# Actavis Group hf.

## Consolidated Financial Statements

## 2006

# Contents

# Report by the Board of Directors and President and CEO

The Consolidated Financial Statements of Actavis Group hf. for the year 2006 have been prepared in accordance with International Financial Reporting Standards (IFRS´s) as adopted by the EU. The Consolidated Financial Statements comprise the Financial Statements of Actavis Group hf. (the Company) and its subsidiaries, together referred to as the Group.

At the beginning of April 2006 the Company acquired Sindan AG, a leading European generic pharmaceutical company specializing in the manufacturing and distribution of oncology products. The acquisition of Sindan, headquartered in Bucharest, provides Actavis with access to a new therapeutic field and a strong development and manufacturing expertise for oncology products. In addition Actavis will gain a solid platform in the Romanian market from which to achieve future growth. Sindan has grown at a rapid rate in recent years and has seen its revenues almost double between 2002 and 2005. The results of Sindan are included in the Consolidated Financial Statements from 1 April 2006.

Profit for the year amounted to EUR 102.7 million, according to the Income Statement. Total equity amounted to EUR 889.7 million at year-end as shown in the balance sheet. Changes in total equity and appropriation of net profits are further explained in the financial statements. The Board of Directors does not propose a payment of dividend to shareholders in 2007.

At year end, shareholders in Actavis Group hf. numbered 3,821, compared to 3,470 at the beginning of the year. One shareholder owned more than 10% of the shares in the Company at year end 2006: Amber International Ltd., with 35,1%.

The Board of Directors and President and CEO of Actavis Group hf. hereby confirm the Consolidated Financial Statements of Actavis Group for the year 2006 with their signatures.

Hafnarfjordur, 28 February 2007

### Board of Directors:

Bjorgolfur Thor Bjorgolfsson
Chairman of the Board

Andri Sveinsson

Karl Wernerson

Sindri Sindrason

Magnus Thorsteinsson

### President and CEO:

Robert Wessman

# Financial Ratios

## Consolidated statement

| | | 2006 | 2005 | 2004 | 2003 | 2002* |
|---|---|---|---|---|---|---|
| **Growth** | | | | | | |
| Net sales | EUR '000 | 1,339,189 | 551,384 | 424,596 | 293,525 | 210,000 |
| EBITDA | EUR '000 | 287,134 | 148,471 | 113,759 | 84,059 | 45,718 |
| Profit from operations | EUR '000 | 197,583 | 106,512 | 88,466 | 52,119 | 30,996 |
| Employees | Number | 10,610 | 10,145 | 6,841 | 6,539 | 6,247 |
| Net income | EUR '000 | 102,689 | 81,003 | 64,282 | 42,354 | 33,122 |
| Total assets | EUR '000 | 2,579,362 | 2,389,632 | 684,166 | 606,824 | 458,605 |
| **Operational performance** | | | | | | |
| Cash provided by operating activities | EUR '000 | 161,914 | 103,004 | 46,710 | 43,783 | 46,180 |
| - as ratio to total debt | % | 10.5 | 11.6 | 12.2 | 14.8 | 30.3 |
| - as ratio to net profit | | 1.6 | 1.3 | 0.7 | 1.0 | 1.4 |
| Working capital from operating activities | EUR '000 | 204,122 | 109,079 | 92,116 | 71,002 | 41,444 |
| - as ratio to long-term debt and stockh. Equity | % | 10.2 | 8.9 | 20.7 | 19.3 | 18.8 |
| **Liquidity and solvency** | | | | | | |
| Quick ratio | | 0.7 | 1.0 | 0.8 | 0.6 | 0.5 |
| Current ratio | | 1.2 | 1.6 | 1.2 | 1.0 | 0.9 |
| Equity ratio | % | 34.5 | 42.2 | 41.2 | 37.6 | 50.9 |
| **Asset utilization and efficiency** | | | | | | |
| Net sales pr. employee | EUR '000 | 126 | 54 | 62 | 45 | 34 |
| Total asset turnover | | 0.5 | 0.4 | 0.7 | 0.5 | 0.7 |
| **Profitability** | | | | | | |
| Operating profit as ratio to net sales | % | 14.8 | 19.3 | 20.8 | 17.8 | 14.6 |
| Net income before taxes as ratio to net sales | % | 9.5 | 16.6 | 17.7 | 15.9 | 17.6 |
| Net income for the period as ratio to net sales | % | 7.7 | 14.7 | 15.1 | 14.4 | 15.8 |
| **Market** | | | | | | |
| Value of stock | EUR '000 | 2,164 | 2,219 | 1,293 | 1,300 | 502 |
| Price/earnings ratio, (P/E) | | 0.02108 | 0.02740 | 0.02012 | 0.03207 | 0.01366 |
| Price/book ratio | | 0.00243 | 0.00220 | 0.00443 | 0.00553 | 0.00207 |
| Number of shares | Millions | 3.199 | 3.329 | 2.791 | 2.785 | 0.574 |
| Earnings per Share, (EPS) | EUR Cent | 0.018110 | 0.025510 | 0.021620 | | |
| Diluted Earnings per Share, (Diluted EPS) | EUR Cent | 0.018040 | 0.025480 | 0.021590 | | |

### Notes

* Financial ratios based on financial statements prepared in Icelandic currency in the year 2002 have been translated to Euros. Income statement items have been translated at the average exchange rate for each period and balance sheet items have been translated at the exchange rate at the end of each period.

* Numbers for 2002 were not prepared in accordance with IFRS.

# Independent Auditor's Report

**To the Board of Directors and Shareholders of Actavis Group hf.**

**Report on the Consolidated Financial Statements**

We have audited the accompanying Consolidated Financial Statements of Actavis Group hf. and it´s subsidiaries (the Group), which comprise the Balance Sheet as at December 31, 2006, and the Income Statement, the Statement of changes in equity and the Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the Consolidated Financial Statements give a true and fair view of the financial position of the Group as of December 31, 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Reykjavik, 28 February 2007.

**KPMG hf.**

Alexander G. Edvardsson

Audur Thorisdottir

# Consolidated Income Statement for the year 2006

| | Notes | 2006 | 2005 |
|---|---|---|---|
| Net sales | 7 | 1,339,189 | 551,384 |
| Cost of sales | | (788,266) | (276,470) |
| **Gross profit** | | 550,923 | 274,913 |
| | | | |
| Other operating income | 8 | 40,732 | 27,880 |
| Sales and marketing expenses | | (197,271) | (81,374) |
| Research and development expenses | | (66,763) | (54,289) |
| General and administrative expenses | | (130,037) | (60,618) |
| | | (353,339) | (168,401) |
| | | | |
| **Profit from operations** | | 197,584 | 106,512 |
| | | | |
| Share of loss of associates | | 0 | (1,816) |
| Financial income and (expenses) | 12 | (70,327) | (13,216) |
| | | | |
| **Profit before tax** | | 127,257 | 91,479 |
| | | | |
| Income tax | 13 | (24,568) | (10,477) |
| | | | |
| **Profit for the year** | | 102,689 | 81,003 |
| | | | |
| **Attributable to:** | | | |
| Equity holders of the Parent | | 102,272 | 78,007 |
| Minority interest | | 417 | 2,995 |
| Profit for the period | | 102,689 | 81,003 |
| | | | |
| **Earnings per Share** | 14 | | |
| Basic Earnings per Share (EUR) | | 0.01811 | 0.02551 |
| Diluted Earnings per Share (EUR) | | 0.01804 | 0.02548 |

*Consolidated Financial Statements of Actavis Group hf. 2006* 6 *Amounts are in thousands of Euro*

# Consolidated Balance Sheet at 31 December 2006

| | Notes | 31.12.2006 | 31.12.2005 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Goodwill | 15 | 936,052 | 876,572 |
| Other intangible assets | 16 | 504,157 | 467,576 |
| Property, plant and equipment | 17 | 398,333 | 362,253 |
| Deferred tax assets | 28 | 68,940 | 49,523 |
| **Non-current assets** | | 1,907,482 | 1,755,924 |
| **Current assets** | | | |
| Inventories | 18 | 277,917 | 229,498 |
| Fair value derivatives | 19 | 2,142 | 9,205 |
| Trade and other receivables | 20 | 313,511 | 295,696 |
| Cash and cash equivalents | 21 | 78,310 | 99,308 |
| **Current assets** | | 671,880 | 633,707 |
| **Total assets** | | 2,579,362 | 2,389,632 |
| **Equity** | | | |
| Share capital | 22 | 51,356 | 52,961 |
| Share premium | | 590,833 | 687,764 |
| Other reserves | 23 | (112,612) | 10,012 |
| Retained earnings | | 350,623 | 246,597 |
| **Equity attributable to equity holders of the company** | | 880,199 | 997,334 |
| Minority interest | | 9,457 | 10,695 |
| **Total equity** | | 889,656 | 1,008,029 |
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Loans and borrowings | 24 | 989,728 | 868,389 |
| Retirement benefit obligation | 25 | 18,487 | 22,878 |
| Obligations under finance leases | 27 | 30,591 | 15,516 |
| Deferred income tax liabilities | 28 | 86,262 | 66,021 |
| **Non-current liabilities** | | 1,125,069 | 972,803 |
| **Current liabilities** | | | |
| Loans and borrowings | 24 | 193,841 | 22,383 |
| Tax liabilities | | 11,279 | 14,127 |
| Accounts payable and other liabilities | 29 | 350,340 | 367,704 |
| Obligations under finance leases | 27 | 4,660 | 2,111 |
| Provisions | 30 | 4,518 | 2,474 |
| **Current liabilities** | | 564,638 | 408,799 |
| **Total liabilities** | | 1,689,706 | 1,381,603 |
| **Total equity and liabilities** | | 2,579,362 | 2,389,632 |

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# Consolidated Statement of Cash Flows for the year 2006

| | Notes | 2006 | 2005 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit for the period | | 102,689 | 81,003 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Depreciation of fixed assets | 17 | 43,197 | 21,159 |
| Amortisation of intangible assets | 16 | 46,353 | 20,801 |
| Currency fluctuations and indexation | | (16,449) | (14,208) |
| Changes in deferred taxes | | (2,197) | (5,856) |
| Loss on sale of investment in other companies | | 24,432 | 0 |
| Other changes | | 6,098 | 6,182 |
| Working capital provided by operating activities | | 204,122 | 109,079 |
| Changes in operating assets and liabilities: | | | |
| Inventories, increase | | (52,041) | (13,630) |
| Receivables, (increase) decrease | | (6,388) | 5,988 |
| Short-term liabilities, increase | | 16,221 | 1,567 |
| Changes in operating assets and liabilities | | (42,209) | (6,075) |
| **Net cash provided by operating activities** | | 161,914 | 103,004 |
| **Cash flows to investing activities** | | | |
| Investments in intangible assets | | (65,468) | (41,188) |
| Proceeds from sale of intangible assets | | 882 | 1,426 |
| Investment in property, plant and equipment | | (96,795) | (62,365) |
| Proceeds from sale of property and equipment | | 17,005 | 3,686 |
| Investm. in subsidiaries and other companies net of cash acquired | | (560,280) | (884,578) |
| Proceeds from sale of investment in other companies | | 373,303 | 3,792 |
| Securities, change | | 0 | 18,001 |
| **Net cash used in investing activities** | | (331,352) | (961,226) |
| **Cash flows from financing activities** | | | |
| Purchase of treasury shares | | (123,574) | (12,108) |
| Sales of treasury shares | | 18,718 | 96,371 |
| Increase in capital | | 6,318 | 163,116 |
| Issuance of preference shares | | 0 | 356,498 |
| Dividend paid | | 0 | (3,554) |
| Proceeds from long-term borrowings | | 239,185 | 661,348 |
| Payments of long-term debt | | (113,981) | (163,307) |
| Changes in bank loans | | 127,779 | (160,113) |
| Payments of finance lease obligations | | (3,034) | (471) |
| **Net cash provided by financing activities** | | 151,411 | 937,780 |
| **Net change in cash and cash equivalents** | | (18,028) | 79,557 |
| **Effects of foreign exchange adjustments** | | (2,970) | 2,426 |
| **Cash and cash equivalents at beginning of year** | | 99,308 | 17,325 |
| **Cash and cash equivalents at end of year** | | 78,310 | 99,308 |
| **Other information** | | | |
| Interest paid | | (51,151) | (18,756) |
| Income tax paid | | (15,788) | (18,795) |

