

**Actavis Group hf.**  
**Consolidated interim financial statements**  
**Six months ended 30 June 2006**  
**Euro**

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

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The consolidated interim 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 period amounted to EUR61.9 million, according to the income statement. Total equity amounted to EUR937.2 million at the end of the period as shown in the balance sheet. Changes in total equity and appropriation of net profits are further explained in the financial statements.

At the end of March the Company acquired Sindan AG and Oncopharma AG in Switzerland. Sindan AG is a holding company and owns the Romanian generic pharmaceutical company Sindan Pharma SRL which specialises in the manufacturing and distribution of oncology products. Oncopharma AG is a distribution company and owns the Polish company Sindan Polska SA which specialises in the sales and marketing of generic pharmaceuticals. The Group's income statement is affected by the acquisition as of 1 April.

The Group's consolidated interim financial statements for the six months then ended 30 June 2006 were approved by the board of directors and the president and CEO of Actavis Group hf. on 10 August 2006 and signed on their behalf by:

### **Board of Directors:**

Bjorgolfur Thor Bjorgolfsson  
Chairman of the Board

Andri Sveinsson

Sindri Sindrason

### **President and CEO:**

Robert Wessman

# Auditors' report

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To the Board of directors of Actavis Group hf.

## **Introduction**

We have reviewed the accompanying consolidated condensed balance sheet of Actavis Group hf. as of 30 June 2006 and the related consolidated condensed statements of income, changes in equity and cash flows for the six-month period then ended (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34, Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

## **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34, Interim Financial Reporting.

Reykjavik, 10 August 2006.

***KPMG Endurskodun hf.***

Alexander G. Edvardsson  
Audur Thorisdottir

## Consolidated interim income statement for the six months ended 30 June 2006

|  | Notes | 2006<br>Q2           | 2005<br>Q2           | 2006<br>1H           | 2005<br>1H           |
|--|-------|----------------------|----------------------|----------------------|----------------------|
| Net sales .....                        |       | 351.224              | 115.720              | 684.280              | 212.678              |
| Cost of sales .....                    |       | <u>(205.376)</u>     | <u>(63.090)</u>      | <u>(400.738)</u>     | <u>(113.636)</u>     |
| <b>Gross profit</b> .....              |       | 145.847              | 52.630               | 283.542              | 99.042               |
| Other operating income .....           |       | 12.830               | 6.269                | 21.652               | 11.101               |
| Sales and marketing .....              |       | (49.454)             | (20.722)             | (96.449)             | (34.844)             |
| Research and development .....         |       | (20.265)             | (9.497)              | (37.380)             | (18.374)             |
| General and administrative .....       |       | <u>(33.544)</u>      | <u>(12.100)</u>      | <u>(65.909)</u>      | <u>(21.474)</u>      |
|  |       | <u>(90.431)</u>      | <u>(36.050)</u>      | <u>(178.085)</u>     | <u>(63.591)</u>      |
| <b>Profit from operations</b> .....    |       | 55.416               | 16.580               | 105.457              | 35.451               |
| Financial income and (expenses) .....  | 5     | <u>(14.509)</u>      | <u>(487)</u>         | <u>(24.541)</u>      | <u>(7.686)</u>       |
| <b>Profit before tax</b> .....         |       | 40.908               | 16.093               | 80.916               | 27.765               |
| Income tax .....                       | 21    | <u>(10.821)</u>      | <u>(4.802)</u>       | <u>(18.971)</u>      | <u>(5.381)</u>       |
| <b>Net profit</b> .....                |       | <u><u>30.088</u></u> | <u><u>11.291</u></u> | <u><u>61.946</u></u> | <u><u>22.384</u></u> |
| <b>Attributable to:</b>                |       |                      |                      |                      |                      |
| Equity holders of the Parent .....     |       | 29.963               | 10.514               | 61.283               | 20.893               |
| Minority interest .....                |       | 124                  | 777                  | 662                  | 1.491                |
| Net profit .....                       |       | <u>30.088</u>        | <u>11.291</u>        | <u>61.946</u>        | <u>22.384</u>        |
| <b>Earnings per Share</b>              | 6     |                      |                      |                      |                      |
| Basic Earnings per Share (EUR) .....   |       | <u>0,00588</u>       | <u>0,00354</u>       | <u>0,01193</u>       | <u>0,00725</u>       |
| Diluted Earnings per Share (EUR) ..... |       | <u>0,00586</u>       | <u>0,00352</u>       | <u>0,01188</u>       | <u>0,00723</u>       |

