

# **Actavis Group hf.**

**Condensed Consolidated Interim Financial Statements  
1 January - 31 March 2007**

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# Report by the Board of Directors and President and CEO

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The Condensed Consolidated Interim Financial Statements of Actavis Group for the three months ended 31 March 2007, have been prepared in accordance with International Financial Reporting Standards (IFRS) for Interim Financial Statements (IAS 34). The Condensed Consolidated Interim Financial Statements include the Interim Financial Statements of Actavis Group hf. (the Company) and its subsidiaries, together referred to as the "Group".

Net profit, according to the Condensed Consolidated Interim Financial Statement, amounted to EUR 27.0 million for the period from 1 January to 31 March 2007. Total assets, according to the Interim Financial Statements, were EUR 2,735.0 million and equity amounted to EUR 890.2 million at the end of the period.

The acquisition of a controlling interest in Zio Zdorovje, a leading Russian pharmaceutical manufacturer, was completed at the end of January 2007. During February the Company finalized the acquisitions of a manufacturing plant from Grandix Pharmaceuticals and an API division from Sanmar Specialty Chemicals Ltd. in India.

The Board of Directors and President and CEO of Actavis Group hf. hereby confirm the Condensed Consolidated Interim Financial Statements of Actavis Group for the period 1 January to 31 March 2007 with their signatures.

Hafnarfjörður, 8 May 2007

## Board of Directors:

Björgolfur Thor Björgolfsson  
Chairman of the Board

Andri Sveinsson

Robert Wessman

Sindri Sindrason

Magnus Thorsteinsson

## President and CEO:

Robert Wessman

# Financial Ratios

| Consolidated statement                               |           | 1Q 2007   | 1Q 2006   | 2006      | 2005      | 2004    |
|--|-----------|-----------|-----------|-----------|-----------|---------|
| <b>Growth</b>  |           |           |           |           |           |         |
| Net sales.....                                       | EUR '000  | 371,729   | 333,056   | 1,339,189 | 551,384   | 424,596 |
| EBITDA.....  | EUR '000  | 79,311    | 72,497    | 287,134   | 148,471   | 113,759 |
| Profit from operations.....                          | EUR '000  | 53,534    | 50,041    | 197,583   | 106,512   | 88,466  |
| Net income.....                                      | EUR '000  | 27,000    | 31,859    | 102,689   | 81,003    | 64,282  |
| Total assets.....                                    | EUR '000  | 2,735,042 | 2,590,520 | 2,579,362 | 2,389,632 | 684,166 |
| <b>Operational performance</b>                       |           |           |           |           |           |         |
| Cash provided by operating activities.....           | EUR '000  | 6,443     | (4,686)   | 161,914   | 103,004   | 46,710  |
| - as ratio to total debt.....                        | %         | 0.4       | (0.3)     | 10.5      | 11.6      | 12.2    |
| - as ratio to net profit.....                        |           | 0.2       | (0.1)     | 1.6       | 1.3       | 0.7     |
| Working capital from operating activities.....       | EUR '000  | 36,151    | 52,141    | 204,122   | 109,079   | 92,116  |
| - as ratio to long-term debt and stockh. Equity..... | %         | 1.8       | 2.6       | 10.1      | 8.9       | 20.7    |
| <b>Liquidity and solvency</b>                        |           |           |           |           |           |         |
| Quick ratio.....                                     |           | 0.8       | 0.9       | 0.8       | 1.0       | 0.8     |
| Current ratio.....                                   |           | 1.2       | 1.4       | 1.3       | 1.6       | 1.2     |
| Equity ratio.....                                    | %         | 32.5      | 39.6      | 34.5      | 42.2      | 41.2    |
| <b>Asset utilization and efficiency</b>              |           |           |           |           |           |         |
| Total asset turnover.....                            |           | 0.1       | 0.1       | 0.5       | 0.4       | 0.7     |
| <b>Profitability</b>                                 |           |           |           |           |           |         |
| Operating profit as ratio to net sales.....          | %         | 14.4      | 15.0      | 14.8      | 19.3      | 20.8    |
| Net income before taxes as ratio to net sales.....   | %         | 9.3       | 12.0      | 9.5       | 16.6      | 17.7    |
| Net income for the period as ratio to net sales..... | %         | 7.3       | 9.6       | 7.7       | 14.7      | 15.1    |
| <b>Market</b>  |           |           |           |           |           |         |
| Value of stock.....                                  | EUR mill. | 2,884     | 2,345     | 2,279     | 2,236     | 1,387   |
| Price/earnings ratio, (P/E).....                     |           | 43.24     | 28.87     | 35.81     | 28.45     | 21.46   |
| Price/book ratio.....                                |           | 3.08      | 2.28      | 2.43      | 2.20      | 4.43    |
| Number of shares.....                                | Millions  | 3.369     | 3.355     | 3.369     | 3.355     | 2.994   |
| Earnings per Share, (EPS).....                       | EUR       | 0.00493   | 0.00589   | 0.01811   | 0.02551   | 0.02162 |
| Diluted Earnings per Share, (Diluted EPS).....       | EUR       | 0.00491   | 0.00587   | 0.01804   | 0.02548   | 0.02159 |

