actavis

creating value in pharmaceuticals

Annual report 2005

Actavis around the world

The Actavis Group is one of the world's leading players in the development, manufacture and sale of high-quality generic pharmaceuticals.

Actavis' acquisitions in 2005 have positioned the Group among the world's five largest companies in the industry. Founded in 1956, the Group has 10,000 employees operating in over 30 countries around the globe. Its headquarters are in Iceland. Actavis is a listed company on the Iceland Stock Exchange.

Product portfolio

Actavis offers one of the broadest product portfolios and strongest pipelines in the generics industry:

- 600 products on the market
- over 200 products under development and pending registration
- 30 ANDAs expected to be filed in the US market in 2006
- Products registered in more than 60 countries
- Over 150 product and market launches expected in Group markets in 2006.

Extensive sales network

The introduction of new products and markets remains a constant goal, and a growing sales network continues to increase accessibility to Actavis products. The Group has three sales and marketing divisions responsible for own-label products in distinct geographical areas, as well as operating one

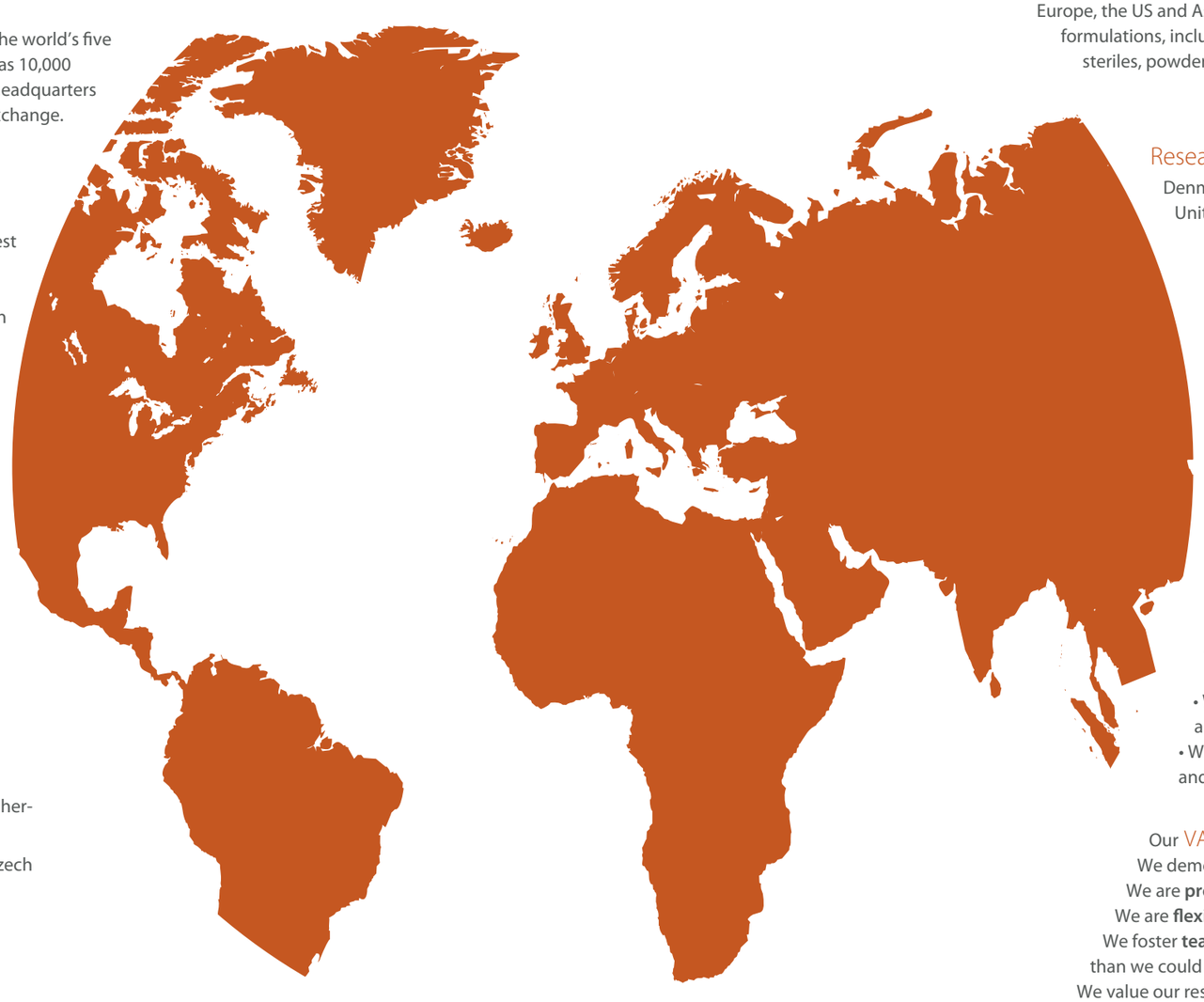
Sales & Marketing offices

US Sales: North America

WEMEA Sales: Africa, Austria, Germany, the Middle East, The Netherlands, Nordic region, Portugal, Switzerland, United Kingdom

CEEA Sales: Asia, the Balkans, the Baltics, Bulgaria, the CIS, the Czech Republic, Hungary, Poland, Russia, Slovakia, Turkey, the Ukraine

Third-party Sales: Germany, Iceland, United Kingdom



Manufacturing and Research & Development facilities