## Consolidated interim balance sheet at 30 June 2006

|  | Notes | 30.6.2006               | 31.12.2005              |
|--|-------|-------------------------|-------------------------|
| <b>Assets</b>                                |       |                         |                         |
| <b>Non-current assets</b>                    |       |                         |                         |
| Goodwill .....                               | 7     | 894.085                 | 883.354                 |
| Other intangible assets .....                | 8     | 539.173                 | 468.279                 |
| Property, plant and equipment .....          | 9     | 342.529                 | 343.909                 |
| Investment in associated companies .....     |       | 0                       | 253                     |
| Other investments .....                      |       | 562                     | 701                     |
| Deferred tax assets .....                    | 21    | 56.439                  | 58.581                  |
|  |       | <u>1.832.788</u>        | <u>1.755.077</u>        |
| <b>Current assets</b>                        |       |                         |                         |
| Inventories .....                            | 13    | 237.667                 | 231.367                 |
| Fair value derivatives .....                 |       | 1.826                   | 9.205                   |
| Trade and other receivables .....            |       | 352.076                 | 299.616                 |
| Cash and cash equivalents .....              |       | 76.502                  | 99.308                  |
| Assets classified as held for sale .....     |       | 151.174                 | 0                       |
|  |       | <u>819.245</u>          | <u>639.496</u>          |
| <b>Total assets</b>                          |       | <u><u>2.652.032</u></u> | <u><u>2.394.573</u></u> |
| <b>Equity and liabilities</b>                |       |                         |                         |
| <b>Stockholders' equity</b>                  |       |                         |                         |
| Share capital .....                          | 14    | 52.879                  | 52.961                  |
| Share premium .....                          |       | 678.770                 | 687.764                 |
| Other reserves .....                         | 15    | (113.180)               | 10.012                  |
| Retained earnings .....                      |       | 307.880                 | 246.597                 |
|  |       | <u>926.350</u>          | <u>997.334</u>          |
| Minority interest .....                      |       | 10.869                  | 10.695                  |
| <b>Total equity</b>                          |       | <u><u>937.218</u></u>   | <u><u>1.008.029</u></u> |
| <b>Liabilities</b>                           |       |                         |                         |
| <b>Non-current liabilities</b>               |       |                         |                         |
| Interest bearing loans .....                 | 18    | 1.066.733               | 868.389                 |
| Retirement benefit obligation .....          | 19    | 12.509                  | 11.558                  |
| Obligations under finance leases .....       | 20    | 13.949                  | 15.516                  |
| Deferred income tax liabilities .....        | 21    | 106.275                 | 104.224                 |
|  |       | <u>1.199.465</u>        | <u>999.688</u>          |
| <b>Current liabilities</b>                   |       |                         |                         |
| Interest bearing loans .....                 |       | 40.239                  | 22.383                  |
| Accounts payable and other liabilities ..... |       | 467.332                 | 359.888                 |
| Obligations under finance leases .....       | 20    | 2.144                   | 2.111                   |
| Provisions .....                             | 22    | 5.634                   | 2.474                   |
|  |       | <u>515.349</u>          | <u>386.855</u>          |
| <b>Total liabilities</b>                     |       | <u><u>1.714.814</u></u> | <u><u>1.386.544</u></u> |
| <b>Total equity and liabilities</b>          |       | <u><u>2.652.032</u></u> | <u><u>2.394.573</u></u> |

## Consolidated interim statements of cash flows

|   | Notes | YTD 2006         | YTD 2005        |
|---|-------|------------------|-----------------|
| <b>Cash flows from operating activities</b>   |       |                  |                 |
| Profit for the period .....   |       | 61.946           | 22.384          |
| Adjustments to reconcile net earnings to net cash provided by operating activities: |       |                  |                 |
| Depreciation and impairment of fixed assets .....                                   | 9     | 20.497           | 9.361           |
| Amortisation of intangible assets .....   | 8     | 25.930           | 3.197           |
| Currency fluctuations and indexation .....  |       | (8.946)          | 11.053          |
| Changes in deferred taxes .....   |       | (4.225)          | 1.854           |
| Other changes .....   |       | (3.150)          | 5.707           |
| Working capital provided by operating activities                                    |       | <u>92.052</u>    | <u>53.556</u>   |
| Changes in operating assets and liabilities:  |       |                  |                 |
| Inventories, increase .....   |       | (15.277)         | (9.653)         |
| Receivables, increase .....   |       | (68.626)         | (7.146)         |
| Short-term liabilities, increase .....  |       | 21.379           | 1.050           |
| Changes in operating assets and liabilities   |       | <u>(62.525)</u>  | <u>(15.749)</u> |
| Net cash provided by operating activities   |       | <u>29.527</u>    | <u>37.807</u>   |
| <b>Cash flows to investing activities</b>   |       |                  |                 |
| Increase in intangible assets .....   |       | (24.769)         | (10.502)        |
| Proceeds from sale of intangible assets .....                                       |       | 977              | 0               |
| Investment in property, plant and equipment .....                                   |       | (40.763)         | (28.161)        |
| Proceeds from sale of property and equipment .....                                  |       | 210              | 221             |
| Investment in subsidiaries and other companies net of cash acquired .....           |       | (141.929)        | (29.569)        |
| Proceeds from sale of investment in other companies .....                           |       | 0                | 3.583           |
| Securities, change .....  |       | 0                | 1.215           |
| Net cash used in investing activities   |       | <u>(206.274)</u> | <u>(63.213)</u> |
| <b>Cash flows from financing activities</b>   |       |                  |                 |
| Changes in capital stock .....  |       | (9.076)          | 69.664          |
| Dividend paid .....   |       | 0                | (4.204)         |
| Proceeds from long-term borrowings .....  |       | 224.918          | 1.185           |
| Payments of long-term debt .....  |       | (17.057)         | (16.543)        |
| Changes in bank loans .....   |       | (41.543)         | 35.228          |
| Changes in finance leases .....   |       | (207)            | (963)           |
| Net cash generated from financing activities  |       | <u>157.035</u>   | <u>84.367</u>   |
| <b>Net change in cash and cash equivalents .....</b>                                |       | (19.711)         | 58.961          |
| <b>Effects of foreign exchange adjustments .....</b>                                |       | (3.095)          | 1.927           |
| <b>Cash and cash equivalents at beginning of year .....</b>                         |       | 99.308           | 17.325          |
| <b>Cash and cash equivalents at end of period .....</b>                             |       | <u>76.502</u>    | <u>78.213</u>   |
| <b>Other information</b>  |       |                  |                 |
| Interest paid .....   |       | (4.856)          | (6.934)         |
| Income tax paid .....   |       | (7.966)          | (3.530)         |