## Consolidated Interim Income Statement for the period 1 January to 31 March 2007

|   | Notes | 2007<br>1.1. - 31.3. | 2006<br>1.1. - 31.3. |
|---|-------|----------------------|----------------------|
| Net sales .....                           | 6     | 371,729              | 333,056              |
| Cost of sales .....                       |       | <u>(217,511)</u>     | <u>(195,362)</u>     |
| <b>Gross profit</b>                       |       | 154,218              | 137,694              |
| Other operating income .....              |       | 10,965               | 8,822                |
| Sales and marketing expenses .....        |       | (55,260)             | (46,995)             |
| Research and development expenses .....   |       | (21,369)             | (17,115)             |
| General and administrative expenses ..... |       | <u>(35,020)</u>      | <u>(32,365)</u>      |
|   |       | <u>(100,684)</u>     | <u>(87,653)</u>      |
| <b>Profit from operations</b>             |       | 53,534               | 50,041               |
| Financial income and (expenses) .....     | 7     | <u>(18,870)</u>      | <u>(10,032)</u>      |
| <b>Profit before tax</b>                  |       | 34,664               | 40,009               |
| Income tax .....                          | 8     | <u>(7,664)</u>       | <u>(8,150)</u>       |
| <b>Profit for the period</b>              |       | <u>27,000</u>        | <u>31,859</u>        |
| <b>Attributable to:</b>                   |       |                      |                      |
| Equity holders of the Parent .....        |       | 26,932               | 31,320               |
| Minority interest .....                   |       | 68                   | 539                  |
| Profit for the period .....               |       | <u>27,000</u>        | <u>31,859</u>        |
| <b>Earnings per Share</b>                 | 9     |                      |                      |
| Basic Earnings per Share (EUR) .....      |       | <u>0.00493</u>       | <u>0.00589</u>       |
| Diluted Earnings per Share (EUR) .....    |       | <u>0.00491</u>       | <u>0.00587</u>       |

## Consolidated Interim Balance Sheet as at 31 March 2007

|  | Notes | 31.3.2007        | 31.12.2006       |
|--|-------|------------------|------------------|
| <b>Assets</b>                                |       |                  |                  |
| <b>Non-current assets</b>                    |       |                  |                  |
| Goodwill .....                               | 10    | 963,982          | 936,052          |
| Other intangible assets .....                | 10    | 515,045          | 504,157          |
| Property, plant and equipment .....          | 10    | 422,706          | 398,333          |
| Deferred tax assets .....                    |       | 75,218           | 68,940           |
|  |       | <u>1,976,951</u> | <u>1,907,482</u> |
| <b>Current assets</b>                        |       |                  |                  |
| Inventories .....                            |       | 277,559          | 277,917          |
| Fair value derivatives .....                 |       | 0                | 2,142            |
| Trade and other receivables .....            | 11    | 391,833          | 313,511          |
| Cash and cash equivalents .....              |       | 88,699           | 78,310           |
|  |       | <u>758,091</u>   | <u>671,880</u>   |
|  |       | <u>2,735,042</u> | <u>2,579,362</u> |
| <b>Equity</b>                                |       |                  |                  |
| Share capital .....                          | 12    | 51,389           | 51,356           |
| Share premium .....                          |       | 593,112          | 590,833          |
| Other reserves .....                         | 13    | (149,949)        | (112,612)        |
| Retained earnings .....                      |       | 377,555          | 350,623          |
|  |       | <u>872,107</u>   | <u>880,199</u>   |
| Minority interest .....                      |       | 18,066           | 9,457            |
|  |       | <u>890,173</u>   | <u>889,656</u>   |
| <b>Liabilities</b>                           |       |                  |                  |
| <b>Non-current liabilities</b>               |       |                  |                  |
| Loans and borrowings .....                   | 14    | 991,213          | 989,728          |
| Retirement benefit obligation .....          |       | 19,059           | 18,487           |
| Obligations under finance leases .....       |       | 33,410           | 30,591           |
| Other long-term liabilities .....            |       | 82,720           | 46,547           |
| Deferred income tax liabilities .....        |       | 80,547           | 86,262           |
|  |       | <u>1,206,949</u> | <u>1,171,615</u> |
| <b>Current liabilities</b>                   |       |                  |                  |
| Loans and borrowings .....                   | 14    | 295,130          | 193,841          |
| Tax liabilities .....                        |       | 27,013           | 11,279           |
| Accounts payable and other liabilities ..... | 15    | 300,418          | 303,793          |
| Obligations under finance leases .....       |       | 5,990            | 4,660            |
| Provisions .....                             | 16    | 9,369            | 4,518            |
|  |       | <u>637,920</u>   | <u>518,091</u>   |
|  |       | <u>1,844,869</u> | <u>1,689,706</u> |
|  |       | <u>2,735,042</u> | <u>2,579,362</u> |