The Actavis Group maintains modern development and manufacturing facilities in Europe, the US and Asia. These plants produce a range of medicines in various formulations, including tablets, capsules, injectables, suppositories, sprays, steriles, powders, oral liquids and semi-solids.

Research & Development sites

Denmark, Iceland, India, Malta, North America, Turkey, United Kingdom

Manufacturing sites

Bulgaria, China, Iceland, India*, Indonesia, Malta, North America, Norway, Serbia, Turkey, United Kingdom

*contract manufacturing

Mission, vision, values

Our VISION is to be a leading company in the development, manufacture and sale of quality generic pharmaceuticals in the international market.

Our MISSION is to create value in pharmaceuticals.

- We create value for our customers by bringing first-class generics to market faster.
- We create value for our employees by providing a challenging and exciting workplace.
- We create value for our shareholders by running a profitable and fast-growing company.

Our VALUES

We demonstrate **ambition** in every thing we do.
We are **proactive**: we make things happen.
We are **flexible** enough to seize the opportunities around us.
We foster **teamwork** so that we may achieve more together than we could alone.
We value our resources and work **efficiently** every day.
We provide first-class **customer care**.

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Corporate responsibility

Actavis strategy

We persistently deliver new products from our strong pipeline.

Our expert regulatory teams are geared to bringing new products to market faster and smarter, guaranteeing a constant flow of the latest generics to our customers.

We have an assertive approach to expanding our portfolio through investment in advanced development facilities, acquisitions and in-licensing.

We have an aggressive approach to battling costs.