## Consolidated statement of changes in shareholders' equity

|  | Share capital |                   | Share premium  | Other reserves   | Retained earnings | Shareholder's equity | Minority interest | Total equity     |
|--|---------------|-------------------|----------------|------------------|-------------------|----------------------|-------------------|------------------|
|  | Common stock  | Preference shares |                |                  |                   |                      |                   |                  |
| Balance 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              |                   |                  |
| 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            |
| Transferred to statutory reserve ..... |               |                   |                |                  |                   | 0                    |                   | 0                |
| 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.....       | <u>42.961</u> | <u>10.000</u>     | <u>687.764</u> | <u>10.012</u>    | <u>246.597</u>    | <u>997.334</u>       | <u>10.695</u>     | <u>1.008.028</u> |
| Changes in capital stock .....         | (82)          |                   | (8.994)        |                  |                   | (9.076)              |                   | (9.076)          |
| Granted put options.....               |               |                   |                | (37.005)         |                   | (37.005)             |                   | (37.005)         |
| Translation difference .....           |               |                   |                | (86.970)         |                   | (86.970)             |                   | (86.970)         |
| Accrued stock option .....             |               |                   |                | 783              |                   | 783                  |                   | 783              |
| Net profit for the period.....         |               |                   |                |                  | 61.283            | 61.283               | 662               | 61.946           |
| Changes in minority interest .....     |               |                   |                |                  |                   | 0                    | (489)             | (489)            |
| Balance at 30 June 2006.....           | <u>42.879</u> | <u>10.000</u>     | <u>678.770</u> | <u>(113.180)</u> | <u>307.880</u>    | <u>926.349</u>       | <u>10.868</u>     | <u>937.217</u>   |

# Notes to the consolidated interim financial statements

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## 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, opening of new sales offices and intensive investment in the development of generic pharmaceuticals are fuelling the growth of the Group and have positioned it to take advantage of future opportunities.

These interim financial statements are presented in thousands of 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 Group's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs).

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.

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 interim financial statements

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## **Basis of consolidation**

### ***-Subsidiaries***

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

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

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies applied in line with those applied by the Group.

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

### ***-Goodwill***

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of 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 loss 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.

## **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 dividend has been established.

# Notes to the consolidated interim financial statements

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

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

## **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.

# Notes to the consolidated interim financial statements

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## **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 period. 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 periods 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.

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.

# Notes to the consolidated interim financial statements

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## **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 parts of business combinations 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.

## **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.

## Notes to the consolidated interim financial statements

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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, subsequently reversed if the original grounds for the write-down no longer applies. 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.

### **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.

# Notes to the consolidated interim financial statements

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## **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 dividend are discretinory, or is redeemable but only at the Company's option. Dividend payments 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.

## **Share-based Payments**

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.

## Notes to the consolidated interim financial statements

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### **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 resulting from acquisitions of subsidiaries are recognised when the company has a detailed formal plan for the restructuring which has been notified to affected parties.

## Notes to the consolidated interim financial statements

### 3. Quarterly statements

|                                     | Q2<br>2006     | Q1<br>2006     | Q4<br>2005    | Q3<br>2005    | Q2<br>2005    |
|-------------------------------------|----------------|----------------|---------------|---------------|---------------|
| Net sales .....                     | 351.224        | 333.056        | 185.316       | 153.390       | 115.720       |
| Cost of sales .....                 | ( 205.376)     | ( 195.362)     | ( 89.970)     | ( 72.864)     | ( 63.090)     |
| <b>Gross profit</b> .....           | <b>145.847</b> | <b>137.694</b> | <b>95.345</b> | <b>80.526</b> | <b>52.630</b> |
| Other operating income .....        | 12.830         | 8.822          | 9.231         | 7.548         | 6.269         |
| Sales and marketing .....           | ( 49.454)      | ( 46.995)      | ( 24.311)     | ( 22.219)     | ( 20.722)     |
| Research and development .....      | ( 20.265)      | ( 17.115)      | ( 21.472)     | ( 14.443)     | ( 9.497)      |
| General and administration .....    | ( 33.544)      | ( 32.365)      | ( 24.284)     | ( 14.860)     | ( 12.100)     |
| <b>Profit from operations</b> ..... | <b>55.417</b>  | <b>50.041</b>  | <b>34.509</b> | <b>36.552</b> | <b>16.580</b> |
| Financial income/(expenses) .....   | ( 14.509)      | ( 10.032)      | 3.153         | ( 8.683)      | ( 487)        |
| Loss from associates .....          | 0              | 0              | ( 1.015)      | ( 801)        | 0             |
| <b>Profit before tax</b> .....      | <b>40.908</b>  | <b>40.009</b>  | <b>36.647</b> | <b>27.068</b> | <b>16.093</b> |
| Income tax .....                    | ( 10.821)      | ( 8.150)       | ( 1.232)      | ( 3.864)      | ( 4.802)      |
| <b>Net profit</b> .....             | <b>30.088</b>  | <b>31.859</b>  | <b>35.415</b> | <b>23.204</b> | <b>11.291</b> |
| EBITDA .....                        | 79.387         | 72.499         | 52.156        | 48.303        | 23.447        |