## Consolidated Interim Statement of Cash Flows for the period 1 January to 31 March 2007

|  | Notes | 2007<br>1.1. 31.3.   | 2006<br>1.1. - 31.3.  |
|--|-------|----------------------|-----------------------|
| <b>Cash flows from operating activities</b>  |       |                      |                       |
| Profit for the period .....  |       | 27,000               | 31,859                |
| Adjustments to reconcile net profit to net cash provided<br>by operating activities: |       |                      |                       |
| Depreciation of fixed assets .....   | 10    | 11,859               | 10,407                |
| Amortisation of intangible assets .....  | 10    | 13,918               | 12,049                |
| Currency fluctuations and indexation .....   |       | (8,610)              | (2,707)               |
| Changes in deferred taxes .....  |       | (9,663)              | (3,020)               |
| Other changes .....  |       | 1,647                | 3,552                 |
| Working capital provided by operating activities                                     |       | <u>36,151</u>        | <u>52,141</u>         |
| Changes in operating assets and liabilities:   |       |                      |                       |
| Inventories, decrease (increase) .....   |       | 278                  | (9,094)               |
| Receivables, increase .....  |       | (47,162)             | (38,183)              |
| Short-term liabilities, increase (decrease) .....                                    |       | 17,176               | (9,549)               |
| Changes in operating assets and liabilities  |       | <u>(29,708)</u>      | <u>(56,826)</u>       |
| <b>Net cash provided by operating activities</b>                                     |       | <u>6,443</u>         | <u>(4,686)</u>        |
| <b>Cash flows to investing activities</b>  |       |                      |                       |
| Investments in intangible assets .....   |       | (20,168)             | (12,313)              |
| Investment in property, plant and equipment .....                                    |       | (25,251)             | (20,360)              |
| Proceeds from sale of property and equipment .....                                   |       | 2,798                | 127                   |
| Investm. in subsidiaries and other companies net of cash acquired .....              |       | (40,277)             | (147,684)             |
| <b>Net cash used in investing activities</b>   |       | <u>(82,898)</u>      | <u>(180,229)</u>      |
| <b>Cash flows from financing activities</b>  |       |                      |                       |
| Increase in capital .....  |       | 0                    | 14,400                |
| Proceeds from long-term borrowings .....   | 14    | 654                  | 214,169               |
| Payments of long-term debt .....   |       | (14,251)             | (1,988)               |
| Changes in bank loans .....  |       | 102,233              | 651                   |
| Payments of finance lease obligations .....  |       | (1,025)              | 53                    |
| <b>Net cash provided by financing activities</b>                                     |       | <u>87,611</u>        | <u>227,285</u>        |
| <b>Net change in cash and cash equivalents</b>                                       |       | 11,156               | 42,370                |
| <b>Effects of foreign exchange adjustments</b>                                       |       | (767)                | (1,465)               |
| <b>Cash and cash equivalents at beginning of year</b>                                |       | <u>78,310</u>        | <u>99,308</u>         |
| <b>Cash and cash equivalents at end of the period</b>                                |       | <u><u>88,699</u></u> | <u><u>140,213</u></u> |
| <b>Other information</b>   |       |                      |                       |
| Interest paid .....  |       | (14,060)             | (4,853)               |
| Income tax paid .....  |       | (2,666)              | (3,906)               |