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# Consolidated Statement of Changes in Shareholders' Equity for the years 2005 and 2006

| | Equity attributable to equity holders of the company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital | | | | | | | |
| | Common shares | Preference shares | Share premium | Other reserves | Retained earnings | Total | Minority interest | Total equity |
| Balance at 1 January 2005 | 36,181 | 0 | 98,332 | (23,410) | 172,150 | 283,253 | 9,852 | 293,105 |
| Translation difference | | | | 31,674 | | 31,674 | | 31,674 |
| Total income and expenses recognised directly in equity | | | | 31,674 | 0 | 0<br>31,674 | 0 | 31,674 |
| Profit for the period | | | | | 78,007 | 78,007 | 2,995 | 81,002 |
| Total recognised income and expenses for the period | 0 | 0 | 0 | 31,674 | 78,007 | 0<br>109,681 | 2,995 | 112,676 |
| Purchases of treasury shares | (288) | | (11,820) | | | (12,108) | | (12,108) |
| Sales of treasury shares | 2,511 | | 93,859 | | | 96,370 | | 96,370 |
| Preference shares issued | | 10,000 | 346,498 | | | 356,498 | | 356,498 |
| Common shares issued | 4,557 | | 160,895 | | | 165,452 | | 165,452 |
| Accrued stock option | | | | 1,748 | | 1,748 | | 1,748 |
| Acquisition of minority interest | | | | | | 0 | (2,153) | (2,153) |
| Dividend paid (0.001189 € pr. share) | | | | | (3,560) | (3,560) | | (3,560) |
| Balance at 31 December 2005 / 1 January 2006 | 42,961 | 10,000 | 687,764 | 10,012 | 246,597 | 997,334 | 10,695 | 1,008,029 |
| Translation difference | | | | (87,865) | | (87,865) | | (87,865) |
| Defined benefit plan actuarial gains and losses | | | | | 1,754 | 1,754 | | 1,754 |
| Net income and expenses recognised directly in equity | | | | (87,865) | 1,754 | 0<br>(86,111) | 0 | (86,111) |
| Profit for the period | | | | | 102,272 | 102,272 | 417 | 102,689 |
| Total recognised income and expenses for the period | 0 | 0 | 0 | (87,865) | 104,026 | 0<br>16,161 | 417 | 16,578 |
| Purchases of treasury shares | (2,052) | | (121,522) | | | (123,574) | | (123,574) |
| Sales of treasury shares | 281 | | 18,438 | | | 18,719 | | 18,719 |
| Common shares issued | 166 | | 6,153 | | | 6,318 | | 6,318 |
| Written put options transferred as liability | | | | (37,005) | | (37,005) | | (37,005) |
| Accrued stock option | | | | 2,246 | | 2,246 | | 2,246 |
| Acquisition of minority interest | | | | | | 0 | (1,655) | (1,655) |
| Balance at 31 December 2006 | 41,356 | 10,000 | 590,833 | (112,612) | 350,623 | 880,199 | 9,457 | 889,656 |

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# Notes to the Consolidated Financial Statements

## 1. Reporting entity

Actavis Group hf. (the Company) is a limited liability company incorporated and domiciled in Iceland. The address of the Company´s registered office is Reykjavikurvegur 76 - 78, 220 Hafnarfjordur. The Consolidated Financial Statements of the Company as at and for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the "Group"). The Group specialises in the development, manufacturing and sale of generic pharmaceuticals in international markets.

The Group operates across five continents with its headquarters in Iceland. Principal markets include USA, Germany, the United Kingdom, the Nordic Countries, Turkey, Bulgaria, the Netherlands, Romania, Russia, Central Europe and Serbia. Teams of pharmacists, chemists and other scientific professionals make up a total workforce of around 10,800 in over 30 countries. The Group maintains modern manufacturing facilities in Bulgaria, China, Iceland, Indonesia, Malta, Romania, Serbia, Turkey, UK and USA. The plants produce a variety of medicines in different formulations, including tablets, capsules, injectables, suspensions, suppositories, creams and ointments.

## 2. Basis of preparation

### Statement of compliance

The Consolidated Financial Statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. Additional disclosures are provided as required by the Icelandic Stock Exchange.

### Basis of measurement

The Consolidated Financial Statements are prepared on a historical cost basis, except for derivatives which are valued at fair value. The methods used to measure fair values are discussed in note 4.

### Functional and presentation currency

These Consolidated Financial Statements are presented in Euro, which is the Company´s functional currency. All financial information presented in Euro has been rounded to the nearest thousand.

### Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, 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 af assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 31 Acquisitions of subsidiaries (Business combinations)
- Note 15 Measurement of the recoverable amounts of cash-generating units
- Note 28 Utilisation of tax losses
- Note 26 Measurement of share-based payments
- Note 30 Provisions and contingencies
- Note 33 Valuation of financial instruments
- Note 3 Allocating costs to functions

- Note 3 Revenue recognition
- Note 3 Lease classification
- Note 25 Employee benefits - defined benefits
- Note 16 Capitalisation of internally generated intangible assets
- Note 3 Useful lives of tangible and intangble assets

## 3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these Consolidated Financial Statements, and have been applied consistently by Group entities.

Certain comparative amounts in the Balance sheet have been reclassified due to completion in 2006 of the initial accounting for business combinations occurred in 2005, see note 32.

### Basis of consolidation

### i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The subsidiaries are fully consolidated in the Consolidated Financial Statements. When the Group´s ownership in subsidiaries is less than 100%, minority interest´s proportionate share of the subsidiaries results and equity is adjusted on an annual basis and shown as seperate items in the Income statement and the Balance sheet.

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

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

### ii) Transactions eliminated on consolidation

Intra-group balances, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the Consolidated Financial Statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### Foreign currencies

Transactions in foreign currencies are 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.

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.

### Revenue

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates and excluding sales and value added taxes. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible returns of goods can be estimated reliably, and there is no continuing management involvement with the goods. 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.

### Expenditure

Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms. Provision is made when an obligation exists for a future liability in respect of a past event and where the amount of the obligation can be reliably estimated. Advertising and promotion expenditure is charged to the income statement as incurred. Shipment cost on intercompany transfers are charged to cost of sales; distribution costs on sales to customers are included in general and administrative expenditure. Restructuring costs are recognised in respect of the direct expenditure of a business reorganisation where the plans are sufficiently detailed and well advanced, and where appropriate communication to those affected has been undertaken.

### Research and development

Research expenditure is charged to the Income Statement in the period in which it is incurred. Development expenditure is expensed until it meets the criteria for recognition as an asset, usually when a regulatory filing has been made in a major market and approval is considered highly probable.

### Lease payments

Payments made under operating leases are recognised in income statement on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense 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. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

### Finance income and expenses

Finance income comprises interest income on funds invested, dividend income, changes in the fair value of derivatives and foreign currency gains. Interest income is recognised as it accrues, using the effective interest method. Dividend income is recognised on the date that the Group´s right to receive payment is established.

Finance expenses comprises interest expense on loans and borrowings, finance leases, retirement obligation, unwinding of the discount on provisions, foreign currency losses and changes in the fair value of derivatives. All borrowing costs are recognised in the income statement using the effective interest method.

## Taxation

The tax expense comprises tax currently payable and deferred tax.

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

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

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

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

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

## Earnings per share

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

## Goodwill

Goodwill (negative goodwill) arises on the acquisition of subsidiaries.

### i) Acquisitions prior to 1 January 2003

As part of its transition to IFRSs, the Group elected to restate only those business combinations that occurred on or after 1 January 2003. In respect of acquisitions prior to 1 January 2003, goodwill represents the amount recognised under the Group´s previous accounting framework, IS GAAP.

### ii) Acquisitions on or after 1 January 2003

For acquisitions on or after 1 January 2003, goodwill represents the excess of the cost of the acquisition over the Group´s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquiree. When the excess is negative (negative goodwill), it is recognised immediately in the income statement.

### iii) Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

#### iv) Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses.

### Other intangible assets

#### i) Development cost

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if it can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the asset for its intended use. Other development expenditure is recognised in the income statement when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and impairment losses.

#### ii) Customer relationships and trademarks

Customer relationships and trademarks that have been acquired by the Group and have finite useful lives are measured at cost less accumulated amortisation and impairment losses.

#### iii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in the income statement when incurred.

#### iv) Amortisation

Amortisation is recognised in the Income Statement on a straight-line basis over the estimated useful lives of intangible assets from the date they are available for use. The amortisation rates used for the current and comparative periods are as follows:

| | |
|---|---|
| Development cost | 5 - 33% |
| Customer relationship | 7 - 20% |
| Trademark | 5 - 20% |

### Property, plant and equipment

#### i) Recognition and measurement

Property, plant and equipment are carried at acquisition or construction cost, less accumulated depreciation and impairment losses. Cost of self-constructed property, plant and equipment is calculated on the basis of directly attributable costs as well as an appropriate share of overheads.

#### ii) Subsequent costs

Subsequent costs are included in the assets carrying amount or recognised as a seperate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

### iii) Depreciation

The depreciable amount of assets is allocated on a straight-line basis over their expected useful lives. Depreciation methods, useful lives and residual values are reassessed at the reporting date. The depreciation for each year is recognised as an expense based on the following depreciation rates:

| | |
|---|---|
| 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.

## Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. The corresponding liability is included in the balance sheet as an obligation under finance leases. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are classified as operating leases and the leased assets are not recognised on the Group´s Balance Sheet.

## Impairment

### i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flow of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on a individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. The reversal is recognised in the income statement.

### ii) Non-financial assets

The carrying amounts of the Group´s non-current assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset´s recoverable amount is estimated. For goodwill and other intangible assets that are not yet available for use, recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that is largely independent from other assets and groups. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset´s carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### 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.

### Financial instruments

#### i) Non derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other paybles.

Non-derivative financial instruments are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost applying the effective interest method less any impairment losses.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group´s contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group´s obligations specified in the contract expire or are discharged or cancelled.

#### ii) Derivative financial instruments

The Group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures. The principal derivative instruments used by the Group are foreign currency swaps, interest rate swaps and forward foreign exchange contracts.

Derivative financial instruments are recognised in the Balance Sheet at fair value. Changes in the fair value of derivatives are recognised in the Income Statement. Derivatives with positive fair value are recognised as assets and derivatives with negative fair value are recognised as liabilities.