### 4. Segment reporting

Geographical markets are the Group's primary segments. Segment information according to location of assets for YTD 2006:

|                          | Western<br>Europe | Eastern<br>Europe | USA            | Other<br>Segments | Eliminations      | Total          |
|--------------------------|-------------------|-------------------|----------------|-------------------|-------------------|----------------|
| External revenue.....    | 242.698           | 218.629           | 232.117        | 12.488            | 0                 | 705.932        |
| Internal revenue.....    | 109.351           | 18.342            | 0              | 150               | ( 127.844)        | (0)            |
| Total segment revenue... | <u>352.049</u>    | <u>236.971</u>    | <u>232.117</u> | <u>12.638</u>     | <u>( 127.844)</u> | <u>705.932</u> |

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

|                      |               |               |               |            |                  |               |
|----------------------|---------------|---------------|---------------|------------|------------------|---------------|
| Segment results..... | <u>39.802</u> | <u>13.896</u> | <u>20.313</u> | <u>426</u> | <u>( 13.153)</u> | <u>61.283</u> |
|----------------------|---------------|---------------|---------------|------------|------------------|---------------|

Segment report for YTD 2005:

|                          | Western<br>Europe | Eastern<br>Europe | USA      | Other<br>Segments | Eliminations     | Total          |
|--------------------------|-------------------|-------------------|----------|-------------------|------------------|----------------|
| External revenue.....    | 76.288            | 146.048           | 0        | 1.443             | 0                | 223.779        |
| Internal revenue.....    | 68.263            | 746               | 0        | 109               | ( 69.118)        | 0              |
| Total segment revenue... | <u>144.551</u>    | <u>146.794</u>    | <u>0</u> | <u>1.552</u>      | <u>( 69.118)</u> | <u>223.779</u> |
| Segment results.....     | <u>4.101</u>      | <u>19.131</u>     | <u>0</u> | <u>437</u>        | <u>( 2.776)</u>  | <u>20.893</u>  |

## Notes to the consolidated interim financial statements

### 5. Financial income and (expenses)

|                            | YTD 2006  | YTD 2005 |
|----------------------------|-----------|----------|
| Interest income.....       | 1.983     | 1.398    |
| Interest expenses.....     | ( 23.366) | ( 6.839) |
| Currency fluctuations..... | ( 3.158)  | ( 2.245) |
|                            | ( 24.541) | ( 7.686) |

### 6. Earnings per share

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

|   | YTD 2006  | YTD 2005 |
|---|-----------|----------|
| Net profit attributable to equity holders.....                  | 61.283    | 20.893   |
| Effect of accumulated premium on preferred shares.....          | ( 21.806) | 0        |
| Net profit attributable to equity holders of common shares..... | 39.477    | 20.893   |

#### Basic earnings per common share:

|   |       |       |
|---|-------|-------|
| Outstanding common shares at the beginning of year.....                               | 3.329 | 2.882 |
| Effect of treasury shares.....  | ( 20) | 0     |
| Total average number of common shares outstanding during the period (in million)..... | 3.309 | 2.882 |

|  |         |         |
|--|---------|---------|
| Basic earnings per common share (EUR)..... | 0,01193 | 0,00725 |
|--|---------|---------|

#### Diluted earnings per common share:

|   |       |       |
|---|-------|-------|
| Outstanding common shares at the beginning of year.....                               | 3.329 | 2.882 |
| Effect of treasury shares.....  | ( 20) | 0     |
| Effect of stock options.....  | 13    | 8     |
| Total average number of common shares outstanding during the period (in million)..... | 3.322 | 2.890 |

|  |         |         |
|--|---------|---------|
| Diluted earnings per common share (EUR)..... | 0,01188 | 0,00723 |
|--|---------|---------|

## Notes to the consolidated interim financial statements

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### 7. Goodwill

|  | YTD 2006  |
|--|-----------|
| <b>Cost</b>                                      |           |
| At 31 December 2005.....                         | 787.934   |
| Adjustment due to purchase price allocation..... | 98.721    |
| Adjusted balance at 1 January 2006.....          | 886.654   |
| Currency adjustments .....                       | ( 32.195) |
| Recognised on acquisition of subsidiaries .....  | 42.925    |
| At 30 June 2006.....                             | 897.384   |
| <b>Accumulated impairment</b>                    |           |
| At 1 January 2006.....                           | 3.300     |
| At 30 June 2006.....                             | 3.300     |
| Net book value 30 June 2006.....                 | 894.085   |