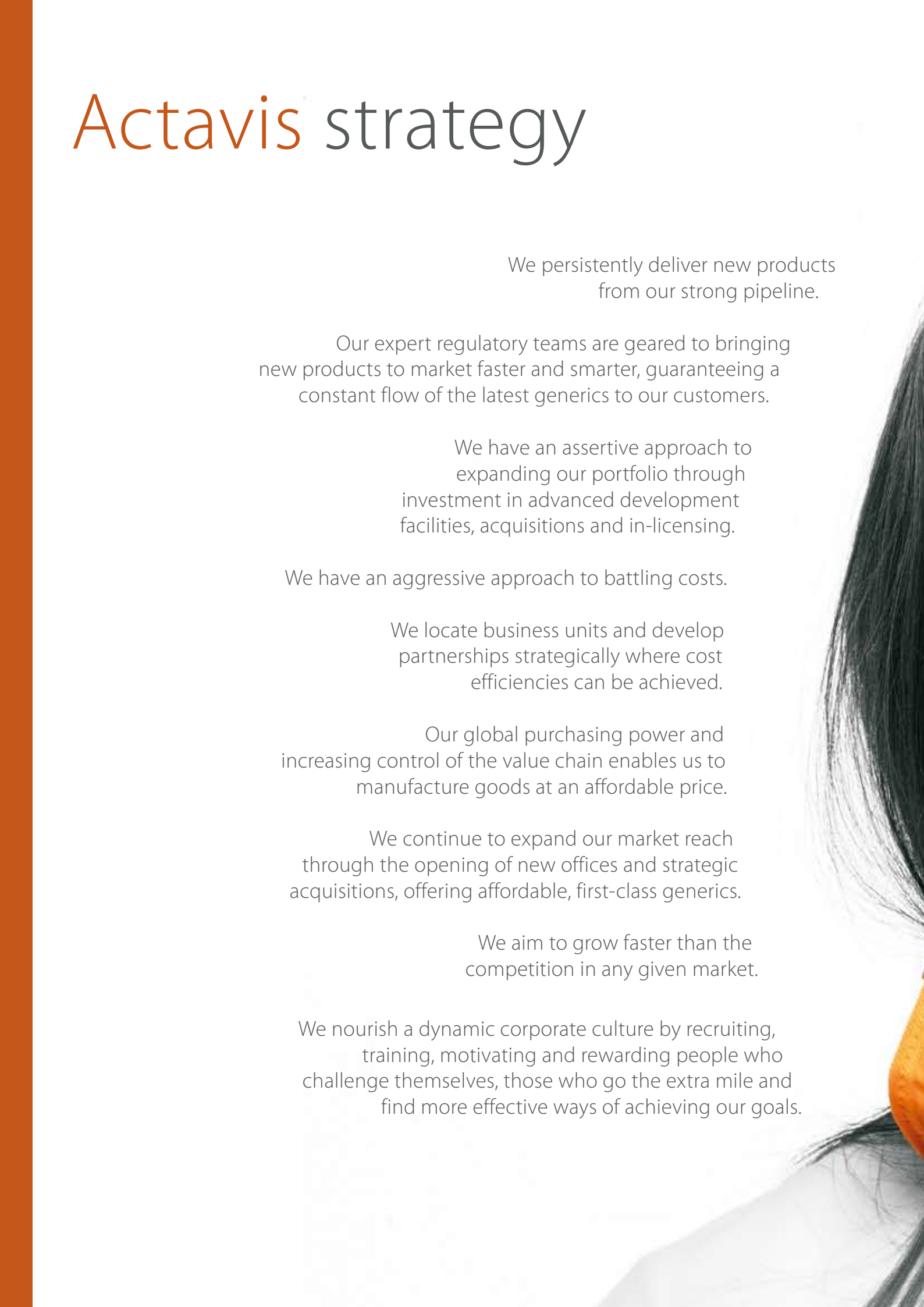
We locate business units and develop partnerships strategically where cost efficiencies can be achieved.

Our global purchasing power and increasing control of the value chain enables us to manufacture goods at an affordable price.

We continue to expand our market reach through the opening of new offices and strategic acquisitions, offering affordable, first-class generics.

We aim to grow faster than the competition in any given market.

We nourish a dynamic corporate culture by recruiting, training, motivating and rewarding people who challenge themselves, those who go the extra mile and find more effective ways of achieving our goals.



Highlights of the year

A global player

Actavis acquired the human generics business of the US-listed pharmaceutical company Alpharma Inc., thus realising its goal of becoming one of the world's top generics players. With complementary expertise in generics development, manufacture and sales, the newly enlarged company is now among the five largest companies in its field in terms of revenue.

Structured for growth

Actavis introduced a new organisational structure following the acquisition of the human generics business of Alpharma. The structure is based on four revenue streams representing the sales units and four revenue enablers. Their role is to finance, develop and manufacture the Group's products. The Operations functions are split by geographic region.

Portfolio expansion

In a record year for product launches, Actavis' two own-label sales divisions, International and US sales, delivered a total of 70 new products and new market launches (63 and seven respectively). Actavis' Third-party division launched nine new products to market and 34 existing products into new markets.

CEE network grows

As part of its expansion strategy in Central and Eastern Europe, Actavis acquired three new businesses: Higia AD, the largest pharmaceutical distributor in Bulgaria; the generics arm of Keri Pharma in Hungary; and the Czech and Slovakian company Pharma Avalanche. By providing the Group with a strategically important foothold in the respective countries, these acquisitions present clear opportunities to register and launch Actavis products in new markets and launch new products into existing Actavis markets.