## Consolidated Interim Statement of Changes in Shareholders' Equity for the period 1 January 2006 to 31 March 2007

|   | Equity attributable to equity holders of the company |                      |                  |                   |                      |           |         | Minority<br>interest | Total<br>equity |
|---|--|----------------------|------------------|-------------------|----------------------|-----------|---------|----------------------|-----------------|
|   | Share capital  |                      | Share<br>premium | Other<br>reserves | Retained<br>earnings | Total     |         |                      |                 |
|   | Common<br>shares                                     | Preference<br>shares |                  |                   |                      |           |         |                      |                 |
| Balance at 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                |                 |
| Total income and expenses recognised<br>directly in equity..... |  |                      |                  | (87,865)          | 1,754                | (86,111)  | 0       | (86,111)             |                 |
| Profit for the period.....                                      |  |                      |                  |                   | 102,272              | 102,272   | 417     | 102,689              |                 |
| Total recognised income and expenses<br>for the period.....     | 0  | 0                    | 0                | (87,865)          | 104,026              | 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 / 1 January 2007.....               | 41,356   | 10,000               | 590,833          | (112,612)         | 350,623              | 880,199   | 9,457   | 889,656              |                 |
| Translation difference .....                                    |  |                      |                  | 2,097             |                      | 2,097     | (920)   | 1,177                |                 |
| Net income and expenses recognised<br>directly in equity.....   |  |                      |                  | 2,097             |                      | 2,097     | (920)   | 1,177                |                 |
| Profit for the period.....                                      |  |                      |                  |                   | 26,932               | 26,932    | 68      | 27,000               |                 |
| Total recognised income and expenses<br>for the period.....     | 0  | 0                    | 0                | 2,097             | 26,932               | 29,029    | (852)   | 28,177               |                 |
| Sales of treasury shares.....                                   | 33   |                      | 2,279            |                   |                      | 2,312     |         | 2,312                |                 |
| Written put options transferred as liability.....               |  |                      |                  | (39,924)          |                      | (39,924)  |         | (39,924)             |                 |
| Accrued stock option .....                                      |  |                      |                  | 490               |                      | 490       |         | 490                  |                 |
| Addition due to acquisition.....                                |  |                      |                  |                   |                      | 0         | 9,461   | 9,461                |                 |
| Balance at 31 March 2007.....                                   | 41,389   | 10,000               | 593,112          | (149,949)         | 377,555              | 872,107   | 18,066  | 890,173              |                 |



# Notes to the Consolidated Interim Financial Statements

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## 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 unaudited Condensed Consolidated Interim Financial Statements of the Company for the three-month period ended 31 March 2007 comprise the Company and its subsidiaries (together referred to as the "Group").

## 2. Basis of preparation

### Statement of compliance

These Condensed Consolidated Interim Financial Statements have been prepared in accordance with International Accounting Standard 34 (IAS 34), "Interim Financial Reporting", as adopted by the European Union. They do not include all of the information required for full annual Financial Statements, and should be read in conjunction with the Consolidated Financial Statements for the year ended 31 December 2006, as they provide an update of previously reported information.

The Consolidated Financial Statements of Actavis Group hf. for the year ended 31 December 2006 are available at [www.actavis.com](http://www.actavis.com) or [www.omxgroup.com](http://www.omxgroup.com).

### Basis of measurement

The Condensed Consolidated Interim Financial Statements are prepared on a historical cost basis, except for derivatives which are valued at fair value.

### Functional and presentation currency

These Condensed Consolidated Interim 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 the Condensed Consolidated Interim Financial Statements requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities at the date of the Interim Financial Statements. If in the future such estimates and assumptions, which are based on management's best judgement at the date of the Interim Financial Statements, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the period in which the circumstances change.

### Seasonality

The Group operates in an industry where significant seasonal or cyclical variations in total sales are not experienced during the financial year.

## 3. Significant Accounting Policies

The Condensed Consolidated Interim Financial Statements have been prepared in accordance with the accounting policies set out in the Consolidated Financial Statements for the year ended 31 December 2006, except for the adoption of new standards and interpretations, noted below.

- IFRS 7 Financial instruments, disclosure.
- 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.

These new standards and interpretations did not have any significant impact on the financial position or performance of the Group.

# Notes to the Consolidated Interim Financial Statements

## 4. 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:

|                   | 1Q 2007  | 2006     |
|-------------------|----------|----------|
| Average rates:    |          |          |
| EUR/GBP.....      | 1.490757 | 1.466706 |
| EUR/US\$.....     | 0.762660 | 0.795862 |
| EUR/ISK.....      | 0.011180 | 0.011395 |
| EUR/MTL.....      | 2.331546 | 2.332090 |
| EUR/TRY.....      | 0.541155 | 0.555401 |
| EUR/DKK.....      | 0.134194 | 0.134064 |
| Period end rates: |          |          |
| EUR/GBP.....      | 1.471021 | 1.491424 |
| EUR/US\$.....     | 0.749288 | 0.758668 |
| EUR/ISK.....      | 0.011380 | 0.010682 |
| EUR/MTL.....      | 2.332090 | 2.332090 |
| EUR/TRY.....      | 0.540774 | 0.538242 |
| EUR/DKK.....      | 0.134214 | 0.134133 |