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 interim financial statements

### 8. Other intangible assets

|  | Development<br>cost and<br>know-how | Others<br>intangibles | Total     |
|--|-------------------------------------|-----------------------|-----------|
| <b>Cost</b>                                      |                                     |                       |           |
| At 31 December 2005.....                         | 91.419                              | 492.574               | 583.993   |
| Adjustment due to purchase price allocation..... | 20.260                              | ( 103.524)            | ( 83.264) |
| Adjusted balance at 1 January 2006.....          | 111.679                             | 389.050               | 500.729   |
| Currency adjustments .....                       | ( 13.702)                           | 2.240                 | ( 11.462) |
| Additions due to acquisitions .....              | 54.619                              | 39.383                | 94.002    |
| External additions .....                         | 8.257                               | 1.040                 | 9.297     |
| Internal additions .....                         | 4.311                               | 120                   | 4.431     |
| Sales .....                                      | ( 453)                              | 0                     | ( 453)    |
| Disposals .....                                  | ( 598)                              | 0                     | ( 598)    |
| At 30 June 2006.....                             | 164.111                             | 431.833               | 595.945   |
| <b>Accumulated amortisation</b>                  |                                     |                       |           |
| At 31 December 2005.....                         | 22.494                              | 13.542                | 36.036    |
| Adjustment due to purchase price allocation..... | ( 3.560)                            | (27)                  | (3.587)   |
| Adjusted balance at 1 January 2006.....          | 18.934                              | 13.515                | 32.449    |
| Currency adjustments .....                       | ( 1.514)                            | ( 408)                | ( 1.922)  |
| Additions due to acquisitions .....              | 0                                   | 516                   | 516       |
| Disposals .....                                  | ( 202)                              | 0                     | ( 202)    |
| Impairment losses .....                          | 94                                  | 0                     | 94        |
| Amortised .....                                  | 6.346                               | 19.490                | 25.837    |
| At 30 June 2006.....                             | 23.658                              | 33.114                | 56.772    |
| Net book value 30 June 2006 .....                | 140.453                             | 398.719               | 539.173   |

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

|                                   | YTD 2006 | YTD 2005 |
|-----------------------------------|----------|----------|
| Cost of sales.....                | 491      | 430      |
| Sales and marketing expenses..... | 3.338    | 21       |
| Administration.....               | 9.152    | 448      |
| Research and development.....     | 12.949   | 2.299    |
|                                   | 25.930   | 3.198    |

## Notes to the consolidated interim financial statements

### 9. Property, plant and equipment

|  | Property<br>and plant | Machinery and<br>equipment | Total     |
|--|-----------------------|----------------------------|-----------|
| <b>Cost</b>                                      |                       |                            |           |
| At 31 December 2005.....                         | 140.139               | 337.586                    | 477.724   |
| Adjustment due to purchase price allocation..... | 101.517               | 23.551                     | 125.067   |
| Adjusted balance at 1 January 2006.....          | 241.655               | 361.137                    | 602.792   |
| Currency adjustments .....                       | ( 17.961)             | ( 34.897)                  | ( 52.858) |
| Additions due to acquisitions .....              | 8.575                 | 8.651                      | 17.226    |
| Additions .....                                  | 11.066                | 28.043                     | 39.108    |
| Sales .....                                      | ( 135)                | ( 352)                     | ( 487)    |
| Disposals .....                                  | ( 20)                 | ( 1.205)                   | ( 1.225)  |
| At 30 June 2006.....                             | 243.180               | 361.376                    | 604.557   |
| <b>Accumulated depreciation</b>                  |                       |                            |           |
| At 31 December 2005.....                         | 23.800                | 107.654                    | 131.454   |
| Adjustment due to purchase price allocation..... | 43.011                | 84.418                     | 127.429   |
| Adjusted balance at 1 January 2006.....          | 66.811                | 192.072                    | 258.883   |
| Currency adjustments .....                       | ( 4.088)              | ( 18.859)                  | ( 22.946) |
| Additions due to acquisitions .....              | 628                   | 6.212                      | 6.840     |
| Sales .....                                      | 0                     | ( 122)                     | ( 122)    |
| Disposals .....                                  | ( 12)                 | ( 790)                     | ( 802)    |
| Depreciation of assets disposed .....            | ( 26)                 | ( 298)                     | ( 323)    |
| Depreciation .....                               | 5.474                 | 15.023                     | 20.497    |
| At 30 June 2006.....                             | 68.788                | 193.239                    | 262.027   |
| Net book value 30 June 2006 .....                | 174.392               | 168.138                    | 342.530   |

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

|                                    | YTD 2006 | YTD 2005 |
|------------------------------------|----------|----------|
| Cost of goods sold .....           | 16.537   | 6.083    |
| Sales and marketing expenses ..... | 1.828    | 958      |
| Administration .....               | 1.004    | 907      |
| Research and development .....     | 1.127    | 1.413    |
|                                    | 20.497   | 9.361    |