#### iii) Share capital

*a) Common shares*

Incremental costs directly attributable to the issue of common shares and share options are recognised as a deduction from equity.

*b) Preference shares*

Preference shares are classified as equity as they are non-redeemable, or redeemable only at the Company´s option, and any dividend is discretionary. Dividend thereon is recognised as a distribution within equity.

### *c) Repurchase of share capital*

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable cost, is recognised as a dedutcion from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. Gains or losses on purchase or sale of treasury shares are not recognised in the Income Statement.

### *d) Dividend*

Dividend is recoginsed as a liability when approved by the Company´s shareholders.

## Employee benefits

### i) Defined contribution plans

The Group's contributions to defined contribution pension plans are charged to the Income Statement as incurred with no further obligations.

### ii) Defined benefit plans

The Group´s net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rates used have maturity dates approximating the terms of the Group´s obligations. The calculation is performed by a qualified actuary using the projected unit credit method. The Group recognises all actuarial gains and losses arising from defined benefit plans directly in equity immediately.

In accordance with 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.

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.

### iii) Share-based payments

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share opitons that vest.

The Company has granted certain key management personnel put options on their shareholding in the Company at predetermined terms. The cost attached to the agreements is evaluated in a similar manner as other comparable agreements on the market and the cost is expensed during the term of the agreements.

## Provisions

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

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

### Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risk and rewards that are different from those of other segments. The Group´s primary format for segment reporting is based on geographical segments, secondary is based on business segments and the third format, management segments, reflects the Group´s management structure.

### New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2006, and have not been applied in preparing these Consolidated Financial Statements. The standards and interpretation not yet applied are as follows:

- IFRS 7 Financial instruments: Disclosure and the Amendment to IAS 1 Presentation of Financial Statements: Capital disclosures
- IFRS 8 Operating segments.
- IFRIC 7 Applying the Restatement Approach under IAS 29 Financial Reporting Hyperinflationary Economics.
- IFRIC 8 Scope of IFRS 2 Share-based payments.
- IFRIC 9 Reassessment of Embedded Derivatives.
- IFRIC 10 Interim Financial Reporting and Impairment.
- IFRIC 11 Group and Treasury shares transactions.
- IFRIC 12 Service Concession Arrangements.

These new standards and interpretations are not expected to have any significant impact on the Consolidated Financial Statements.

## 4. Determination of fair values

A number of the Group´s accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

### Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm´s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion. The market value of items of plant, equipment, fixures and fittings is based on the quoted market prices for similar items.

### Intangible assets

The fair value of patents and trademarks acquired in a business combination is based on the discounted estimated royalty payments that have been avoided as a result of the parent or trademark being owned. The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

### Inventory

The fair value of inventory acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventory.

### Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

### Derivatives

The fair value of forward exchange contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on governmet bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

### Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

### Share-based payment transactions

The fair value of employee stock options is measured using a binomial lattice model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

## 5. Exchange rates

The Group uses the average of exchange rates prevailing during the period to translate the results and cash flows of subsidiaries into euros and period-end rates to translate their assets and liabilities. The currencies which most influence these translations, and the relevant exchange rates, were:

| | 2006 | 2005 |
|---|---|---|
| Average rates: | | |
| €/£ | 1.466706 | 1.462304 |
| €/$ | 0.795862 | 0.805194 |
| €/ISK | 0.011395 | 0.012808 |
| €/MTL | 2.332090 | 2.325918 |
| €/TRY | 0.555401 | 0.597190 |
| €/DKK | 0.134064 | 0.134195 |
| Period end rates: | | |
| €/£ | 1.491424 | 1.459217 |
| €/$ | 0.758668 | 0.847671 |
| €/ISK | 0.010682 | 0.013410 |
| €/MTL | 2.332090 | 2.329374 |
| €/TRY | 0.538242 | 0.627984 |
| €/DKK | 0.134133 | 0.134039 |

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## 6. Quarterly statements (unaudited)

| | Total 2006 | Q4 2006 | Q3 2006 | Q2 2006 | Q1 2006 |
|---|---|---|---|---|---|
| Net sales | 1,339,189 | 341,695 | 313,214 | 351,224 | 333,056 |
| Cost of sales | (788,266) | (202,539) | (184,989) | (205,376) | (195,362) |
| **Gross profit** | 550,923 | 139,156 | 128,225 | 145,848 | 137,694 |
| Other operating income | 40,732 | 8,488 | 10,592 | 12,830 | 8,822 |
| Sales and marketing expenses | (197,271) | (53,990) | (46,832) | (49,454) | (46,995) |
| Research and development expenses | (66,763) | (16,372) | (13,011) | (20,265) | (17,115) |
| General and administration expenses | (130,037) | (31,700) | (32,428) | (33,544) | (32,365) |
| **Profit from operations** | 197,584 | 45,581 | 46,545 | 55,416 | 50,041 |
| Financial income/(expenses) | (70,327) | (7,461) | (38,325) | (14,509) | (10,032) |
| **Profit before tax** | 127,257 | 38,121 | 8,220 | 40,908 | 40,009 |
| Income tax | (24,568) | (5,581) | (16) | (10,821) | (8,150) |
| **Net profit** | 102,689 | 32,540 | 8,203 | 30,087 | 31,859 |
| EBITDA | 287,134 | 69,548 | 65,702 | 79,387 | 72,497 |

## 7. Segment reporting

Segment information is presented in respect of the Group´s geographical, business and management segments. The primary format, geographical segments, is based on the geographical location of the Group´s business units and physical assets.

The second format, business segments, is based on the Group's key revenue streams.

The third format, management segments, reflects the Group's management structure. Here, there are four principal sales segments, North America, Western Europe Middle East and Africa (WEMEA), Central and Eastern Europe and Asia (CEEA) and Third Party. The CEEA segment includes Iceland and also covers responsibility for sales within its area that originate from business units within WEMEA. Third Party sales are principally in Western Europe. In addition to these sales segments, the balance of the Company's business, including R&D and Corporate activities is grouped within a fifth management segment.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

### Primary format - Geographical segments

The Group comprises the following main geographical segments:

- Western Europe: Manufacturing facilities and sales offices are operated in Iceland, Scandinavia, Germany, Malta, UK and The Netherlands.
- CEEA: (Central and Eastern Europe and Asia), manufacturing facilities and sales offices are operated in Bulgaria, Poland, Russia, Serbia, Romania, Turkey, Slovakia, Czech Republic, Hungary, China, Indonesia and India.
- USA: Manufacturing facilities and sales offices are operated in USA.

Individual operations are allocated to segments in accordance with their geographical location.

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### Secondary format - Business segments

The Group operates in the following business segments:

- Own brand:
  Actavis produces and markets generic pharmaceutical products, covering most significant therapeutic categories. The Group packages and sells a number of these products under its own–label names. The Company has three Sales and Marketing division for own-label products, representing different geographical areas, Western Europe, Middle East and Africa, Central and Eastern Europe and Asia, and North America. The Group's biggest "own-label" markets are the USA, Turkey, Bulgaria, Russia, Ukraine and the CIS, the Nordic countries and Serbia. In addition to tablets and capsules, Actavis sells injectables, suspensions, infusions, suppositories, gels, syrups, creams and ointments. Actavis also sells a variety of veterinary products in many of its markets.

- Third party:
  Actavis sells products to clients who then sell the products under their own-labels. These sales are handled by the Group´s Third Party Sales & Marketing Division.

- Other:
  The Group also generates revenue from the sale of registration dossiers, the sale of Active Pharmaceutical ingredients, and through distribution businesses. Other revenue also includes royalty payments and other minor non-product related income. The sale of pharmaceutical intellectual property through dossiers is handled by the Company's Third Party Sales & Marketing Division. The largest distribution business is Higia in Bulgaria.

### Geographical segments

**Segment reporting for the year 2006**

| | WEMEA | CEEA | USA | Eliminations | Group |
|---|---|---|---|---|---|
| Total external revenue | 424,876 | 506,326 | 407,987 | 0 | 1,339,189 |
| Internal revenue | 322,811 | 27,813 | 0 | (350,624) | 0 |
| Total segment revenue | 747,687 | 534,139 | 407,987 | (350,624) | 1,339,189 |
| Segment results | 39,842 | 77,433 | 98,852 | (18,543) | 197,584 |
| Net financing cost | | | | | (70,327) |
| Income tax | | | | | (24,568) |
| Profit for the period | | | | | 102,689 |
| Segment assets | 3,395,860 | 531,147 | 894,319 | (2,241,963) | 2,579,362 |
| Segment liabilities | 2,092,879 | 230,149 | 729,742 | (1,363,064) | 1,689,706 |
| Cash flows from operations | (29,926) | 55,568 | 42,827 | 93,446 | 161,914 |
| Cash flows to investments | (240,460) | (32,065) | (122,811) | 63,984 | (331,352) |
| Cash flows from financing | 254,310 | (19,313) | 60,343 | (143,929) | 151,412 |
| Capital expenditure | 73,021 | 46,032 | 65,433 | 834 | 185,320 |
| Depreciation | 17,052 | 15,946 | 9,484 | 716 | 43,197 |
| Amortization | 17,374 | 5,909 | 16,962 | 6,109 | 46,353 |

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# Notes to the Consolidated Financial Statements

Segment reporting, continued:

**Segment reporting for the year 2005**

| | WEMEA | CEEA | USA | Eliminations | Group |
|---|---|---|---|---|---|
| Total external revenue | 183,948 | 299,282 | 68,153 | 0 | 551,384 |
| Internal revenue | 165,561 | 3,268 | 0 | (168,829) | 0 |
| Total segment revenue | 349,509 | 302,550 | 68,153 | (168,829) | 551,384 |
| Segment results | 41,791 | 41,880 | 24,762 | (1,920) | 106,512 |
| Net financing cost | | | | | (15,033) |
| Income tax | | | | | (10,477) |
| Profit for the period | | | | | 81,003 |
| Segment assets | 1,840,316 | 349,534 | 868,329 | (668,547) | 2,389,632 |
| Segment liabilities | 1,382,697 | 130,390 | 536,049 | (667,533) | 1,381,603 |
| Cash flows from operations | 15,155 | 40,508 | 47,341 | 0 | 103,004 |
| Cash flows to investments | (588,326) | (30,774) | (342,129) | 0 | (961,229) |
| Cash flows from financing | 1,019,728 | (17,076) | (64,872) | 0 | 937,780 |
| Capital expenditure | 53,948 | 37,177 | 12,428 | 0 | 103,553 |
| Depreciation | 8,393 | 11,511 | 1,249 | 6 | 21,159 |
| Amortization | 1,728 | 8,752 | 9,367 | 953 | 20,800 |

## Business segments

**Segment reporting for the year 2006**

| | Own brand | Third party | Other | Eliminations | Group |
|---|---|---|---|---|---|
| Total external revenue | 1,058,262 | 164,831 | 466,571 | (350,475) | 1,339,189 |
| Segment assets | 4,417,419 | 348,657 | 55,250 | (2,241,963) | 2,579,362 |
| Capital expenditure | 173,907 | 10,579 | 0 | 834 | 185,320 |

**Segment reporting for the year 2005**

| | Own brand | Third party | Other | Eliminations | Group |
|---|---|---|---|---|---|
| Total external revenue | 369,888 | 137,484 | 44,013 | 0 | 551,384 |
| Segment assets | 2,677,759 | 342,682 | 37,738 | (668,547) | 2,389,632 |
| Capital expenditure | 80,040 | 23,449 | 65 | 0 | 103,553 |

## Management segments

**Segment reporting for the year 2006**

| | USA | CEEA | Third party | WEMEA | Other | Group |
|---|---|---|---|---|---|---|
| Total revenues 2006 | 425,236 | 529,475 | 134,310 | 284,562 | 6,337 | 1,379,921 |
| Revenue Q4 (unaudited) | 92,007 | 148,558 | 33,846 | 76,882 | (1,110) | 350,182 |

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## 8. Other operating income

| | 2006 | 2005 |
|---|---|---|
| Sales of dossiers | 8,532 | 12,022 |
| Other revenues | 32,199 | 15,858 |
| | 40,732 | 27,880 |

Dossier is the sale of intellectual property which is confidential scientific and medical information and technical data invented, developed or acquired by the Group. Other revenue represents sale not related to any production activity.