## 5. Quarterly statements

|   | 1Q<br>2007 | 4Q<br>2006 | 3Q<br>2006 | 2Q<br>2006 | 1Q<br>2006 |
|---|------------|------------|------------|------------|------------|
| Net sales .....                           | 371,729    | 341,695    | 313,214    | 351,224    | 333,056    |
| Cost of sales .....                       | (217,511)  | (202,539)  | (184,989)  | (205,376)  | (195,362)  |
| <b>Gross profit</b> .....                 | 154,218    | 139,156    | 128,225    | 145,848    | 137,694    |
| Other operating income .....              | 10,965     | 8,488      | 10,592     | 12,830     | 8,822      |
| Sales and marketing expenses .....        | (55,260)   | (53,990)   | (46,832)   | (49,454)   | (46,995)   |
| Research and development expenses .....   | (21,369)   | (16,372)   | (13,011)   | (20,265)   | (17,115)   |
| General and administration expenses ..... | (35,020)   | (31,700)   | (32,428)   | (33,544)   | (32,365)   |
| <b>Profit from operations</b> .....       | 53,534     | 45,581     | 46,545     | 55,416     | 50,041     |
| Financial income/(expenses) .....         | (18,870)   | (7,461)    | (38,325)   | (14,509)   | (10,032)   |
| <b>Profit before tax</b> .....            | 34,664     | 38,121     | 8,220      | 40,908     | 40,009     |
| Income tax .....                          | (7,664)    | (5,581)    | (16)       | (10,821)   | (8,150)    |
| <b>Net profit</b> .....                   | 27,000     | 32,540     | 8,203      | 30,087     | 31,859     |
| <br>                                      |            |            |            |            |            |
| EBITDA .....                              | 79,311     | 69,548     | 65,702     | 79,387     | 72,497     |

# Notes to the Consolidated Interim Financial Statements

## 6. Segment reporting

### Geographical segments

#### Segment reporting for the period 1.1. - 31.3.2007

|                             | WEMEA   | CEEA    | USA     | Eliminations | Group    |
|-----------------------------|---------|---------|---------|--------------|----------|
| Total external revenue..... | 116,327 | 150,281 | 105,121 | 0            | 371,729  |
| Internal revenue.....       | 86,136  | 26,360  | 781     | (113,276)    | 0        |
| Total segment revenue.....  | 202,463 | 176,640 | 105,902 | (113,276)    | 371,729  |
| Segment results.....        | 12,367  | 22,190  | 26,858  | (7,882)      | 53,533   |
| Net financing cost.....     |         |         |         |              | (18,870) |
| Income tax.....             |         |         |         |              | (7,664)  |
| Profit for the period.....  |         |         |         |              | 27,000   |

#### Segment reporting for the period 1.1. - 31.3.2006

|                             | WEMEA   | CEEA    | USA     | Eliminations | Group    |
|-----------------------------|---------|---------|---------|--------------|----------|
| Total external revenue..... | 107,562 | 115,631 | 109,863 | 0            | 333,056  |
| Internal revenue.....       | 54,232  | 4,329   | 0       | (58,561)     | 0        |
| Total segment revenue.....  | 161,794 | 119,960 | 109,863 | (58,561)     | 333,056  |
| Segment results.....        | 7,729   | 23,980  | 24,884  | (6,552)      | 50,041   |
| Net financing cost.....     |         |         |         |              | (10,032) |
| Income tax.....             |         |         |         |              | (8,150)  |
| Profit for the period.....  |         |         |         |              | 31,859   |

### Management segments

#### Segment reporting for the period 1.1. - 31.3.2007

|                      | USA     | CEEA    | Third party | WEMEA  | Other | Group   |
|----------------------|---------|---------|-------------|--------|-------|---------|
| Revenue 1Q 2007..... | 108,877 | 157,146 | 35,882      | 79,742 | 1,047 | 382,694 |
| Revenue 1Q 2006..... | 113,014 | 117,525 | 37,913      | 71,814 | 1,613 | 341,878 |

Revenue according to Management segments consist of net sales and other income as stated in the Income Statement. In the Geographical segments other income is included in the segment results and not included with external revenue.

