consolidation

19. The Company established the English subsidiary Actavis UK Ltd. in March. The subsidiary is included in the consolidated financial statements.

During the year the Company increased its ownership in the Serbian pharmaceutical company Zdravlje AD by EUR0.3 million. The Company's ownership amounted to 73% at year end and increased by 2% during the year.

As of November Abfar İlaç Sanayi ve Ticaret AŞ and Fako İlaçları AŞ were merged under the name of Fako and all assets, liabilities and commitments of Abfar were transferred to Fako.

At the year end the Danish sales- and marketing company, DLF, was sold. The sale has immaterial effect on the consolidation financial statements.

### Quarterly overview

20. The operation of the Group is specified as follows by quarters:

	1st Quarter 1.1 - 31.3	2nd Quarter 1.4 - 30.6	3rd Quarter 1.7 - 30.9	4th Quarter 1.10 - 31.12	Total 1.1 - 31.12
Sales .....	117.472	103.636	97.251	106.402	424.761
Cost of goods sold .....	( 60.069)	( 52.391)	( 50.012)	( 51.904)	( 214.376)
Gross profit .....	57.403	51.245	47.239	54.498	210.385
Operating expenses less other income .....	( 21.637)	( 24.922)	( 20.762)	( 28.356)	( 95.677)
Amortization, depreciation and impairment of fixed assets .....	( 4.942)	( 5.850)	( 4.649)	( 10.205)	( 25.646)
Net financial income (expenses) .....	( 3.113)	( 4.155)	( 2.839)	( 504)	( 10.611)
Income tax .....	( 6.813)	( 1.922)	( 3.692)	996	( 11.431)
Minority interest .....	( 729)	( 490)	( 1.276)	( 1.869)	( 4.364)
Net earnings .....	20.169	13.906	14.021	14.560	62.656

### Operating expenses

21. Auditors' fee is specified as follows in the consolidation:	2004	2003
Auditing of financial statements .....	608	843
Review of interim financial statements .....	158	158
Other services .....	196	244
Total audit fee .....	962	1.245

## Notes - cont.:

### Personnel

22. Salaries and related expenses are specified as follows:	2004	2003
Salaries .....	90.645	60.782
Related expenses .....	7.225	6.790
Total salaries and related expenses .....	<u>97.870</u>	<u>67.572</u>
Number of employees at year-end .....	6.602	6.835
Average number of employees, adjusted for full-time employment .....	6.841	6.539

### Executive employment terms

23. 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 option in thousands of shares	Shares at year-end
Senior executives:			
Robert Wessman, CEO .....	428	754	32.865
Board members:			
Bjorgolfur Thor Bjorgolfsson, chairman of the board .....	28	0	1.085.337
Karl Wernersson .....	14	0	225.378
Magnus Thorsteinsson .....	14	0	0
Sindri Sindrason .....	785	0	0
Six managing directors and the deputy CEO .....	664	0	21.955
Former board members:			
Bjorgolfur Gudmundsson .....	14	0	99
	<u>1.947</u>	<u>754</u>	<u>1.365.634</u>

In addition to salaries and benefits the CEO realized EUR5.3 million shares through the exercise of his stock option. The CEO purchased 5,273 thousand shares at the exercise price of EUR 0.06 and another 38 thousand at the exercise price of EUR0.16. The market value of these shares were EUR2.7 million at the same time.

The Company has granted the Company's CEO loan amounting to a total of EUR2.4 million with a market interest rate.

Stock option agreements with the Company's CEO that are based on the exercise price EUR0.0317, were granted in 2001 and are redeemable in 2005.

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

A retirement contract with Sindri Sindrason, former CEO, was finalized during the year. According to the agreement he received EUR771 thousand as a final settlement.

## Notes - cont.:

### Net financial income and expenses

24. Financial income and expenses are specified as follows:	2004	2003
Interest earned .....	2.300	769
Interest expenses and indexation .....	( 16.284)	( 9.325)
Currency fluctuations .....	3.373	7.748
Gain on sale of investment .....	0	( 834)
	<u>( 10.611)</u>	<u>( 1.642)</u>

25. Income tax recognized in the income statement are specified as follows:

#### *Current tax expense*

Current year .....	9.760
Under/(over) provided in prior years .....	104
	<u>9.864</u>

#### *Deferred tax expense*

Origination and reversal of temporary differences .....	( 521)
Investment tax credits .....	( 5.966)
Other changes .....	8.054
	<u>1.567</u>