## 9. Personnel expenses

| | 2006 | 2005 |
|---|---|---|
| Wages and salaries | 278,703 | 116,411 |
| Compulsory social security contributions | 14,553 | 4,087 |
| Pensions - defined contribution plans | 9,784 | 5,720 |
| Pensions - defined benefit plans | 2,491 | 1,880 |
| Share-based payment costs | 2,283 | 1,664 |
| | 307,814 | 129,762 |

**Included in the Income Statement under the following headings:**

| | | |
|---|---|---|
| Cost of goods sold | 136,800 | 44,898 |
| Sales and marketing expenses | 70,609 | 31,789 |
| Research and development expenses | 23,422 | 19,811 |
| General and administrative expenses | 66,544 | 28,091 |
| Total included in the Income statement | 297,374 | 124,589 |

**Included in the Balance Sheet as:**

| | | |
|---|---|---|
| Development cost | 10,440 | 5,173 |
| Total included in the Balance Sheet | 10,440 | 5,173 |
| | | |
| Total employee costs | 307,814 | 129,762 |

For information on remuneration to the Board of Directors and Executive Management, please refer to note 10.

**Number of persons employed by the Group (including directors) at year end:**

| | | |
|---|---|---|
| Manufacturing | 6,152 | 5,113 |
| Selling, general and administration | 3,723 | 4,223 |
| Research and development | 999 | 818 |
| Number of employees at end of period | 10,874 | 10,153 |
| Average number of positions at year end | 10,610 | 10,145 |

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## 10. Management´s remuneration, stock options and shareholdings

### Fee to the Board of Directors

The fee to the Board of Directors is a fixed annual fee. Directors receive a fixed amount while the chairmanship receives a multiplier therof (2 times). In 2006, the base fee was EUR 13.675. In addition to the fee the members costs in connection with participation in meetings, such as travel and hotel expenses etc, are refunded. No other amounts or benefits are paid to the Board members.

| | 2006 |
|---|---|
| Bjorgolfur Thor Bjorgolfsson, Chairman of the Board | 27 |
| Andri Sveinsson | 14 |
| Magnus Thorsteinsson | 14 |
| Karl Wernersson | 14 |
| Sindri Sindrason | 14 |
| | 82 |

### Executive Management Board

The remuneration of the Executive Management Board is based on a fixed salary, a potential cash bonus of up to 6 month´s salary, pension contributions as well as non-monetary benefits in the form of car and phone.

| For the year 2006 | Salaries and bonuses | Share based payment | Total remuneration |
|---|---|---|---|
| Robert Wessman, CEO | 1,678 | 0 | 1,678 |
| Gudbjorg Edda Eggertsdottir, Third-party sales | 206 | 222 | 428 |
| Sigurdur Oli Olafsson, North America sales | 380 | 0 | 380 |
| Jonas Tryggvason, CEE & Asia sales | 213 | 111 | 324 |
| Svend Andersen, WEMEA sales | 230 | 0 | 230 |
| Four executive vice presidents | 1,176 | 222 | 1,398 |
| Two former executives | 1,140 | 222 | 1,362 |
| | 5,023 | 778 | 5,801 |

The four executive vice presidents are Aidan Kavanagh, Mark Keatley, Stefan Jokull Sveinsson and Steinthor Palsson.

The two former executives are Elin Gabriel and Svafa Gronfeldt.

### Management´s share options

| | At beginning of year | Exercised | Additions | At year end |
|---|---|---|---|---|
| Robert Wessman, CEO | 0 | 0 | 0 | 0 |
| Gudbjorg Edda Eggertsdottir, Third-party sales | 1,472 | (736) | 0 | 736 |
| Sigurdur Oli Olafsson, North America sales | 1,472 | 0 | 0 | 1,472 |
| Jonas Tryggvason, CEE & Asia sales | 1,104 | (368) | 0 | 736 |
| Svend Andersen, WEMEA sales | 0 | 0 | 0 | 0 |
| Four executive vice presidents | 5,937 | (736) | 0 | 5,201 |
| Two former executives | 1,472 | (736) | 0 | 736 |
| | 11,457 | (2,576) | 0 | 8,881 |

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### Management´s holding of Actavis Group shares

| (in thousand of shares) | At year end |
|---|---|
| **Board of Directors:** | |
| Bjorgolfur Thor Bjorgolfsson, Chairman of the Board | 1,177,532 |
| Andri Sveinsson | 0 |
| Magnus Thorsteinsson | 0 |
| Karl Wernersson | 183,845 |
| Sindri Sindrason | 18,630 |
| | 1,380,007 |
| **Executive Management:** | |
| Robert Wessman, CEO | 136,733 |
| Gudbjorg Edda Eggertsdottir, Third-party sales | 24,021 |
| Sigurdur Oli Olafsson, North America sales | 4,489 |
| Jonas Tryggvason, CEE & Asia sales | 3,693 |
| Svend Andersen, WEMEA sales | 3,500 |
| Four executive Vice Presidents | 14,228 |
| Two former executives | 5,066 |
| | 191,730 |
| Total | 1,571,737 |

The quoted share price at year end was 64.0 and therefore the market value of management´s holding in Actavis Group amounted to EUR 1,075 millions at year end.

## 11. Fees to Auditors

| | 2006 | 2005 |
|---|---|---|
| Audit of financial statements | 2,180 | 894 |
| Review of interim financial statements | 363 | 166 |
| Other services | 1,018 | 319 |
| | 3,561 | 1,380 |

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

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## 12. Financial income and (expenses)

| | 2006 | 2005 |
|---|---|---|
| **Interest income** | | |
| Interest on bank deposits | 3,532 | 2,906 |
| Other interest income | 103 | 918 |
| | 3,635 | 3,824 |
| **Interest expenses** | | |
| Interest on obligations under finance leases | (1,876) | (709) |
| Interest on loans and borrowings | (48,559) | (15,383) |
| Other interest expenses | (4,255) | (5,178) |
| | (54,690) | (21,270) |
| Net loss on disposal of investment in other companies | (24,432) | 0 |
| Foreign exchange rate differences (net) | 5,160 | 5,636 |
| Write down of investment in associated companies | 0 | (1,407) |
| Net financial income and expense | (70,327) | (13,217) |

## 13. Income tax expense

| **Current tax expense** | 2006 | 2005 |
|---|---|---|
| Current year | 44,144 | 22,787 |
| Under/(over) provided in prior years | (82) | 68 |
| | 44,062 | 22,855 |
| **Deferred tax expense** | | |
| Orgination and reversal of temporary differences | (13,830) | (4,261) |
| Investment tax credit | (6,323) | (11,246) |
| Other changes | 659 | 3,129 |
| | (19,494) | (12,378) |
| Total income tax expense in income statement | 24,568 | 10,477 |
| **Income tax recognised directly in equity** | | |
| Tax on entries in equity related to current tax | 2,959 | 0 |
| Tax on entries in equity related to deferred tax | (549) | 0 |
| Total income tax recognised directly in equity | 2,410 | 0 |

**Reconciliation of effective tax rate**

| | 2006 | 2006 | 2005 | 2005 |
|---|---|---|---|---|
| Profit before tax | | 127,257 | | 91,479 |
| Income tax using the domestic corporation tax rate | 18% | 22,906 | 18% | 16,466 |
| Effect of tax rates in foreign jurisdictions | 28% | 35,988 | 7% | 6,822 |
| Investment tax credits | (10%) | (12,280) | (13%) | (11,464) |
| Non-deductible expenses | 3% | 3,649 | 1% | 500 |
| Tax exempt revenue | (21%) | (27,021) | (2%) | (1,767) |
| Other differences | 1% | 1,326 | (0%) | (80) |
| Total income tax expense in income statement/eff.tax rate | 19% | 24,568 | 11% | 10,477 |

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## 14. Earnings per share

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

| | 2006 | 2005 |
|---|---|---|
| Net profit attributable to equity holders | 102,272 | 78,007 |
| Effect of accumulated premium on preferred shares | (42,250) | 0 |
| Net profit attributable to equity holders of common shares | 60,022 | 78,007 |
| **Basic earnings per common share:** | | |
| Outstanding common shares at the beginning of year | 3,329 | 2,791 |
| Effect of new shares issued | 1 | 175 |
| Effect of treasury shares | (15) | 92 |
| Total average number of common shares outstanding during the period (in million) | 3,315 | 3,058 |
| Basic Earnings per common Share (EUR) | 0.01811 | 0.02551 |
| **Diluted earnings per common share:** | | |
| Outstanding common shares at the beginning of year | 3,329 | 2,791 |
| Effect of new shares issued | 1 | 175 |
| Effect of treasury shares | (15) | 92 |
| Effect of stock options | 13 | 2 |
| Total average number of common shares outstanding during the period (in million) | 3,328 | 3,061 |
| Diluted Earnings per common Share (EUR) | 0.01804 | 0.02548 |

## 15. Goodwill

| | 2006 | 2005 |
|---|---|---|
| **Cost** | | |
| At 1 January | 787,934 | 240,101 |
| Adjustment due to purchase price allocation | 91,938 | 0 |
| Adjusted balance at 1 January 2006 | 879,871 | 240,101 |
| Currency adjustments | (33,019) | 408 |
| Recognised on acquisition of subsidiaries | 92,500 | 547,425 |
| At 31 December | 939,352 | 787,934 |
| **Accumulated impairment** | | |
| At 1 January | 3,300 | 3,300 |
| At 31 December | 3,300 | 3,300 |
| Net book value 31 December | 936,052 | 784,634 |

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**Impairment testing for cash-generating units containing goodwill**

For the purpose of impairment testing, goodwill is allocated to the Group´s three cash-generating units (CGU) which represents the lowest level within the Group at which the goodwill is monitored for internal management purposes. The three CGU´s are the geographical markets WEMEA (Western Europe, Middle East and Africa), CEEA (Central and Eastern Europe and Asia) and USA.

At year end the carrying amount of goodwill allocated to the Group´s cash-generating units (CGU) was as follows:

| | 2006 | 2005 |
|---|---|---|
| WEMEA | 434,034 | 391,335 |
| CEEA | 168,317 | 89,903 |
| USA | 333,701 | 303,395 |
| | 936,052 | 784,634 |

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 impairment test for cash-generating units compares their recoverable amount with the carrying amount of the individual cash-generating units. The recoverable amount of all of the Group´s three cash-generating units was based on their value in use. The carrying amount of all the CGU was determined to be lower than their recoverable amounts and therefore no impairment loss was recognised (2005: nil).