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

## Notes to the consolidated interim financial statements

### 10. The Consolidation

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

| Name of subsidiary                   | Location    | Ownership | Principal activity              |
|--------------------------------------|-------------|-----------|---------------------------------|
| Actavis hf. (Delta hf.) .....        | Iceland     | 100%      | Production, Sales and Marketing |
| Actavis BV (Medis Holland BV) .....  | Netherlands | 100%      | Holding company                 |
| Actavis Polska Sp.zoo .....          | Poland      | 100%      | Trading                         |
| 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 Holdings UK Ltd. ....        | UK          | 100%      | Administration                  |
| Sindan Ltd. ....                     | UK          | 100%      | Sales and Marketing             |
| Actavis Inc. (Pharmaco Inc.) .....   | USA         | 100%      | Business Development            |
| Actavis Norway A/S .....             | Norway      | 100%      | Production                      |
| Actavis Mid-Atlantic LLC .....       | USA         | 100%      | Production, S&M and R&D         |
| Actavis Totowa LLC .....             | USA         | 100%      | Production, S&M and R&D         |
| Actavis Elizabeth LLC .....          | USA         | 100%      | Production, S&M and R&D         |
| Point Holdings Inc. ....             | USA         | 100%      | Holding company (Real estate)   |
| Colony Pharmaceuticals Inc. ....     | USA         | 100%      | Legal company                   |
| 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 Deutschland GmbH & Co. .... | 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 interim financial statements

Consolidation, continued:

|  |             |      |                                |
|--|-------------|------|--------------------------------|
| Actavis A/S .....                        | Denmark     | 100% | Sales and Marketing            |
| Actavis A/S .....                        | Norway      | 100% | Sales and Marketing            |
| 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       |
| 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                    |
| Actavis UK 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            |
| 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            |
| Oncopharma AG .....                      | Switzerland | 100% | Distribution                   |
| Sindan Polska SA .....                   | Poland      | 100% | Sales and Marketing            |
| Pharma AVALANCHEe s.r.o. ....            | Czech Rep.  | 100% | Sales and Marketing            |
| Actavis s.r.o. ....                      | Slovakia    | 100% | Sales and Marketing            |
| PT Alpharma .....                        | Indonesia   | 100% | Production                     |
| Sindan AG .....                          | Switzerland | 100% | Holding company                |
| Sindan Pharma SRL .....                  | Romania     | 100% | Production                     |
| Sindan SRL .....                         | Romania     | 100% | Distribution                   |
| 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 end of March the Company acquired Sindan AG for EUR149.4 million. During the last quarter a new company, Actavis Polska Sp.zoo, was established in Poland. In May Alpharma USPD Inc. and GF. Reilly Co. merged and were renamed Actavis Mid-Atlantic LLC and Purepac Pharmaceuticals Co. was renamed Actavis Elizabeth LCC. In the quarter Amide Holding Inc. and Amide Pharmaceuticals Inc. merged and were renamed Actavis Totowa LLC. In May Actavis UK Ltd. was renamed Actavis Holdings UK Ltd. and Alpharma Ltd. was renamed Actavis UK Ltd. In May Pharma AVALANCHEe s.r.o. in Slovakia was renamed Actavis s.r.o.

## Notes to the consolidated interim financial statements

### 11. Acquisition Alharma generic business

In accordance with the relevant IFRS standard, the Company carried out an assessment of the fair value of the assets and liabilities of each of the businesses and companies acquired in 2005. 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 enclosed amendment to the balance sheet of 31 December 2005 is due to continued work in relation to the assessment of the fair value of assets and liabilities acquired through the purchase of the generic business of Alharma.

| Changes in the balance sheet at year-end 2005: | Previously reported | Change due to PPA | New balance at year-end 2005 |
|--|---------------------|-------------------|------------------------------|
| <b>Assets</b>                                  |                     |                   |                              |
| Development cost.....                          | 68.925              | 23.819            | 92.744                       |
| Goodwill.....                                  | 784.634             | 98.721            | 883.354                      |
| Other intangible assets.....                   | 479.032             | ( 103.497)        | 375.535                      |
| Property, plant and equipment.....             | 346.270             | ( 2.362)          | 343.909                      |
| Deferred tax assets.....                       | 54.417              | 4.163             | 58.581                       |
| Other receivables.....                         | 5.813               | 4.873             | 10.686                       |
| <b>Liabilities</b>                             |                     |                   |                              |
| Deferred income tax liability.....             | ( 78.506)           | ( 25.718)         | ( 104.224)                   |

### 12. Acquisition of Sindan AG

During the period the Company acquired Sindan AG for EUR 149,4 million. In accordance with IFRS 3, Business combinations, the allocation of business combination costs to the assets acquired and the liabilities and contingent liabilities assumed is provisional. The allocation will be completed prior to the year end 2006.