US launch pad – acquisition of Amide

A major milestone on the road to growth was achieved with the acquisition of the US generics company Amide. The deal brings together two premier generics companies with complementary strengths in Europe and the US, propelling Actavis into the world's largest generics market.

Record levels of acquisition financing US$2.7 billion

Actavis raised record levels of acquisition financing to fund the acquisition of Alpharma Inc. Human Generics Division in 2005 and to refinance the Group's June 2005 syndicated credit facility. The Group financed roughly US$2.7 billion from various sources. As the biggest capital-raising exercise ever held by Actavis, the Company raised US$1.3 billion in a syndicated loan facility in December 2005.

Building a platform in India

Actavis acquired the Indian Contract Research Organisation Lotus Laboratories and announced a strategic collaboration with Emcure Pharmaceuticals, which will manufacture a number of Actavis drugs for the US market. Lotus specialises in the management of clinical trials and, in March 2006, Actavis opened new premises for the organisation, further expanding its capabilities. Delivering high quality from a low-cost base, these developments are expected to lower R&D and manufacturing costs, supporting progress in the US market in particular.

Business award

In February 2006 Actavis was awarded Iceland's most prestigious business award, the 2006 Knowledge Award, for the second time. This year the award focused on excellence in strategic planning and implementation. Actavis also received this award in 2004.

The colour of quality

From the factory to the board room, Actavis is dedicated to the delivery of first-class products and services.

Setting the pace

Chairman's statement

Global demand

The world is witnessing a sustained increase in demand for affordable, high-quality pharmaceuticals, with the global generics market expected to grow by around 12% per annum until 2010.

Greater levels of economic stability in new and emerging markets, coupled with intensifying pressures on many governments to reduce health-care spending, are just two of the factors driving this trend.

Actavis has remained alert to the opportunities this scenario presents, and continues to set the pace for industry developments. Generic drugs are now an important aspect of all principal pharmaceutical markets, and growth rates in this sector are much higher than for branded pharmaceuticals. The aging demographics of certain regions and the number of patent expiries scheduled for the coming years are among other forces acting in Actavis' favour. Almost 40 major drugs are expected to come off patent between now and 2010, leading to substantial growth in the generics market.[1]

In 2004 the total world market for generic prescription drugs was US$39.6 billion, a figure estimated to exceed US$83 billion in 2010. The high growth levels for generics become more important when put into context with the branded drug market, which is not expected to exceed 5-7% annual growth until 2010.[1]

Integration success

In 2004 Actavis spelt out its commitment to external growth and the importance of making its presence felt on the international scene. Actavis is a company that achieves its goals. In 2005 the Company entered the US market, taking two big steps at rapid intervals. The acquisitions of Amide and Alpharma's human generics businesses have truly awakened people to Actavis' intentions and abilities.

Not content only to celebrate external growth that advanced Actavis' ranking from the twelfth to one of the five largest companies in its field at the year end, the business also delivered a 26.0% increase in net profits for 2005. This capacity to improve operations while taking on new companies reflects the considerable talent Actavis has for skilful integration.

The Group's integration strengths across countries and across cultures enable it to capitalise on opportunities to secure expertise or resources from one place and identify a market for these elsewhere. Tying such potential together is helping to drive down Actavis' costs, expand the Company's reach, and keep it one step ahead of the competition. In quite a short time Actavis has also been able to build a very successful company culture, with active management participation in a clear corporate strategy and vision.

Sustainable growth

Actavis has a strong track record in realising its ambitions. There is a stay-hungry element running from the factory floor to the Board room, which means that when the Company reaches its goals, it immediately sets higher ones.

The Group's Board and executive team work very closely together, allowing speedy decisionmaking at every level. Streamlined, like the rest of the organisation, the Board remains vigilant and supportive, acting as a partner to management. Instead of growing bigger and more bureaucratic, the Actavis Board has evolved in line with the Company, able to respond at short notice and take decisive action. Clearly the Company's responsibilities are also growing in line with the business, and the emphasis on good corporate governance continues to increase.