Value in use was determined by discounting the future cash flows generated from the continuing use of the unit and was based on the following key assumptions:

- Cash flows were projected based on actual operating results and the 5-year business plan (2007-2011). Cash flows for a further periods were extrapolated using a constant growth rate.
- The key assumptions in the calculation of the cash flows are sales, EBITDA, working capital, capital investments and growth expectations for the years after 2012.
- WEMEA is characterised by declining volumes and stiff competition, which requires ongoing optimisation of cost structure. An increase in net revenue is expected for WEMEA in the budget period due to entry to new markets.
- CEEA is characterised both by growth in the market and increasing market share.
- USA which is the Group´s third growth area is also expected to achieve increases in net revenue due to new market launches.
- Cash flows for further years were extrapolated based on a expected long term growth rate for WEMEA, CEEA and USA. That is consistent with the long-term average growth rate´s for the industry in those regions.
- The discount rates applied in calculating the recoverable amounts are before tax, and reflect the risk-free interest plus specific risks in the induvidual geographical segments.

The values assigned to the key assumptions represent management´s assessment of future trends in the pharmaceutical industry and are based on both external sources and internal sources (historical data).

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## 16. Intangible assets

| | Development cost | Customer relationship | Trademark | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| At 1 January 2005 | 36,175 | 4,437 | 7,118 | 47,730 |
| Currency adjustments | 2,691 | 1,191 | (223) | 3,659 |
| Additions due to acquisitions | 21,839 | 454,009 | 29,305 | 505,153 |
| Additions during the year | 34,378 | 0 | 0 | 34,378 |
| Sales and disposals | (2,279) | (4,649) | 0 | (6,928) |
| At 31 December 2005 | 92,804 | 454,988 | 36,200 | 583,992 |
| At 1 January 2006 | 92,804 | 454,988 | 36,200 | 583,992 |
| Adjustment due to purchace price allocation | 22,196 | (120,521) | 17,945 | (80,380) |
| Adjusted balance at 1 January 2006 | 115,000 | 334,467 | 54,145 | 503,612 |
| Currency adjustments | 14,545 | (43,202) | (2,220) | (30,877) |
| Additions due to acquistions | 20,698 | 30,529 | 1,099 | 52,326 |
| External additions | 33,212 | 0 | 3,346 | 36,558 |
| Internal additions | 22,155 | 799 | 0 | 22,954 |
| Reclassification | 0 | 0 | (1,008) | (1,008) |
| Disposals | (924) | 0 | (27) | (951) |
| At 31 December 2006 | 204,686 | 322,593 | 55,335 | 582,614 |
| | | | | |
| **Accumulated amortisation and impairment losses** | | | | |
| At 1 January 2005 | 11,123 | 3,507 | 2,478 | 17,108 |
| Amortised | 5,671 | 11,503 | 0 | 17,174 |
| Impairment loss | 3,627 | 0 | 0 | 3,627 |
| Sales and disposal | (163) | (4,498) | 0 | (4,661) |
| Currency adjustments | 3,622 | (654) | (181) | 2,787 |
| At 31 December 2005 | 23,880 | 9,858 | 2,297 | 36,035 |
| At 1 January 2006 | 23,880 | 9,858 | 2,297 | 36,035 |
| Currency adjustments | (1,197) | (1,712) | 67 | (2,842) |
| Reclassification | 0 | 0 | (851) | (851) |
| Sales and disposal | (212) | 0 | (25) | (237) |
| Impairment losses | 463 | 0 | 0 | 463 |
| Amortised | 14,110 | 24,193 | 7,587 | 45,890 |
| At 31 December 2006 | 37,044 | 32,339 | 9,075 | 78,458 |
| | | | | |
| **Carrying amounts** | | | | |
| At 1 January 2005 | 25,052 | 930 | 4,640 | 30,622 |
| At 31 December 2005 | 68,924 | 445,130 | 33,903 | 547,957 |
| At 1 January 2006 | 91,120 | 324,609 | 51,848 | 467,577 |
| At 31 December 2006 | 167,642 | 290,254 | 46,260 | 504,156 |

**Amortisation and impairment losses**

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

| | 2006 | 2005 |
|---|---|---|
| Cost of sales | 947 | 892 |
| Sales and marketing expenses | 10,378 | 436 |
| General and administrative expenses | 11,156 | 1,472 |
| Research and development expenses | 23,872 | 18,001 |
| | 46,353 | 20,801 |

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**Impairment loss and subsequent reversal**
In 2006 the total impairment loss amounted to EUR 463 thousand (2005: EUR 3,627 thousand).

**Commitments**

No contractual commitments for the acquisition of intangible assets have been made.

## 17. Property, plant and equipment

| | Property and plant | Machinery and equipment | Total |
|---|---|---|---|
| **Cost** | | | |
| At 1 January 2005 | 86,242 | 168,253 | 254,495 |
| Currency adjustments | 17,097 | 46,762 | 63,859 |
| Additons due to acquistions | 41,340 | 115,140 | 156,480 |
| Additons | 10,273 | 38,432 | 48,705 |
| Sales and disposals | (14,813) | (31,001) | (45,814) |
| At 31 December 2005 | 140,139 | 337,586 | 477,725 |
| At 1 January 2006 | 140,139 | 337,586 | 477,725 |
| Adjustment due to purchase price allocation | 74,184 | (58,201) | 15,983 |
| Adjusted balance at 1 January 2006 | 214,323 | 279,385 | 493,708 |
| Currency adjustments | (44,171) | (5,815) | (49,986) |
| Additions due to acquisitions | 5,334 | 2,456 | 7,790 |
| Additions | 48,676 | 71,177 | 119,853 |
| Reclassified | 0 | 1,008 | 1,008 |
| Disposals | (14,693) | (12,614) | (27,307) |
| At 31 December 2006 | 209,469 | 335,597 | 545,066 |
| **Accumulated depreciation and impairment losses** | | | |
| At 1 January 2005 | 28,142 | 81,125 | 109,267 |
| Currency adjustments | 5,105 | 37,120 | 42,225 |
| Sales and disposals | (12,722) | (28,474) | (41,196) |
| Impairment losses | 515 | 517 | 1,032 |
| Depreciation | 2,760 | 17,366 | 20,126 |
| At 31 December 2005 | 23,800 | 107,654 | 131,454 |
| At 1 January 2006 | 23,800 | 107,654 | 131,454 |
| Currency adjustments | (2,132) | (15,378) | (17,510) |
| Reclassified | 0 | 851 | 851 |
| Disposals | (1,409) | (9,850) | (11,259) |
| Depreciation | 12,286 | 30,911 | 43,197 |
| At 31 December 2006 | 32,545 | 114,188 | 146,733 |
| **Carrying amounts** | | | |
| At 1 January 2005 | 58,100 | 87,128 | 145,228 |
| At 31 December 2005 | 116,339 | 229,932 | 346,271 |
| At 1 January 2006 | 190,523 | 171,731 | 362,254 |
| At 31 December 2006 | 176,924 | 221,409 | 398,333 |

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

| | 2006 | 2005 |
|---|---|---|
| Cost of goods sold | 29,471 | 13,099 |
| Sales and marketing expenses | 3,957 | 2,293 |
| General and administrative expenses | 7,279 | 2,392 |
| Research and development expenses | 2,491 | 3,375 |
| | 43,198 | 21,159 |

**Leased plant and machinery**

The Group leases production equipment under a number of finance lease agreements. Some leases provide the Group with the option to purchase the equipment at a beneficial price. The leased equipment secures lease obligations. At 31 December 2006 the net carrying amount of leased plant and machinery was EUR 26,111 (2005: EUR 18,604).

**Insurance and assessment value**

| **2006** | Insurance value | Assessment value | Book value |
|---|---|---|---|
| Property and plants | 349,249 | 176,292 | 176,924 |
| Machinery and equipment | 307,006 | 221,409 | 221,409 |
| | 656,255 | 397,701 | 398,333 |
| **2005** | | | |
| Property and plants | 135,046 | 122,337 | 116,339 |
| Machinery and equipment | 212,664 | 229,932 | 229,932 |
| | 347,710 | 352,269 | 346,271 |

**Commitments**

No contractual commitments for the acquisition of tangible assets have been made.

## 18. Inventories

| | 2006 | 2005 |
|---|---|---|
| Raw material | 94,308 | 101,299 |
| Work in progress | 31,332 | 34,341 |
| Finished goods | 147,095 | 92,999 |
| Other inventories | 5,181 | 2,728 |
| | 277,917 | 231,367 |
| Adjustments due to purchase price allocation | | (1,869) |
| Adjusted balance 1 January | | 229,498 |
| Insurance value | 299,503 | 242,338 |

## 19. Fair value derivatives

Exposure to credit, interest rate and currency risk arises in the normal course of the Group´s business. Derivative financial intruments are used to hedge exposure to fluctuations in foreign exchange rates and interest rates. Net assets in derivatives are specified as follows:

| | 2006 | 2005 |
|---|---|---|
| Swap derivatives | 2,142 | 9,205 |

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## 20. Trade and other receivables

| | 2006 | 2005 |
|---|---|---|
| Trade receivables | 232,150 | 232,398 |
| Other receivables | 89,901 | 71,988 |
| Allowances for doubtful accounts | (8,540) | (8,690) |
| | 313,511 | 295,696 |

A loan to the CEO amounting to EUR 2.3 million (2005: 2.7 million) is included in other receivables.

## 21. Cash and cash equivalents

| | 2006 | 2005 |
|---|---|---|
| Cash | 78,310 | 99,308 |
| Marketable securities | 0 | 0 |
| | 78,310 | 99,308 |

## 22. Share capital

### Class A shares

The Company increased its class A common shares in December to meet exercisable shares options to key employees.

The class A common shares were increased in December by 14,763,976 shares and the total number of common shares are 3,369,435,093 after the increase.

### Class B shares

The company has 100 outstanding Class B preference shares with a nominal value of EUR 100,000. As preference shares they entitle the shareholders to receive dividend payments before class A common share 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 shares at an exchange rate that, if exercised in full, would result in 39% shareholding in Class A common shares.

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

| | Number of shares in thousands | EUR |
|---|---|---|
| Outstanding common shares 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 | 2,511 |
| Outstanding common shares at 1 January 2006 | 3,329,101 | 42,961 |
| New shares issued | 14,764 | 166 |
| Purchase of treasury shares | (170,000) | (2,052) |
| Sale of treasury shares | 25,760 | 281 |
| Outstanding common shares at 31 December 2006 | 3,199,625 | 41,356 |

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

| | Number of shares in thousands | Ratio | EUR |
|---|---|---|---|
| Outstanding common shares at the end of the period | 3,199,625 | 95.0% | 41,356 |
| Treasury shares at the end of the period | 169,810 | 5.0% | 1,889 |
| Total common stock issued | 3,369,435 | 100.0% | 43,245 |

## 23. Reserves

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

| | Translation reserve | Stock option reserve | Statutory reserve | Total |
|---|---|---|---|---|
| Balance at 1 January 2005 | (24,429) | 69 | 950 | (23,410) |
| Translation difference | 31,674 | 0 | 0 | 31,674 |
| Accrued stock options | 0 | 1,748 | 0 | 1,748 |
| Balance at 31 December 2005 | 7,245 | 1,817 | 950 | 10,012 |
| Translation difference | (87,865) | 0 | 0 | (87,865) |
| Accrued stock options | 0 | 2,246 | 0 | 2,246 |
| Written put options transferred as liability | 0 | (37,005) | 0 | (37,005) |
| Balance at 31 December 2006 | (80,620) | (32,942) | 950 | (112,612) |

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.