## Notes to the Consolidated Interim Financial Statements

### 7. Financial income and (expenses)

|   | 1Q 2007  | 1Q 2006  |
|---|----------|----------|
| <b>Interest income</b>                            |          |          |
| Interest on bank deposits.....                    | 257      | 271      |
| Other interest income.....                        | 0        | 1,304    |
|   | 257      | 1,575    |
| <b>Interest expenses</b>                          |          |          |
| Interest on obligations under finance leases..... | (525)    | (286)    |
| Interest on loans and borrowings.....             | (16,106) | (8,936)  |
| Other interest expenses.....                      | (854)    | (1,549)  |
|   | (17,485) | (10,772) |
| Foreign exchange rate differences (net).....      | (1,642)  | (835)    |
| Net financial income and expense.....             | (18,870) | (10,032) |

### 8. Income tax expense

The Group's effective tax rate increased to 22.1% from 20.4%. The main reason for the increase is explained by different geographical build up of profit before taxes between the periods.

### 9. Earnings per share

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

|   | 1Q 2007  | 1Q 2006  |
|---|----------|----------|
| Net profit attributable to equity holders.....  | 26,932   | 31,320   |
| Effect of accumulated premium on preferred shares.....                                | (11,151) | (11,585) |
| Net profit attributable to equity holders of common shares.....                       | 15,781   | 19,735   |
| <b>Basic earnings per common share:</b>   |          |          |
| Outstanding common shares at the beginning of year.....                               | 3,200    | 3,329    |
| Effect of treasury shares.....  | 1        | 24       |
| Total average number of common shares outstanding during the period (in million)..... | 3,201    | 3,353    |
| Basic Earnings per common Share (EUR).....  | 0.00493  | 0.00589  |
| <b>Diluted earnings per common share:</b>   |          |          |
| Outstanding common shares at the beginning of year.....                               | 3,200    | 3,329    |
| Effect of treasury shares.....  | 1        | 24       |
| Effect of stock options.....  | 11       | 12       |
| Total average number of common shares outstanding during the period (in million)..... | 3,212    | 3,365    |
| Diluted Earnings per common Share (EUR).....  | 0.00491  | 0.00587  |

## Notes to the Consolidated Interim Financial Statements

### 10. Goodwill, other intangible and tangible assets

|   | Goodwill       | Other<br>intangible<br>assets | Tangible<br>assets | Total            |
|---|----------------|-------------------------------|--------------------|------------------|
| <b>The year 2006</b>                            |                |                               |                    |                  |
| Opening net book amount 1 January 2006 .....    | 876,571        | 467,577                       | 362,254            | 1,706,402        |
| Currency adjustments .....                      | (33,019)       | (28,035)                      | (32,476)           | (93,530)         |
| Additions .....                                 | 0              | 59,355                        | 120,010            | 179,365          |
| Additions due to acquisitions .....             | 92,500         | 52,326                        | 7,790              | 152,616          |
| Sales and disposals .....                       | 0              | (714)                         | (16,048)           | (16,762)         |
| Depreciation, amortisation and impairment ..... | 0              | (46,353)                      | (43,197)           | (89,550)         |
| Closing net book amount 31 December 2006 .....  | <u>936,052</u> | <u>504,156</u>                | <u>398,333</u>     | <u>1,838,541</u> |
| <b>Three months ended 31 March 2007</b>         |                |                               |                    |                  |
| Opening net book amount 1 January 2007 .....    | 936,052        | 504,156                       | 398,333            | 1,838,541        |
| Currency adjustments .....                      | (1,269)        | (1,488)                       | (181)              | (2,938)          |
| Additions .....                                 | 8,783          | 21,127                        | 24,363             | 54,274           |
| Additions due to acquisitions .....             | 20,416         | 5,168                         | 14,073             | 39,657           |
| Sales and disposals .....                       | 0              | 0                             | (2,024)            | (2,024)          |
| Depreciation, amortisation and impairment ..... | 0              | (13,918)                      | (11,859)           | (25,777)         |
| Closing net book amount 31 March 2007 .....     | <u>963,982</u> | <u>515,045</u>                | <u>422,706</u>     | <u>1,901,733</u> |

Additions in goodwill amounting to 8.8 million EUR are due to earn-out payments relating to Amide and Keri Pharma.