The acquisition is accounted for by applying the purchase method. The acquisition had the following effect on the Group's assets and liabilities.

|                            | Sindan AG      |
|----------------------------|----------------|
| <b>Tangible assets</b>     |                |
| Fixed assets.....          | 7.888          |
| Working capital.....       | 25.157         |
|                            | <u>33.044</u>  |
| <b>Intangible assets</b>   |                |
| Know-how.....              | 10.824         |
| Trade mark.....            | 1.717          |
| Customer relationship..... | 36.608         |
| Pipeline.....              | 44.332         |
| Goodwill.....              | 38.619         |
|                            | <u>132.101</u> |

## Notes to the consolidated interim financial statements

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12. Contd.:

### Liabilities and commitments

|                                    |          |
|------------------------------------|----------|
| Long-term liabilities.....         | (53)     |
| Deferred income tax liability..... | (15.669) |
|                                    | (15.722) |
|                                    | 149.423  |

|   |         |
|---|---------|
| Cash and cash equivalents (acquired)..... | 13.498  |
| Net Cash outflow.....                     | 135.926 |
|   | 149.423 |

### 13. Inventories

|                        | YTD 2006 | 2005    |
|------------------------|----------|---------|
| Raw material.....      | 81.324   | 101.299 |
| Work in progress.....  | 29.634   | 34.341  |
| Finished goods .....   | 118.465  | 92.999  |
| Other inventories..... | 8.244    | 2.728   |
|                        | 237.667  | 231.367 |

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

### 14. Share capital

Total share capital comprises of class A common shares and class B preference shares. The Company has 100 outstanding class B preference shares with a nominal value of EUR100,000. 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.

## Notes to the consolidated interim financial statements

### 14. Contd.:

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

|   | Number of<br>shares in<br>thousands | EUR    |
|---|-------------------------------------|--------|
| Outstanding class A 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 class A common stock at 1 January 2006..... | 3.329.101                           | 42.962 |
| Purchase of treasury shares.....                        | ( 38.500)                           | ( 429) |
| Sale of treasury shares.....                            | 25.570                              | 347    |
| Outstanding class A common stock at 30 June 2006.....   | 3.316.171                           | 42.879 |

Class A common stock is as follows and the nominal value of each share is one Icelandic krona.

|  | Number of<br>shares in<br>thousands | Ratio  | EUR    |
|--|-------------------------------------|--------|--------|
| Outstanding common stock at the end of the period..... | 3.316.171                           | 98,9%  | 42.879 |
| Treasury shares at the end of the period.....          | 38.500                              | 1,1%   | 429    |
| Total common stock issued.....                         | 3.354.671                           | 100,0% | 43.309 |

### 15. Other reserves

Included in other reserves are translation reserve, stock option reserve, granted put options reserves 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.

### 16. Stock options

Actavis Group has 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 35,5 million shares.

| Contract rate (ISK)/Conditions/Date granted | Number of shares |        |        |
|---|------------------|--------|--------|
|   | 2006             | 2007   | Total  |
| 2,64/Conditional/June 2001.....             | 377              | 0      | 377    |
| 38.5/Conditional/June 2005.....             | 18.104           | 17.059 | 35.163 |
|   | 18.481           | 17.059 | 35.540 |

## Notes to the consolidated interim financial statements

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16. Cont.:

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.

|   | 2006                                |  |
|---|-------------------------------------|--|
|   | Number of<br>shares in<br>thousands | Weighted<br>average<br>contract rate in<br>ISK |
| Outstanding stock options at beginning of year.....     | 35.920                              | 38,12  |
| Forfeited during the year.....                          | ( 380)                              | 38,50  |
| Outstanding stock options at the end of the period..... | 35.540                              | 38,12  |

Actavis Group granted its key employees put options during the period. These options give the employees rights to sell shares amounting to a nominal value of 61.5 million to the Company at the rate 57 - 57,5. As a result of these contracts EUR 37 million is recognized as a decrease in equity and as a liability in the balance sheet of the Group. The options are exercisable until 1 August 2008.

If an employee terminates his employment with the Company before 1 August 2008, then the Company has right to purchase the shares under the same terms as the put option. The call option applies to all the above shares for the first 12 months from the date of the agreement. When the 12 months have passed until 1 August 2008, Actavis has the right to purchase part of the shares in question.

### 17. Risk management

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

- 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's policy is to have the majority of funding on floating interest rates.

## Notes to the consolidated interim financial statements

### 17. Contd.:

- Credit risk

The Group has no significant credit risk. To minimise credit risk the Group focuses on ensuring that customers have an appropriate credit history and sufficient guarantees. There is in place 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.