The stock option reserve includes the accrued part of the fair value of share options and the transfer of the obligation under written put-options as a liability.

The Company has the obligation to allocate at least 10% of its profit, which is not used to meet possible losses of previous years and is not allocated into other statutory reserves, into a legal reserve until reaching 10% of share capital. When that target has been reached contributions must be at least 5% until the reserve amounts to 25% of share capital. The Company has received payments exceeding the nominal value for shares when share capital was increased and the paid amount in excess of the nominal value has been allocated to the premium account. The Company may use the legal reserve to settle against a loss that can not be settled with other reserves. When the reserve amounts to more than 25% of the share capital, the amount in excess may be used to increase share capital or, in accordance with provisions of Article 53 of law no. 2 / 1995 on limited liability companies, for other concerns.

## 24. Loans and borrowings

**Non-current part of loans and borrowings is specified as follows:**

| | Interst | Year of maturity | Weighted average rate | 2006 | 2005 |
|---|---|---|---|---|---|
| Loans in USD | Floating | 2007 - 2014 | 6.14% | 169,201 | 171,673 |
| Loans in EUR | Floating | 2007 - 2014 | 4.45% | 818,369 | 689,476 |
| Loans in MTL | Fixed | 2007 - 2010 | 5.56% | 5,772 | 8,488 |
| Loans in ISK | Fixed | 2007 | 8.00% | 2,040 | 16,362 |
| Loans in INR | Fixed | 2007 - 2010 | 9.75% | 2,331 | 555 |
| Loans denominated in other currencies | | | | 0 | 1,879 |
| | | | 4.76% | 997,713 | 888,433 |
| Current maturities, included in loans and borrowings (see below) | | | | (7,984) | (20,043) |
| Non-current loans and borrowings | | | | 989,728 | 868,389 |

Aggregated annual maturities are as follows:

| | 2006 | 2005 |
|---|---|---|
| On demand or within 1 year | 7,984 | 20,043 |
| Within 2 years | 148,428 | 20,796 |
| Within 3 years | 150,529 | 126,197 |
| Within 4 years | 672,771 | 128,290 |
| Within 5 years | 0 | 576,575 |
| Subsequent years | 18,000 | 16,531 |
| | 997,713 | 888,433 |

**Loans and borrowings classification:**

| | 2006 | 2005 |
|---|---|---|
| Secured | 995,673 | 871,726 |
| Unsecured | 2,040 | 16,707 |
| | 997,713 | 888,433 |

The Company has pledged certain assets to secure banking facilities granted. The equivalent to USD 1.270 million (drawn appr. 85% EUR and 15% USD) loan facility and revolving credit facility include certain financial covenants; both standard for such a facility as well as company specific. Included in the loan agreement are various provisions which limits the Company´s actions without prior consultancy with the lender. The main, being certain net debt/EBITDA requirements and restrictions on further M&A activity.

**Current part of loans and borrowings is specified as follows:**

| | 2006 | 2005 |
|---|---|---|
| Current maturities of secured bank loans and borrowings | 7,984 | 20,043 |
| Short term borrowings from credit institutions | 185,857 | 2,339 |
| | 193,841 | 22,383 |

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## 25. Retirement benefit obligation

Actavis entities operate pension arrangements which cover the Group´s material obligations to provide pensions to retired employees. These arrangements have been developed in accordance with local practices in the countries concerned. Pension benefits can be provided by defined contribution schemes, whereby retirement benefits are determined by the value of funds arising from contributions paid in respect of each employee, or by defined benefit schemes, whereby retirement benefits are based on employee pensionable remuneration and length of service.

Contributions to defined benefit schemes are determined in accordance with the advice of independent, professional qualified actuaries. Pension cost of defined benefit schemes for accounting purposes have been assessed in accordance with independant actuarial advice. In certain countries pension benefits are provided on an unfunded basis, some administered by trustee companies. Liabilities are generally assessed annually in accordance with the advice of independent actuaries.

The assets of funded schemes are generally held in separately administered trusts or are insured. Assets are invested in different classes in order to maintain a balance between risk and return. Investments are diversified to limit the financial effect of the failure of any individual investments.

The following information relates to the Group´s defined benefit pension schemes.

**Movement in the liability for defined benefit obligations**

| | 2006 | 2005 |
|---|---|---|
| At 1 January | 11,558 | 5,766 |
| Adjustments due to purchase price allocation | 11,319 | 0 |
| Adjusted balance 1 January | 22,878 | 5,766 |
| Indexation/currency adjustments | (1,121) | 867 |
| Actuarial (gains) losses recognised in equity (see below) | (1,754) | 0 |
| Pension paid during period | (7,116) | (489) |
| Additions during period | 5,601 | 1,880 |
| Additions due to merger | 0 | 3,533 |
| At 31 December | 18,487 | 11,558 |

**Specification of defined benefit obligations**

| | 2006 |
|---|---|
| Present value of funded obligations | 38,105 |
| Fair value of plan assets | (28,309) |
| | 9,796 |
| Present value of unfunded obligations | 9,171 |
| Unrecognised actuarial losses | (273) |
| Unrecognised prior service cost | (207) |
| Defined benefit obligation at 31 December 2006 | 18,487 |

**Expense recognised in the income statement**

| | 2006 |
|---|---|
| Current service cost | 5,055 |
| Interest cost | 2,557 |
| Expected return on schemes assets | (2,215) |
| Past service cost | 32 |
| Expected return on reimbursement rights | 10 |
| Change arising on curtailments/settlement | 131 |
| Other | 31 |
| | 5,601 |

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**Actuarial (gains) and losses recognised directly in equity**

| | 2006 |
|---|---|
| Cumulative amount af 1 January | 0 |
| Recognised during the period | (1,754) |
| Cumulative amount af 31 December | (1,754) |

**Actuarial assumptions**

Principal actuarial assumptions at the reporting date:

| | 2006 |
|---|---|
| Discount rate at 31 December | 4,3 % - 11,0% |
| Expected return on plan assets | 4,3% - 7,0% |
| Future wage and salary increase | 2,5% - 9,0% |

## 26. Share-based payments

In June 2005 the Group established a share option programme that entitles key management personnel and senior employees to purchase shares in the Company. Also share options were offered to management personnel during 2006. In accordance with these programmes options are exercisable at the market price of the shares at the grant date.

The terms and conditions of the grants are as follows; all options are to be settled by physical delivery of shares but the Company intends to use treasury shares and / or increase share capital to meet the obligations. These share options at the end of the year amounted to 29.4 million shares.

| Grant date / employees entitled | Number of instruments in thousands | Vesting condition | Contractual life of options |
|---|---|---|---|
| Option grant to key management in June 2005 | 20,835 | Still employed at vesting date | 3 years |
| Option grant to key management in the year 2006 | 8,574 | Still employed at vesting date | 1 - 3 years |
| Total share options | 29,409 | | |

Options are terminated if an employee leaves the Group before the options vest. The stock options granted in June 2005 and during 2006 are exercisable in 10 days from exercise date which falls on 10 November in 2007-2009 respectively.

The options outstanding at 31 December 2006 have an exercise price in the range of ISK 38.5 to ISK 63 and a weighted average contractual life of 1.33 years.

The following reconciles the outstanding share options granted under the share option plan at the beginning and end of the year:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Number of shares in thousands | Weighted average contract rate in ISK | Number of shares in thousands | Weighted average contract rate in ISK |
| Outstanding stock options at beginning of year | 35,920 | 38 | 833 | 4 |
| Granted during the year | 9,319 | 57 | 57,836 | 39 |
| Forfeited during the year | (446) | 8 | (6,267) | 39 |
| Exercised during the year | (15,384) | 39 | (16,482) | 38 |
| Outstanding stock options at the end of year | 29,409 | 44 | 35,920 | 38 |
| Exercisable at 31 December | 0 | 0 | 0 | 0 |

The following share options granted under the share option plan were exercised during the year:

| | 2006 | | | 2005 | | |
|---|---|---|---|---|---|---|
| Options | Number exercised | Exercise month | Share price | Number exercised | Exercise month | Share price |
| Granted 2005 | 14,639 | November | 38.50 | 6,267 | November | 38.50 |
| Granted 2006 | 745 | November | 43.2 - 57.5 | 0 | | |
| | 15,384 | | | 6,267 | | |

## 27. Obligation under finance leases

Finance lease liabilities are payable as follows:

| | Min. lease payments 2006 | Interest 2006 | Principal 2006 | Min.lease payments 2005 | Interest 2005 | Principal 2005 |
|---|---|---|---|---|---|---|
| Less than one year | 6,411 | 1,751 | 4,660 | 3,084 | 973 | 2,111 |
| Between one and five years | 15,840 | 3,904 | 11,936 | 7,381 | 2,298 | 5,083 |
| More than five years | 23,106 | 4,452 | 18,654 | 15,949 | 5,517 | 10,432 |
| | 45,358 | 10,107 | 35,251 | 26,414 | 8,788 | 17,626 |

Finance lease obligations relate to purchases of buildings, premises, machinery, cars, computer equipment and various other fixed assets. Lifetime of the contracts varies from 2 - 15 years depending on the asset acquired.

There were no contingent lease payments recognised as an expense in the period.

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.

## 28. Deferred tax

| | Deferred tax asset | Deferred tax liabilities | Net |
|---|---|---|---|
| At 1 January 2005 | 21,247 | (9,493) | 11,754 |
| Recognised directly in equity | 0 | (2,830) | (2,830) |
| Additions due to acquisitions | 25,321 | (68,308) | (42,987) |
| Calculated tax for the period | 595 | (11,072) | (10,476) |
| Income tax payable for the period | 6,033 | 12,036 | 18,069 |
| Exchange differences | 1,220 | 1,161 | 2,381 |
| At 31 December 2005 | 54,417 | (78,506) | (24,089) |
| At 1 January 2006 | 54,417 | (78,506) | (24,089) |
| Adjustment due to purchase price allocation | (4,894) | 12,485 | 7,591 |
| Adjusted balance at 1 January 2006 | 49,523 | (66,021) | (16,498) |
| Recognised directly in equity | 2,409 | 0 | 2,409 |
| Additions due to acquisitions | 0 | (7,857) | (7,857) |
| Calculated tax for the period | 15,087 | (39,655) | (24,568) |
| Income tax payable for the period | 3,221 | 21,195 | 24,416 |
| Exchange differences | (1,300) | 6,076 | 4,776 |
| At 31 December 2006 | 68,941 | (86,262) | (17,321) |

**Recognised deferred tax assets and (liabilities)**

| | 2006 | 2005 |
|---|---|---|
| Intangible assets | (78,046) | (69,775) |
| Operating fixed assets | (530) | (4,890) |
| Inventories | 1,914 | (3,442) |
| Receivables | (697) | (101) |
| Long-term liabilities | (15,209) | 20,487 |
| Current liabilities | (5,168) | 3,661 |
| Carry forward income tax losses | 48,954 | 13,789 |
| Investment tax credits | 31,461 | 23,772 |
| Net tax liability | (17,321) | (16,498) |

## 29. Accounts payable and other liabilities

| | 2006 | 2005 |
|---|---|---|
| Accounts payable | 132,959 | 108,501 |
| Other liabilities | 217,381 | 237,260 |
| | 350,340 | 345,761 |
| Adjustment due to purchase price allocation | | 21,943 |
| Adjusted balance at 1 January 2006 | | 367,704 |

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## 30. Provisions

| | Restruct-uring | Other | Total |
|---|---|---|---|
| At 1 January 2006 | 0 | 2,473 | 2,473 |
| Additional provision during the period | 1,561 | 2,473 | 4,034 |
| Utilisation of provision | (13) | (1,669) | (1,682) |
| Exchange difference | 0 | (305) | (305) |
| Currency adjustments | 0 | (3) | (3) |
| At 31 December 2006 | 1,548 | 2,970 | 4,518 |

### Restructuring

The provisions for restructuring totalling EUR 1,548 thousand relate primarily to a streamlining programme at Alpharma BV - Netherlands, Actavis UK, Actavis Germany and Actavis Denmark. These provisions have been calculated on the basis of detailed plans and relate to the termination benefits to employees made redundant. The restructuring are expected to be completed in the year 2007.