Total income tax expense according to the income statement ..... 11.431

#### *Reconciliation of effective tax rate*

Profit before tax .....		78.451
Income tax using the domestic corporation tax rate .....	18,0%	14.121
Effect of tax rates in foreign jurisdictions .....	2,2%	1.764
Non-deductible expenses .....	0,9%	680
Tax exempt revenue .....	( 3,1%)	( 2.424)
Investment tax credits .....	( 7,9%)	( 6.240)
Exchange rate differences and other changes .....	4,5%	3.530
Effective income tax .....	<u>14,6%</u>	<u>11.431</u>

## Notes - cont.:

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### Earnings per share

#### *Basic earnings per share*

26. The calculation of earnings per share is based on the Company's profit in EUR and the weighted average number of issued shares at year end. Weighted average number of shares and diluted earnings per share are specified as follows in millions of shares.

<i>Weighted average number of shares</i>	2004	2003
Outstanding shares at 1 January .....	2.785	574
Effect of bonus shares issued .....	0	2.269
Effect of treasury shares .....	5 (	9)
Effect of new shares issued .....	0	5
Weighted average number of shares at 31 December .....	<u>2.790</u>	<u>2.839</u>

#### *Diluted earnings per share*

The calculation of diluted earnings per share at 31 December 2004 was based on net profit attributable to shareholders and a weighted average number of ordinary shares outstanding during the year ended 31 December 2004.

Weighted average number of shares at 31 December .....	2.790	2.839
Impact of stock options .....	<u>3</u>	<u>8</u>
Weighted average number of shares at 31 December (diluted) .....	<u>2.793</u>	<u>2.847</u>

### Intangible assets

27. Development cost for new products is capitalised in the balance sheet among intangible assets. Those assets are amortised over a period of five years. Changes during the year are specified as follows:

Balance at 1 January 2004 .....	24.916
Additions during the year .....	15.473
Currency adjustments during the year .....	486
Sales during the year .....	( 158)
Amortised during the year .....	( 7.812)
Balance at 31 December 2004 .....	<u>32.905</u>

## Notes - cont.:

28. Capitalised goodwill in the balance sheet is derived from the purchase of subsidiaries. Changes in goodwill during the year are specified as follows:

Balance at 1 January 2004 .....	235.038
Changes in opening balance .....	( 6.682)
Additions due to purchase of subsidiaries .....	3.401
Currency adjustments during the period .....	1.776
Other changes .....	( 1.384)
Impairment loss .....	( 3.023)
Balance at 31 December 2004 .....	<u>229.126</u>

### *Changes in opening balance*

Due to changes in the recognition of deferred tax asset of the subsidiary Fako, which relate to prior years, the opening balance of goodwill was restated.

## Fixed assets

29. Fixed assets and depreciation are specified as follows:

	Property and plant	Machinery and equipment	Total
<b>Cost</b>			
Balance at 1 January 2004 .....	78.757	160.385	239.142
Additions during the year .....	9.208	34.057	43.265
Currency adjustments during the year .....	( 1.232)	( 1.969)	( 3.201)
Sales and disposals during the year .....	( 528)	( 27.427)	( 27.955)
Balance at 31 December 2004 .....	<u>86.205</u>	<u>165.046</u>	<u>251.251</u>
<b>Depreciation</b>			
Balance at 1 January 2004 .....	27.730	96.779	124.509
Depreciated during the year .....	1.760	11.667	13.427
Currency adjustments during the year .....	( 1.253)	( 1.298)	( 2.551)
Depreciation of asset disposals .....	( 206)	( 26.451)	( 26.657)
Balance at 31 December 2004 .....	<u>28.031</u>	<u>80.697</u>	<u>108.728</u>
Book value at 31 December 2004 .....	<u>58.174</u>	<u>84.349</u>	<u>142.523</u>
Depreciation ratios .....	2 - 8%	10 - 33%	

## Notes - cont.:

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30. Depreciation, amortisation and impairment losses according to the income statement are specified as follows:

Amortisation of development cost according to note 27 .....	7.812
Other changes in goodwill according to note 28 .....	1.384
Impairment loss in goodwill according to note 28 .....	3.023
Depreciation of fixed assets according to note 29 .....	13.427
	<hr/>
	25.646

### *Impairment of goodwill*

31. During the year an impairment loss was charged to the carrying amount of goodwill that arose in the acquisition of Actavis Nordic. The impairment loss amounted to EUR3.0 million.