#### Depreciation, amortisation and impairment losses

The depreciation, amortisation and impairment losses of other intangibles, tangible assets and goodwill, classified by operational category, is specified as follows:

|  | 1Q 2007       | 1Q 2006       |
|--|---------------|---------------|
| Cost of sales.....                       | 7,786         | 7,380         |
| Sales and marketing expenses.....        | 8,743         | 2,364         |
| General and administrative expenses..... | 5,318         | 10,025        |
| Research and development expenses.....   | 3,930         | 2,686         |
|  | <u>25,777</u> | <u>22,456</u> |

### 11. Trade and other receivables

|                                       | 31.3.2007      | 31.12.2006     |
|---------------------------------------|----------------|----------------|
| Trade receivables.....                | 309,545        | 232,150        |
| Other receivables.....                | 89,598         | 89,901         |
| Allowances for doubtful accounts..... | (7,309)        | (8,540)        |
|                                       | <u>391,833</u> | <u>313,511</u> |

A loan to the CEO amounting to EUR 2.4 million (31 December 2006: 2.3 million) is included in other receivables.

# Notes to the Consolidated Interim Financial Statements

## 12. Share capital

### Class A shares

The total number of class A common shares were 3,369,435,093 at the end of the period.

|  | Number of<br>shares in<br>thousands | EUR     |
|--|-------------------------------------|---------|
| 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 1 January 2007..... | 3,199,625                           | 41,356  |
| Sale of treasury shares.....                     | 2,949                               | 33      |
| Outstanding common shares at 31 March 2007.....  | 3,202,574                           | 41,389  |

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

|   | Number of<br>shares in<br>thousands | Ratio  | EUR    |
|---|-------------------------------------|--------|--------|
| Outstanding common shares at the end of the period..... | 3,202,574                           | 95.0%  | 41,389 |
| Treasury shares at the end of the period.....           | 166,861                             | 5.0%   | 1,854  |
| Total common stock issued.....                          | 3,369,435                           | 100.0% | 43,243 |

### Class B shares

The Company has outstanding 100 Class B preference shares each with a nominal value of EUR 100,000 (total EUR 10,000 thousand).

## 13. Reserves

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

|   | Translation<br>reserve | Stock option<br>reserve | Statutory<br>reserve | Total     |
|---|------------------------|-------------------------|----------------------|-----------|
| Balance at 1 January 2006.....                    | 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) |
| Translation difference.....                       | 2,097                  | 0                       | 0                    | 2,097     |
| Accrued stock options.....                        | 0                      | 490                     | 0                    | 490       |
| Written put options transferred as liability..... | 0                      | (39,924)                | 0                    | (39,924)  |
| Balance at 31 March 2007.....                     | (78,523)               | (72,376)                | 950                  | (149,949) |

# Notes to the Consolidated Interim Financial Statements

## 14. Loans and borrowings

|   | Total     |
|---|-----------|
| <b>The year 2006</b>  |           |
| Opening amounts at 1 January 2006.....                                | 888,433   |
| Additions due to acquisition.....                                     | 103       |
| New loans during the year.....  | 239,185   |
| Payments during the year.....   | (113,981) |
| Currency fluctuation and indexation.....                              | (16,027)  |
| Closing amount at 31 December 2006.....                               | 997,713   |
| Current maturities, included in loans and borrowings (see below)..... | (7,984)   |
| Non-current loans and borrowing.....                                  | 989,728   |
| <br><b>Three months ended 31 March 2007</b>                           |           |
| Opening amounts at 1 January 2007.....                                | 997,713   |
| Additions due to acquisition.....                                     | 8,210     |
| New loans during the period.....                                      | 654       |
| Payments during the period.....                                       | (8,588)   |
| Currency fluctuation and indexation.....                              | 324       |
| Closing amount at 31 March 2007.....                                  | 998,313   |
| Current maturities, included in loans and borrowings (see below)..... | (7,100)   |
| Non-current loans and borrowing.....                                  | 991,213   |

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

|   | 31.3.2007 | 31.12.2006 |
|---|-----------|------------|
| Current maturities of secured bank loans and borrowings ..... | 7,100     | 7,984      |
| Short term borrowings from credit institutions .....          | 288,030   | 185,857    |
|   | 295,130   | 193,841    |

## 15. Accounts payable and other liabilities

|   | 31.3.2007 | 31.12.2006 |
|---|-----------|------------|
| Accounts payable.....                                   | 137,459   | 132,959    |
| Other liabilities.....                                  | 159,050   | 165,229    |
| Current maturities of other long term liabilities ..... | 3,909     | 5,605      |
|   | 300,418   | 303,793    |

Presentation of certain other liabilities have been changed from prior year. Other liabilities payable in 2008-2011 have been reclassified from current liabilities to non-current liabilities. The comparative amounts have been changed accordingly.