### Other

Other provisions, totalling EUR 2,970 thousand, consists of various types of provisions such as product recall, sales force premium and employee obligations other than retirement benefits. Other provisions represents management´s best estimate and are mostly expected to be utilised in the year 2007.

## 31. Acquisition of subsidiary

At the beginning of April the Company acquired the Romanian generic pharmaceutical company Sindan AG for EUR 149,5 million. Sindan's core operation is manufacturing and distribution of oncology products

In accordance with the relevant IFRS standard, the Company has carried out an assessment of the fair value of the assets and liabilities of Sindan AG. The difference between the sum of the fair values less liabilities and the purchase price paid is accounted for as goodwill at the time of acquisition, and is subject to an annual impairment test.

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

| | Pre-acquisition carrying amount | Fair value adjustments | Recognised values on acquisition |
|---|---|---|---|
| Property, plant and equipment | 7,888 | 0 | 7,888 |
| Intangible assets | 650 | 48,650 | 49,301 |
| Inventories | 12,006 | 456 | 12,462 |
| Trade and other receivables | 5,655 | 0 | 5,655 |
| Cash and cash equivalents | 13,498 | 0 | 13,498 |
| Loans and borrowings | (103) | 0 | (103) |
| Deferred tax liabilities | 0 | (7,857) | (7,857) |
| Trade and other payables | (7,817) | 0 | (7,817) |
| Net identifiable assets and liabilities | 31,777 | 41,249 | 73,026 |
| Goodwill on acquisition | | | 76,468 |
| Total consideration | | | 149,494 |
| Cash acquired | | | (13,498) |
| Net cash outflow | | | 135,996 |

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Pre-acquisitions carrying amounts were determined based on applicable IFRSs immediately before the acquisition. The values of assets, liabilities, and contingent liabilities recognised on acquisition are their estimated values. The goodwill recognised on the acquistion is attributable to synergies expected to be achieved from integrating the company into the Group´s existing business.

## 32. Acquisition of Alpharma 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 Alpharma.

| | Previously reported | Change due to PPA | Adjusted balance 2005 |
|---|---|---|---|
| **Assets** | | | |
| Development cost | 68,924 | 22,196 | 91,120 |
| Goodwill | 784,634 | 91,938 | 876,572 |
| Other intangible assets | 479,032 | (102,576) | 376,456 |
| Property, plant and equipment | 346,270 | 15,983 | 362,253 |
| Deferred tax assets | 54,417 | (4,894) | 49,523 |
| Inventories | 231,367 | (1,869) | 229,498 |
| **Liabilities** | | | |
| Accounts payable and other liabilities | (345,761) | (21,943) | (367,704) |
| Retirement benefit obligation | (11,558) | (11,319) | (22,877) |
| Deferred income tax liability | (78,506) | 12,485 | (66,021) |

## 33. Financial instruments and associated risks

### Risk management

*Financial risk*

The principal objective of financial risk management is to monitor the Group´s aggregated financial risk arising from its day-to-day operations, and to initiate actions to limit exposure and enhance financial stability. Actavis follows strict financial risk management guidelines and regulations in areas such as foreign exchange, interest rate, liquidity and credit risks.

The Group´s financial risk management function is centralised through the Corporate Treasury department. Financial exposure is partly hedged in the respective legal entities, in line with the Group´s general policy and within set limits. This hedging is closely supervised by the Corporate Treasury department. All other aggregated risks are identified regularly, evaluated and, if relevant, hedged at Group level. Centralising tasks ensures that funding is cost efficient; a specified internal bank is in place for all legal entities.

The Board of Directors issues a Group Treasury Policy, which defines guidelines for treasury activity, acceptable levels of risk, and the willingness to incur risk against the expected rewards.

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### *Market risk*

a) Foreign exhange risk

As an international business, Actavis is exposed to foreign exchange risk in a number of currencies. Net foreign exchange transaction exposure is hedged with derivatives, principally foreign exchange spot and forward contracts. For budgeting and forecasting purposes, the Group maintains internal forecasts for foreign exchange cash flow up to 12 months in advance. Translation risk arising from the consolidation of the legal entities' financial results to the Group's financial currency is generally not hedged. However, to avoid large balance sheet movements related to investments in entities operating in volatile markets, some translation risks are hedged.

b) Interest rate risk

The treasury policy defines the means of managing interest rate risk. The risk, measured as the potential increase in interest paid during the coming year of a defined move in interest rates, is monitored and evaluated on a constant basis.

c) Credit risk

The Group minimises credit risk by monitoring credits granted to customers, and assigns collateral to cover potential claims. A large proportion of credits make use of local expertise by being granted at a local level. The same credit policy is applied at each entity, but further requirements stipulated by local market conditions may apply. All entities are required to report all significant changes in credit risk to the Group. In addition, any credit that exceeds set limits requires authorisation at a higher level.

The policy ensures that credits to customers without an appropriate credit history are supported by guarantees. In recent years, the application of these policies to all entities, combined with active monitoring at Group level, has resulted in the Group's experiencing only minor credit losses. Actavis maintains a strict credit process and evaluation of counterparties. This, together with an equally strict general policy, helps contain credit losses at a low level.

### *Liquidity risk*

Actavis' liquidity reserve consists of committed credit lines, cash deposits with banks, and current financial assets available within seven days. The appropriate level of liquidity reserve is defined by the Board. The Group strives to hold as much as possible of its liquidity reserve in committed credit lines; that is, to minimise cash in banks and current financial assets. To reduce refinancing risk, Actavis seeks to diversify the maturity dates of interest-bearing debt and committed credit lines and completes the refinancing of all credit facilities one year before maturity.

### *Operational risk*

To minimise treasury-related operational risk, the Corporate Treasury department has been assigned the responsibility of supervising and monitoring all treasury activity. All legal entities have directors who are responsible for operational risk and are guided and directed by the Group. All entities perform their transactions with Corporate Treasury as counterparty, and only Corporate Treasury is authorised to enter into third-party treasury deals of any kind.

Corporate Treasury uses the Treasury system IT/2 to keep a complete record of all contracts and movements. All new trades are entered into the system daily, securing updated position, and profit and loss reports. Regular risk assessment reports, which detail current exposure positions and treasury-related profit and loss, are sent to the CEO and the CFO.

### *Insurance policies*

Actavis maintains global and local insurance policies. Global coverage comprises property damage, business interruption, product liability, marine and transit, and director and officers. Other insurance is monitored centrally in accordance with the insurance manual and internal procedures. Actavis performs regular evaluations of the necessary level of insurance coverage weighed against the possible risk. The Group believes that its current insurance coverage is reasonable. It is important to note that certain products cannot be insured under the product liability policy; in these cases, provisions have been set aside for if and when they are needed.

### Fair values

The fair values of financial assets and liabilities, together with the carrying amounts shown in the Balance Sheet, are as follows:

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Trade and other receivebles | 313,511 | 313,511 | 295,696 | 295,696 |
| Cash and cash equivalents | 78,310 | 78,310 | 99,308 | 99,308 |
| Derivatives | 2,142 | 2,142 | 9,205 | 9,205 |
| Loans and borrowings | 997,713 | 989,857 | 888,433 | 880,555 |
| Finance lease liabilities | 35,251 | 35,251 | 17,626 | 17,626 |
| Accounts payable and other liabilities | 350,340 | 350,340 | 345,761 | 345,761 |

The interest rates used to discount estimated cash flows are based on yield curves in the respective currencies of government bonds at year end plus and adequate constand spread, as follows:

| | 2006 | 2005 |
|---|---|---|
| EUR | 3.6 - 4.1% | 2.4 - 3.1% |
| USD | 5.0 - 5.3% | 4.4 - 4.7% |

## 34. Operating lease arrangements

Non-cancellable operating lease rentals are payable as follows:

| | 2006 | 2005 |
|---|---|---|
| Less than one year | 3,351 | 2,953 |
| Between one and five years | 9,121 | 2,021 |
| More than five years | 196 | 0 |
| | 12,668 | 4,974 |

The Group leases a number of factory facilities under operating leases. The leases typically run for a period of 1-8 years, with an option to renew the lease after that date. The Group also leases cars and equipment with an average lease period of 2-5 years.

During the year 2006 EUR 3,996 thousand was recognised as an expense in the Income Statement in respect of operating leases (2005: EUR 3,444 thousand).

## 35. Commitments

| | 2006 |
|---|---|
| Contingent liability due to earn-out clauses | 9,000 |
| Commitment to invest in Serbia during next two years | 2,200 |
| At 31 December 2006 | 11,200 |

Purchase agreements in respect of acquired businesses include earn-out clauses based on performance. The total value of these earn-out clauses is a maximum 9 million EUR. Thereof a maximum of 4 million EUR is payable to the sellers of Kéri Pharma in Hungary based on the performance of the company for the years 2007 - 2009 and a maximum of 5 million EUR is payable to the sellers of Biovena in Poland based on the performance of the company for 2007. Due to uncertainty about possible outflow the obligations are classified as contingent liabilities and not recognised in the Balance Sheet.

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## 36. Contingent liabilities

The Company or the Group´s US subsidiaries is one out of a large number of generic drug companies which have been sued in USA. The lawsuits have been filed by the Attorneys General of Kentucky, Alabama, Illinois, Mississippi, Alaska, Hawaii, South Carolina and Florida and by the City of New York. All of these cases generally allege that the defendants caused the states to overpay pharmacies and other providers for prescription drugs under Medicare and/or state Medicaid Programs by inflating the reported Average Wholesale Price or Wholesale Acquisition Cost. Several of these cases also allege that state residents were required to make inflated co-payments for drug purchases under the federal Medicare program, and companies were required to make inflated payments on prescription drug purchases for their employees. The Discovery process is in various stages in the states. At this juncture, none of the cases have reached the point of adjudicating the merits of the claims as discovery and/or preliminary procedural motions are being pursued. Given the foregoing, there is currently an insufficient basis to recognize a provision due to the suit.

Pfizer has commenced litigation against Actavis Inc. and Actavis Group hf. and have alleged patent infringement based on Purepac's (subsidiary of Actavis Inc.) sale of Gabapentin capsules and tablets. Purepac and a group of other defendants selling the same products succeded, on a first instance summary judgement decision before the district court of New Jersey. The judge ruled that Pfizer were not able to establish that the Purepac gabapenting product infringed the patent. This decision will be reviewed by the appeal level in 2007 and the Federal Court of Appeals has the power to affirm the decision of the district court on the same or different grounds or remit the matter back to the district court for a full trial on the merits. If the matter is remitted, the full trial will not be held in 2007 and would not at this stage include any assessment of damages. Given the foregoing, there is currently an insufficient basis to recognize a provision due to the suit.