### *Purchase lease agreements*

32. Buildings, machinery and equipment, for which the Group has entered into purchase lease agreements, are capitalized, despite ownership of lessor according to the contract. At year end the remainder of the contracts amount to EUR3.3 million.

### *Official real estate valuation and insurance value*

33. Buildings and properties in Iceland with a book value of EUR20.3 million, had an official real estate valuation of EUR20.6 million at year end 2004. Their insurance value amounted to EUR44.5 million at the same time.

Inventories in Iceland amounting to EUR20.0 million at year end, were insured for EUR28.2 million.

Fixed assets and inventories in other production facilities with a book value of EUR83.4 million had an insurance value of EUR248 million.

## Notes - cont.:

### Investment

34. At year end the Company owned 15 subsidiaries that are all included in the consolidated financial statements. The subsidiaries owned 19 subsidiaries at year end that are included in their financial statements. The companies that are included in the consolidated statements are as follows:

	Ownership %
Actavis BV (Medis Holland BV), Netherland .....	100%
Actavis Ltd. (Pharmamed Ltd), Malta .....	100%
Actavis Trading Ltd., Malta .....	100%
Actavis hf. (Delta hf.), Iceland .....	100%
Actavis Inc. (Pharmaco Inc.), USA .....	100%
Actavis Nordic A/S (United Nordic Pharma AS), Denmark .....	100%
Nordisk Ibu-Pharma ApS, Denmark .....	100%
Actavis AS (UNP A/S), Denmark .....	100%
Actavis OY, Finland .....	100%
Actavis A/S, Norway .....	100%
Actavis A/B (UNP Sweden AB), Sweden .....	100%
Actavis Ltd., England .....	100%
Balkanpharma Holdings Ltd, Cyprus .....	100%
Balkanpharma Healthcare International, Cyprus .....	100%
MM Pharma LLC, USA .....	100%
Verben S.A. Uruguay .....	50%
Actavis AD (Balkanpharma AD), Bulgaria .....	100%
Balkanpharma Dubnitsa AD, Bulgaria .....	98%
Balkanpharma Troyan AD, Bulgaria .....	98%
Balkanpharma Razgrad AD, Bulgaria .....	98%
Balkanpharma Security AD, Bulgaria .....	100%
Balkanpharma Macedonia, Macedonia .....	100%
Actavis OOO (Balkanpharma OOO), Russia .....	100%
Colotech AS, Denmark .....	86%
Fako İlaçları AŞ, Turkey .....	89%
Medis GmbH, Germany .....	60%
Medis Ltd., Isle of Man .....	100%
Medís ehf., Iceland .....	100%
Medis Danmark AS, Denmark .....	100%
NM Pharma ehf., Iceland .....	100%
Oculus ehf., Iceland .....	67%
Omega Farma ehf., Iceland .....	100%
Zdravlje AD, Serbia .....	73%
Zdravlje Trade AD, Serbia .....	100%

## Notes - cont.:

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### *Investment in associated company*

35. At year end the Company's ownership in Iceland Genomics Corp. USA amounted to 31% with a book value of EUR3.3 million.

### **Inventories**

36. Inventories are specified as follows:	2004	2003
Raw materials .....	32.361	32.882
Work in progress .....	14.348	16.919
Finished goods and goods for resale .....	24.863	29.051
Inventories at 31 December .....	<u>71.572</u>	<u>78.852</u>

### **Stockholders' equity**

37. Changes in the nominal value of capital stock during the year are specified as follows:

	Number of shares in thousands	Nominal value in thousand of 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 31 December 2004 .....	<u>2.791.162</u>	<u>36.181</u>

38. Total capital stock is as follows:

Total capital stock issued .....	2.993.780	38.521
Treasury stock .....	( 202.618)	( 2.340)
Outstanding capital stock at 31 December 2004 .....	<u>2.791.162</u>	<u>36.181</u>

## Notes - cont.:

### 39. Reconciliation of movements in stockholders' equity:

	Capital stock	Share premium and statutory reserve	Translation reserve	Accrued stock option	Retained earnings	Total
Balance at 1 January 2004 .....	36.113	100.903	( 28.634)	281	111.812	220.475
Treasury shares acquired .....	( 59)	( 2.391)				( 2.450)
Treasury shares sold .....	127	1.277				1.404
Expensed stock option .....				43		43
Redeemed stock option .....		277		( 277)		0
Acc. currency adjustment .....			( 1.566)			( 1.566)
Dividend paid .....					( 3.182)	( 3.182)
Net earnings .....					62.656	62.656
Balance at 31 December 2004 ...	36.181	100.066	( 30.200)	47	171.286	277.380