Investing in innovation

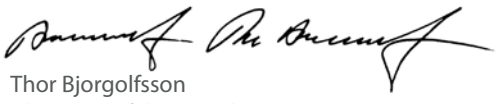
Growing demand, a global perspective, and the chance to influence through innovation are powerful investment criteria. Actavis' relentless pursuit of excellence in these areas has produced a self-fulfilling and self-fuelling engine. It has built up incredible momentum, creating value for all those it serves through the delivery of affordable medicines for millions of people.

The recent agreement on the syndicated loan facility for US$1.3 billion was an important validation of Actavis' performance by international investors and a source of immense pride for the Company.

Looking ahead, the key issue for Actavis in 2006 is stamina. The Company has been moving fast in a rapidly consolidating industry where things are happening quite quickly. Performance-wise, there is more of the same for the year ahead. Actavis intends to continue setting the pace in this global race, and that takes stamina, vision and teamwork.

So it is not by chance that Actavis employs a strong, international team of people who are comfortable breaking boundaries. It is their imagination, courage and pure hard work that has brought the Company to where it is today. For this, the Board of Directors thanks them wholeheartedly. Together, we are proud to have been at the vanguard of numerous corporate activities in our industry and our home countries for several years.

Actavis remains as it always has been, committed to improving all aspects of its business for the benefit of our consumers, employees and shareholders. Together we have a healthy future.



Thor Bjorgolfsson
Chairman of the Board

[1] Source: World's Top Ten Generic Companies, by Visiongain 2005

Building a global leader

Chief Executive's letter to shareholders

2005 was a year to be proud of for many reasons, not least because it marked the biggest transformation in our business to date in terms of financial performance, geographic spread and the further expansion of our product portfolio. It was the year in which we continued to deliver on our aggressive growth strategy and remain highly profitable. Our financial results were driven by expansion into new markets, by new product introductions, and by continuous efforts to enhance our low-cost production capabilities.

A record year

Actavis delivered an outstanding performance in 2005, in terms of both growth and profits. Our revenue grew 27.8% to EUR579.3 million. Underlying revenue was up 4.3%, to EUR579.3 million and, on a pro-forma basis, taking into account the contributions from Amide and Alpharma, total revenue was EUR1.3 billion. Our net profit in 2005 increased by 26.0% to EUR81.0 million, and our EBIDTA level remains one of the highest in the industry at 25.6%. In comparison to the year 1999, when our revenue was EUR57 million, these figures demonstrate how far Actavis has come in the six years since we first formulated our growth strategy.

While delivering its best financial performance to date, Actavis also undertook a record number of acquisitions in one year. Ranging from laboratories to sales and marketing offices and manufacturing sites, we acquired a total of eight companies in 2005. Although the acquisitive nature of our growth strategy has been a factor in our achievements, our ongoing focus on lowering costs and increasing market share through a consistent stream of new products has also contributed to this strong performance.

United in all key markets

We are realising our vision, becoming one of the global leaders in generic pharmaceuticals. Actavis is now ranked among the top five players in the industry in terms of revenue and market reach. The most significant milestone in our geographic expansion last year was the strong foothold we secured in the US, the world's largest generics market. Our acquisitions of Amide Pharmaceuticals and the human generics division of Alpharma Inc. in North America mean that the Group now generates over a third of its sales in that region.

Last year the Actavis Group unveiled its global own-label network with a consolidated and structured management team. The expansion, driven by strategic acquisitions, will now enable Actavis to compete in all key markets. Over the past year we have consolidated our subsidiaries into the Group's structure and united them under the Actavis brand name in order to manage our growth effectively and enhance our ability to realise acquisition synergies. This clear structure and common brand has created a platform for a shared vision and a strong performance-driven culture.

The systematic execution of our strategic initiatives has played an important role in our success. Operating in a highly competitive and price-sensitive environment, we have continued to expand our market scope to reduce risk and dependence on certain markets. We have also maintained an aggressive programme of new product introductions into our existing markets by expanding our product portfolio through our own development focus and in-licensing opportunities. In addition to entering the US market, we have strengthened our own-label sales operation in Central and Eastern Europe and intensified our sales efforts to third-party customers in France and Southwestern Europe.