German authorities required the Group's German subsidiary to provide updated safety and efficiency data on one of its major products 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 the market authorisation for the product is withdrawn, the subsidiary's operating income would be seriously affected. Negotiations with BfArM (the German Authorities) regarding this matter have been ongoing.

In June 2003 Alpharma 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 late 1990's. 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 statue.

In USA there are some ongoing product liability suits. In most of the cases, Actavis Group hf. has a product liability insurance if they are settled or damages rewarded to the plaintiff.

## 37. Related parties

### Actavis Group related parties are:

- The Company´s principal shareholders.
- The Company´s subsidiaries.
- Members of the Company´s Executive Management Board as well as relatives of these persons.
- Companies in which members of the Company´s Executive Management Board as well as relatives of these persons exercise significant influence.

### The Company's principal shareholders:

| Name | Shares | % |
|---|---:|---:|
| Amber International Ltd | 1,177,532,098 | 35.1% |
| Landsbanki Luxembourg S.A. | 244,741,104 | 7.3% |
| Straumur - Burdaras Fjarfesting | 175,583,387 | 5.2% |
| Actavis Group hf | 169,810,000 | 5.0% |
| LI-Hedge | 142,709,867 | 4.3% |
| Landsbanki Islands hf. | 138,765,333 | 4.1% |
| Lifeyrissjodur verslunarmanna | 67,779,414 | 2.0% |
| Lifeyrissjodir Bankastraeti 7 | 65,879,925 | 2.0% |
| Gildi -lifeyrissjodur | 59,811,148 | 1.8% |
| Olof Vigdis Baldvinsdóttir | 47,990,385 | 1.4% |
| Top 10 holdings | | 68.2% |

### Transactions and balances with the Company´s principal shareholders

Some of the Principal shareholders are major stakeholders in Landsbanki Islands hf., Sjova hf. and Straumur - Burdaras hf. All transactions during the year with these companies were at an arm's length basis.

### Transactions and balances with the company´s Executive Management Board

There is a loan to the CEO relating to the acquisition of shares in the Company as explained in the note on Trade and other receivebles. The loan bears market interest. There were no other transactions with members of the Executive Management Board during the year.

### Transactions and balances with other related parties

There have be no transactions and balances with other related parties.

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## 38. Group entities

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

| Name of subsidiary | Location | Ownership | Principal activity |
|---|---|---|---|
| Actavis Equity ehf. | Iceland | 100% | Holding company |
| Actavis HY ehf. | Iceland | 100% | Holding company |
| Actavis SD ehf. | Iceland | 100% | Holding company |
| Actavis PTC ehf. | Iceland | 100% | Sales and Marketing |
| Actavis hf. (Delta hf.) | Iceland | 100% | Production, Sales and Marketing |
| Actavis Inc. | USA | 100% | Business Development |
| Actavis Elizabeth LLC | USA | 100% | Production, S&M and R&D |
| Actavis Mid-Atlantic LLC | USA | 100% | Production, S&M and R&D |
| Actavis Norway A/S | Norway | 100% | Production |
| Actavis Totowa LLC | USA | 100% | Production, S&M and R&D |
| Point Holdings Inc. | USA | 100% | Holding company |
| Colony Pharmaceuticals Inc. | USA | 100% | Legal company |
| Medís ehf. | Iceland | 100% | Third party sales |
| Medis Danmark AS | Denmark | 100% | Third party sales |
| NM Pharma ehf. | Iceland | 100% | Sales and Marketing |
| Actavis Dutch Holding BV | Netherlands | 100% | Holding company |
| Actavis Holding Asia BV | Netherlands | 100% | Holding company |
| Actavis (China) Holding Ltd. | Hong Kong | 100% | Holding company |
| Actavis (Foshan) Pharmac. Co. Ltd. | China | 90% | Sales and Marketing |
| Actavis Australia Pty. Ltd | Australia | 100% | Sales and Marketing |
| Actavis Pharma Dev. Centra Private | India | 100% | Research and Development |
| Actavis Pharma Manufact. Pvt. Ltd. | India | 100% | Production, S&M and R&D |
| Actavis Pharma Ltd. | India | 100% | Research and Development |
| Alpharma (Singapore) Pte. Ltd. | Singapore | 100% | Sales and Marketing |
| Lotus Laboratories Ltd | India | 100% | Clinical Research Organisation |
| PT Actavis | Indonesia | 100% | Production |
| Actavis Holding CEE | Netherlands | 100% | Holding company |
| Actavis Holding BV | Netherlands | 100% | Holding company |
| Actavis BV | Netherlands | 100% | Sales and Marketing |
| Actavis GmbH | Austria | 100% | Sales and Marketing |
| Actavis Ltd. | Malta | 100% | Production, S&M and R&D |
| Actavis Trading Ltd | Malta | 100% | Trading |
| Actavis Polska Sp.zoo | Poland | 100% | Trading |
| Actavis Switzerland AG | Switzerland | 100% | Sales and Marketing |
| Higia EAD | Bulgaria | 100% | Distribution |
| Higia Trans EAD | Bulgaria | 100% | Distribution |
| Actavis Ltd. | Cyprus | 100% | Holding company |
| Actavis EAD | Bulgaria | 100% | Holding company and S&M |
| Balkanpharma OOO | Russia | 100% | Sales and Marketing |
| Actavis OOO | Russia | 90% | Sales and Marketing |
| Actavis Operations EOOD | Bulgaria | 100% | Holding company |
| Balkanpharma Razgrad AD | Bulgaria | 98% | Production |
| Balkanpharma Troyan AD | Bulgaria | 98% | Production |
| Balkanpharma Security AD | Bulgaria | 100% | Security services |
| Balkanpharma Dubnitza AD | Bulgaria | 98% | Production |
| Balkanpharma Healthcare Int. | Cyprus | 100% | Sales and Marketing |

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Consolidation, continued:

| | | | |
|---|---|---|---|
| MM Pharma LLC | USA | 100% | Sales and Marketing |
| Biovena Pharma Sp. | Poland | 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 |
| Sindan AG | Switzerland | 100% | Holding company |
| Sindan Pharma SRL | Romania | 100% | Production |
| Sindan SRL | Romania | 100% | Distribution |
| Zdravlje AD | Serbia | 73% | Production, S&M and R&D |
| Zdravlje Trade Ltd. | Serbia | 100% | Sales and Marketing |
| Actavis Holding NWE BV | Netherlands | 100% | Holding company |
| Actavis Holdings UK Ltd. | UK | 100% | Administration |
| Sindan Ltd. | UK | 100% | Sales and Marketing |
| Actavis Ireland | Ireland | 100% | Sales and Marketing |
| Actavis Nordic A/S | Denmark | 100% | Business Support |
| Actavis A/B (UNP Sweden AB) | Sweden | 100% | Sales and Marketing |
| Alpharma AB | Sweden | 100% | Sales and Marketing |
| Actavis A/S | Denmark | 100% | Sales and Marketing |
| Actavis A/S | Norway | 100% | Sales and Marketing |
| Actavis OY | Finland | 100% | Sales and Marketing |
| Alpharma Germany GmbH | Germany | 100% | Holding company |
| Alpharma Management GmbH | Germany | 100% | Administration |
| Actavis Deutschl. GmbH & Co. | Germany | 100% | Sales and Marketing |
| Alpharma International GmbH | Germany | 100% | No activity |
| Alpharma OY | Finland | 100% | Sales and Marketing |
| GM Invest BV | Netherlands | 100% | Holding company |
| Kéri Pharma Generics Kft | Hungary | 100% | Sales and Marketing |
| Nordisk Ibu-Pharma ApS | Denmark | 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 |
| 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 |
| Arthur H. Cox & Co. Ltd. | UK | 100% | No activity |
| Alpharma Laboratories Ltd. | UK | 100% | No activity |
| Colotech AS | Denmark | 86% | Research and Development |
| Medis Pharma GmbH | Germany | 60% | Sales and Marketing |
| Medis Ltd. | Isle of Man | 100% | Sales and Marketing |
| Actavis Italy S.p.A. | Italy | 100% | Sales and Marketing |
| Fako İlaçlari AŞ | Turkey | 100% | Production, S&M and R&D |
| Henota a.s. | Czech Rep. | 100% | Holding company |

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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.

In the 3rd quarter the Company attempted to acquire the Croatian Pharmaceutical Company PLIVA d.d. As certain structural changes to the Group were necessary to prepare for the potential acquisition of PLIVA d.d. the Company decided to use the opportunity to make additional changes to the Group structure. These additional changes had been in a long term plan of the Company and mainly aim for streamlining the group of companies and to cluster different operating companies in the group geographically and by way of internal reporting.

Four new Icelandic companies were established in order to prepare and position the group for different financial instruments, both for potential acquisitions and refinancing, and four new Dutch Holding companies were established to have the before mentioned geographical clustering of operating companies completed.

During the year sales and marketing companies were established in Austria, Switzerland, Italy and Australia.

After these structural changes the company has an efficient structure for large acquisitions in the near future both regarding financing and synergies.

## 39. Subsequent events

In November 2006 Actavis Group hf. signed an agreement to acquire 51% controlling interest in ZiO Zdorovje, a leading Russian pharmaceutical manufacturer. The total commitment by Actavis is EUR 47 million (USD 60 million), of which EUR 23 million (USD 30 million) will be made available for investment for ZiO Zdorovje's world class manufacturing site to introduce new products and create a platform for increased production and capacity. This investment combined with the 49% stake that the current owners of ZiO Zdorovje will retain in the business going forward, underlines how committed both parties are to working closely together going forward. The closing of the acquisition was finalized in Q1 2007 so no financial impact is included in 2006.

In November 2006 Actavis Group hf. signed an agreement to acquire Abrika Pharmaceuticals Inc., a US based specialty generic pharmaceuticals company engaged in the formulation and commercialization of both controlled release ("CR") and other technically difficult pharmaceutical products. Actavis reached an agreement to acquire Abrika for an initial gross consideration of EUR 85 million (USD 110 million) in cash. Additional earn-out payments of up to EUR 96 million (USD 125 million) are payable over the next three years subject to performance. The closing of this acquisition was finalized in Q1 2007 so no financial impact is included in 2006.

A shareholders meeting held on 9 Feburary 2007 authorized the board of Actavis Group hf. to convert the Company's Class A shares from ISK to EUR. The shareholders' meeting also authorized the Board of Directors to increase the Company's share capital in Class A by up to 1,200,000,000 shares. in relation to the funding of the acquisition of shares in other companies. The proposals were both approved with all votes in Class A and Class B, who attended the meeting.

In December 2006 Actavis Group hf. acquired a manufacturing plant from Grandix Pharmaceuticals, a manufacturing and marketing company based in Chennai, Southern India for an undisclosed amount. Also in February 2007 Actavis acquired the API (Active Pharmaceutical Ingridient) division of Sanmar Specialty Chemicals Ltd. a subsidiary of the Sanmar Group based in Chennai, India. The acquisition price is not disclosed.

## 40. Other matters

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

## 41. Approval of the Financial Statements

The Consolidated Financial Statements were approved by the Board of Directors and authorised for issue on 28 February 2007.