## 16. Provisions

|  | Restruct-<br>uring | Other   | Total   |
|--|--------------------|---------|---------|
| At 1 January 2007 .....                      | 1,548              | 2,970   | 4,518   |
| Reclassified .....                           | 8,020              | 0       | 8,020   |
| Additional provision during the period ..... | 0                  | 963     | 963     |
| Utilisation of provision .....               | (1,323)            | (2,822) | (4,145) |
| Currency adjustments .....                   | 13                 | 0       | 13      |
| At 31 March 2007 .....                       | 8,258              | 1,111   | 9,369   |

# Notes to the Consolidated Interim Financial Statements

## 17. Acquisitions

During the period the Company completed the following subsidiary and asset acquisitions:

- Zio Zdorovje, a Russian pharmaceutical manufacturer. Controlling interest 51%.
- The API (Active Pharmaceutical Ingredient) division of the Indian pharmaceutical company Sanmar Specialty Chemicals Ltd.
- A manufacturing plant from the Indian pharmaceutical company Grandix Pharmaceuticals.

The initial accounting for the acquisitions have only been provisionally determined at the balance sheet date. The allocation will be completed prior to year end 2007.

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

|  | Acquiree's<br>carrying<br>amount | Fair value<br>adjustments | Preliminary<br>fair value |
|--|----------------------------------|---------------------------|---------------------------|
| Property, plant and equipment.....           | 14,073                           | 0                         | 14,073                    |
| Intangible assets.....                       | 0                                | 5,168                     | 5,168                     |
| Inventories.....                             | 2,925                            | 0                         | 2,925                     |
| Trade and other receivables.....             | 24,562                           | 0                         | 24,562                    |
| Cash and cash equivalents.....               | 335                              | 0                         | 335                       |
| Loans and borrowings.....                    | (8,210)                          | 0                         | (8,210)                   |
| Financial leases.....                        | (4,958)                          | 0                         | (4,958)                   |
| Deferred tax liabilities.....                | (23)                             | (1,240)                   | (1,264)                   |
| Account and other payables.....              | (6,538)                          | 0                         | (6,538)                   |
| Net identifiable assets and liabilities..... | <u>22,166</u>                    | <u>3,928</u>              | <u>26,094</u>             |
| Minority Interest.....                       |                                  |                           | (9,461)                   |
| Goodwill on acquisition.....                 |                                  |                           | 20,416                    |
| Total consideration.....                     |                                  |                           | <u>37,049</u>             |
| Cash acquired.....                           |                                  |                           | (335)                     |
| Net cash outflow.....                        |                                  |                           | <u>36,714</u>             |

## 18. Related parties

### 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 receivables. The loan bears market interest.

### Transactions and balances with other related parties

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



# Notes to the Consolidated Interim Financial Statements

## 19. Group entities

At the end of the period the Company owned three subsidiaries that are all included in the consolidation. The subsidiaries owned eighty-seven subsidiaries at the end of the period. 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 Group 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               |
| 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 International Ltd ....          | Malta       | 100%      | Trading                         |
| Actavis Exp International 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 EOO ....             | Bulgaria    | 100%      | Holding company                 |
| Balkanpharma Razgrad AD ....            | Bulgaria    | 98%       | Production                      |
| Balkanpharma Troyan AD ....             | Bulgaria    | 98%       | Production                      |
| Balkanpharma Security AD ....           | Bulgaria    | 100%      | Security services               |
| Balkanpharma Dubnitsa AD ....           | Bulgaria    | 98%       | Production                      |
| Balkanpharma Healthcare Int. ....       | Cyprus      | 100%      | Sales and Marketing             |

## Notes to the Consolidated Interim Financial Statements

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      |
| Zio-Zdorovje .....                | Russia      | 51%  | Production, S&M and R&D  |
| 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              |
| 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 İlaçları AŞ .....            | Turkey      | 100% | Production, S&M and R&D  |
| Henota a.s. ....                  | Czech Rep.  | 100% | Holding company          |

The acquisition of a controlling interest in Zio Zdorovje, a leading Russian pharmaceutical manufacturer, was completed in the end of January 2007. During February the Company finalized the acquisitions of a manufacturing plant from Grandix Pharmaceuticals and an API division from Sanmar Specialty Chemicals Ltd. in India.

At the start of the year NM Pharma ehf. and Actavis PTC ehf. merged and were renamed Actavis Group PTC ehf.

# Notes to the Consolidated Interim Financial Statements

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## 20. Subsequent events

The acquisition of Abrika Pharmaceuticals Inc., a US-based specialty generic pharmaceuticals company was completed in April 2007.

## 21. Approval of the Condensed Consolidated Interim Financial Statements

The Condensed Consolidated Interim Financial Statements were approved by the Board of Directors and authorised for issue on 8 May 2007.