### Stock options agreements

40. The company has granted its employee's stock options rights, which they can exercise in the year 2005. The Company will use treasury shares or/and issue new shares to fulfill the Company's obligations according to the stock options. The Company's stock option liabilities are 0.8 million shares at year end. Changes during the year are specified as follows:

	Shares in thousands	Nominal value in thousand of EUR
Balance at 1 January .....	12.612	151
Exercised stock options during the year .....	( 11.779)	( 141)
Balance at 31 December .....	833	10

## Notes - cont.:

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### Deferred income tax

41. The Company's deferred tax assets and deferred tax liabilities are specified as follows:

	Assets	Liabilities
Balance at 1 January 2004 .....	14.966	8.333
Income tax posted to income statement .....	4.530	15.787
Income tax payable .....	( 660)	( 8.816)
Other changes .....	2.381	( 5.726)
Balance at 31 December 2004 .....	<u>21.217</u>	<u>9.578</u>

Deferred tax assets and deferred tax liabilities specified on items:

Intangible assets .....	814	4.630
Operating fixed assets .....	( 54)	1.815
Current assets .....	877	1.875
Investments .....	( 37)	( 139)
Current liabilities .....	1.368	( 8)
Accrued stock options .....	0	43
Long-term liabilities .....	1.740	5
Total deferred tax liabilities from assets and liabilities .....	<u>4.708</u>	<u>8.221</u>
Carry forward income tax losses .....	4.364	1.357
Investment tax credits .....	12.145	0
Balance at 31 December 2003 .....	<u>21.217</u>	<u>9.578</u>

### Commitments

42. The Company is committed to increase the share capital of its subsidiary, Colotech AS by EUR3.0 million. The payments will be made in six installments during the next three years.

The Company is committed on behalf of its subsidiary, Zdravlje AD to invest EUR11.4 million in Serbia during the next four years.

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

## Notes - cont.:

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### Long-term liabilities

43. Long-term liabilities are specified as follows, by currency denominations:

Loans in EUR .....	134.307
Loans in USD .....	33.667
Loans in GBP .....	2.300
Loans in JPY .....	12.396
Loans in CHF .....	12.209
Loans in SEK .....	1.442
Loans in MTL .....	8.271
Loans in BGL .....	3.268
Loans in other currencies .....	875
Total long-term liabilities, including current maturities .....	<u>208.735</u>
Current maturities of long-term liabilities .....	( 42.200 )
Total long-term liabilities .....	<u>166.535</u>

44. Annual maturities of long-term liabilities are specified as follows:

In the year 2005 .....	42.200
In the year 2006 .....	30.921
In the year 2007 .....	23.813
In the year 2008 .....	82.804
In the year 2009 .....	6.413
Subsequent payments .....	22.584
Total long-term liabilities .....	<u>208.735</u>

### Derivative

45. The Company has made currency- and interest swap contracts. These contracts are specified as follows:

	2004	2003
Currency- and interest swap contracts:		
Assets .....	14.880	15.184
Liabilities .....	15.637	12.533

## Notes - cont.:

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### Subsequent events

46. At the beginning of January 2005 the Company sold the subsidiary, Oculis ehf. Its primary objective was a research work concerning pharmaceutical eye-medicine. The proceeds from the sale was immaterial to the consolidation financial statements.

At the beginning of February 2005 the Company agreed to acquire the Indian contract research organisation company, Lotus Laboratories. The acquisition is subject to the satisfaction of certain conditions. If the acquisition materialises the acquisition price will amount to EUR19 million plus cost directly related to the acquisition.

### Other matters

47. 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, Confederation of Icelandic Employees and the Chamber of Commerce.

### Financial ratios

48. The main financial ratios for the Group are as follows:	2004	2003
Equity ratio .....	0,41	0,37
Current ratio .....	1,16	1,10
Return on equity .....	28,9%	17,8%
EBITDA .....	114.708	84.059
EBITDA as a percentage of revenues .....	25,4%	26,6%
Working capital provided by operating activities .....	95.680	71.002