### 18. Interest bearing loans

Interest bearing loans are specified as follows:

|  | YTD 2006  | 2005      |
|--|-----------|-----------|
| Loans in USD .....   | 171.754   | 174.012   |
| Loans in EUR .....   | 913.547   | 689.476   |
| Loans in GBP .....   | 0         | 227       |
| Loans in MTL .....   | 7.901     | 8.488     |
| Loans in BGL .....   | 0         | 1.534     |
| Loans in ISK .....   | 11.914    | 16.362    |
| Loans denominated in other currencies .....                  | 1.856     | 673       |
|  | 1.106.972 | 890.772   |
| Current maturities, included in interest bearing loans ..... | ( 40.239) | ( 22.383) |
| Interest bearing loans .....                                 | 1.066.733 | 868.389   |

Aggregated annual maturities are as follows:

|                                     |           |         |
|-------------------------------------|-----------|---------|
| On demand or within 12 months ..... | 40.239    | 22.383  |
| Within 24 months .....              | 13.838    | 20.796  |
| Within 36 months .....              | 158.169   | 126.197 |
| Within 48 months .....              | 160.274   | 128.290 |
| Within 60 months .....              | 721.232   | 576.575 |
| Subsequent years .....              | 13.219    | 16.531  |
|                                     | 1.106.972 | 890.772 |

The Company has pledged certain assets to secure banking facilities granted. The equivalent EUR808 million loan facility and the EUR250 million revolving credit facility include certain financial covenants; 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 debt/EBITDA requirements and restrictions on further M&A activity.

### 19. 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 interim financial statements

### 20. Obligation under finance leases

| Accounts payable under finance leases:          | Min. lease<br>payments<br>YTD 2006 | Min. lease<br>payments<br>2005 | Remaining<br>balances<br>YTD 2006 | Remaining<br>balances<br>2005 |
|---|------------------------------------|--------------------------------|-----------------------------------|-------------------------------|
| Obligation under finance leases .....           | 24.482                             | 26.414                         | 16.093                            | 17.627                        |
| Current maturities .....                        | ( 3.053)                           | ( 3.084)                       | ( 2.144)                          | ( 2.111)                      |
| Long term obligation under finance leases ..... | 21.429                             | 23.330                         | 13.949                            | 15.516                        |

Aggregated annual maturities are as follows:

|                                     |               |               |        |        |
|-------------------------------------|---------------|---------------|--------|--------|
| On demand or within 12 months ..... | 3.053         | 3.084         | 2.144  | 2.111  |
| Within 24 months .....              | 3.123         | 3.048         | 2.274  | 2.582  |
| Within 36 months .....              | 1.738         | 1.885         | 1.084  | 1.251  |
| Within 48 months .....              | 1.212         | 1.371         | 640    | 766    |
| Subsequent years .....              | 15.357        | 17.026        | 9.951  | 10.916 |
|                                     | 24.482        | 26.414        | 16.093 | 17.626 |
| Less: future finance charges .....  | ( 8.389)      | ( 8.788)      |        |        |
| Remaining balances .....            | <u>16.093</u> | <u>17.626</u> |        |        |

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

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

### 21. Deferred tax

|  | Deferred tax<br>assets | Deferred tax<br>liabilities | Net              |
|--|------------------------|-----------------------------|------------------|
| At 31 December 2005 .....                        | 54.417                 | ( 78.506)                   | ( 24.089)        |
| Adjustment due to purchase price allocation..... | 4.163                  | ( 25.718)                   | ( 21.554)        |
| Adjusted balance at 1 January 2006.....          | 58.581                 | ( 104.224)                  | ( 45.644)        |
| Additions due to acquisitions .....              | 0                      | ( 15.669)                   | ( 15.669)        |
| Calculated tax for the period .....              | 2.938                  | ( 21.908)                   | ( 18.971)        |
| Income tax payable for the period .....          | 2.724                  | 23.481                      | 26.205           |
| Exchange differences .....                       | ( 7.803)               | 12.046                      | 4.242            |
| At 30 June 2006.....                             | <u>56.439</u>          | <u>( 106.275)</u>           | <u>( 49.836)</u> |

### 22. Provisions

|   | Other<br>provisions |
|---|---------------------|
| At 1 January 2006.....                      | 2.470               |
| Additional provision during the period..... | 5.146               |
| Utilisation of provision.....               | ( 1.579)            |
| Unwinding of discount.....                  | 61                  |
| Exchange difference.....                    | ( 464)              |
| At 30 June 2006.....                        | <u>5.634</u>        |

## Notes to the consolidated interim financial statements

### 23. 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 two years .....                     | 2.400       |
| Commitment to increase share capital in subsidiary during next two years ..... | 1.500       |
| Commitment due to call option agreement .....                                  | 6.500       |
| At 30 June 2006.....   | 58.230      |

Purchase agreements in respect of acquired businesses include earn-out clauses based on performance. Subject to conditions, the balance of up to EUR 27.9 million will be payable in March 2007 in respect of Actavis Totowa.

### 24. Call options

At the end of June the Company agreed a call option with ELL 33 ehf. Under the call option agreement the Company has the right to buy 10.7% of outstanding share capital in the Croatian generic pharmaceutical company Pliva.

### 25. 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.

### 26. Financial ratios

The main financial ratios for the Group are as follows:

|   | YTD 2006 | 2005     |
|---|----------|----------|
| Equity ratio.....                                     | 0,35     | 0,42     |
| Current ratio.....                                    | 1,59     | 1,65     |
|   | YTD 2006 | YTD 2005 |
| EBITDA.....   | 151.884  | 48.010   |
| EBITDA as a percentage of revenues.....               | 21,5%    | 21,5%    |
| Working capital provided by operating activities..... | 92.052   | 53.556   |