At the heart of our operations, a string of modern and strategically located manufacturing facilities plays an integral role in our business by guaranteeing our ability to satisfy customer demand for quality and cost-effectiveness. We are systematically boosting our low-cost production capabilities across the Group through continued investment in manufacturing facilities in Malta, Bulgaria and Serbia, and through contract manufacturing initiatives in India and Asia. The acquisition of Lotus Laboratories in India has enabled us to leverage our product testing and development costs still further. All of this enhances our ability to develop, manufacture and introduce first-class generic products faster and into more markets than ever before.

A growing portfolio – the key to value creation

Actavis has one of the broadest product portfolios and strongest pipelines in the generics industry today. We have more than 600 products on the market and a further 200 products under development and pending registration. We believe that our commitment to deliver faster and better access to a wide range of products will continue to differentiate us from our competitors.

Around 110 new product and market launches were executed in 2005. In addition to the Company's own development, more than 20 products were in-licensed.

Sales of Actavis' own-label products grew by 22.5% in 2005, with US sales at the year end accounting for 11.1% of Group revenues. This was the first year when new products were launched globally under the Actavis name, strengthening the brand and enhancing consumer recognition. Rapid growth was experienced in Russia, the Ukraine, the CIS countries and Serbia. Furthermore, the integration of the Alpharma sales network into the Actavis Group has opened up new markets for our products in Western Europe and Asia.

Structured for growth – geared for action

During the year we adjusted our organisational structure to maximise its fit with our business strategy, enhancing our adaptability and creating an environment of clear roles and responsibilities.

Our aim is to ensure that we have an effective business model that is capable of achieving growth at every level. At the same time, we want to integrate acquired companies quickly and successfully. Our focus is on the execution of strategy, which is why we keep things simple. Our strategy, emerging from the joint efforts of local and global teams, is clearly communicated. Our structure and performance systems are designed to foster action and proactive behaviour. We actively seek and recruit people who can initiate changes rather than merely adapting to changes in our environment. Our job is to make things happen.

A talented team

Rapid growth has enabled us to pool the resources of an extremely talented and flexible team of managers. Last year we welcomed several new faces to our executive team: Mark Keatley joined us from Famar SA, a leading European contract manufacturer of pharmaceuticals, to become our Chief Financial Officer and Executive Vice President of IT.

Heading up new sales divisions are Jonas Tryggvason, Executive Vice President of Central-Eastern Europe and Asia Sales, and Svend Andersen, Executive Vice President of Western Europe, Middle East and Africa Sales. Jonas has been working with Actavis since 2003, first in business development and then leading Actavis' sales and marketing functions in Russia and the CIS countries. Svend joined the Group from Alpharma, where he managed a similar region for the company. Elin Gabriel, also from Alpharma, is now Executive Vice President of Operations in Western Europe and the US. Elin had served previously as Vice President, Global Supply Chain.

An exciting future

Actavis is well positioned to seize the numerous opportunities available to it and maintain and build upon its leading role in an increasingly aggressive competitive arena. Our production capacity is greater than it has ever been, and last year we made three tablets for every man, woman and child on the planet. Our financial outlook is strong, with sales for 2006 expected to be in the region of EUR1.3 billion. We hope to deliver 150 new product and market launches over the next 12 months, 15 of them in North America. And we expect to file another 30 ANDAs*.

At the heart of our success is an incredible team of people around the world who design and execute the tasks that are central to our ambitions. My thanks go to these highly focused, driven and ambitious people who continue to navigate their way through new and challenging waters. Actavis' 2005 performance is a testament to their skill and hard work.

Today Actavis is one of the most innovative and fast-growing companies in the industry, but we have much more to do, and 2006 will be about getting to the next level. We will continue to look for acquisitions that complement our Group and add to our product portfolio, enhance our geographic spread, build upon our R&D capabilities, reduce manufacturing costs, and increase our purchasing power. At the same time, we will invest in and expand the underlying business, enhancing our brand recognition. We are determined to build a global leader that creates value for our investors, customers and employees alike.

Róbert Wessman
President & CEO

*Abbreviated New Drug Application, for US market

Financial report

Actavis' results for 2005 include a first-time contribution from the Group's North American business, which is made up of Amide Pharmaceuticals ("Amide") and the human generics division of Alpharma Inc. ("Alpharma"). Amide was incorporated into the Group accounts from 1 July 2005 and Alpharma from 19 December 2005. In the following analysis, the impact from the generics business of Alpharma is excluded, except as otherwise stated.

Trading results

Actavis Group's revenues increased 24.9% to EUR566.2 million for the year 2005 (2004: EUR453.2 million). Own-label sales increased 22.5% to EUR294.1 million in 2005 (2004: EUR240.2 million). Third-party sales decreased by 9.1% to EUR149.7 million (2004: EUR 164.8 million). The Group's underlying growth in revenues was 4.3%, excluding contributions from acquisitions. The US division reported sales of EUR62.9 million, following the incorporation of Amide into Group's accounts from 1 July 2005.

Expenses

Operating expenses for 2005 increased 24.9% to EUR455.5 million and totalled 80.4% of total revenues, compared to 80.5% in 2004. Cash expenses (excluding depreciation and amortisation charges) increased by only 22.4%, resulting in an increased EBITDA margin of 1.5 percentage points between 2004 and 2005.

The average gross margin was 50.5% but was 47.0% in 2004. Cost of goods sold as a percentage of total revenues was 47.0%, down from 49.6% in 2004, as a result of the consolidation of Amide's higher-margin products and the impact of increased manufacturing output from the Maltese manufacturing plant. Sales and marketing expenses decreased as a percentage of revenues to 13.9% for the full year. General and administrative expenses increased as a percentage of revenues to 10.3% for 2005 (2004: 8.7%), including expenses of EUR5.0 million related to acquisitions, as well as EUR2.5 million in integration and restructuring costs related to the acquired companies.

R&D expenses increased as a percentage of revenues to 9.2% for 2005 (2004: 7.1%), to EUR52.1 million. Higher R&D expenses in 2005 were mainly due to the amortisation of intangible assets that were allocated from the goodwill of acquired companies. Total R&D spending was EUR92.1 million for the full year, EUR52.1 million expensed and EUR40.0 million capitalised.

Earnings

Earnings before interest, tax, exceptional items, depreciation and goodwill amortisation totalled EUR150.7 million (2004: EUR113.8 million), representing a record EBITDA margin of 26.6% for the full year (2004: 25.1%). The increase in EBITDA was driven by a strong contribution from the US division, a good performance in own-label markets, and a higher volume of production from Actavis' low-cost manufacturing site in Malta.

Profit before tax

Profit before tax was EUR94.5 million for the full year, an increase of 26.1% from 2004. Net profit for 2005 increased 28.9% to EUR82.9 million (2004: EUR64.3 million) in the prior year. After-tax earnings per share ("EPS") increased 20.8% to EUR0.02612 in 2005 (2004: EUR0.02162).

Assets

At the end of the year, the Group's total assets (including the consolidation of Alpharma) amounted to EUR2,368.9 million, an increase of 246.2% from 2004. The Group's current ratio was 1.64 at the year end.

Shareholders' equity and liabilities

For the whole Group (including the consolidation of Alpharma), shareholders' equity increased during the year to EUR997.3 million (from EUR281.8 million at the year end 2004) as a result of an increase in retained earnings and the issuance of EUR263.0 million of ordinary shares and EUR369.0 million in preferred shares in connection with the acquisition of Amide and Alpharma respectively. Total debt increased to EUR908.3 million (from EUR299.9 million at year end 2004) as a result of new facilities to finance the acquisitions.

Key ratios

	Actavis Stand-alone	Alpharma Unit	Enlarged Actavis	Actavis	
Thousands of Euro	**2005**	**From 19/12**	**2005**	**2004**	**% Change**
Total revenue	566,242	13,022	579,264	453,212	27.8%
EBITDA	150,702	(2,231)	148,471	113,759	30.5%
EBITDA %	26.6%	(17.1%)	25.6%	64,282	
Net profit	**82,875**	**(1,873)**	**81,003**	**64,282**	**26.0%**

Actavis Group pro-forma

	EURm
Operating revenue	1,271.7
EBITDA	272.1
EBITDA %	21.4%
EBIT	198.3
Net profit	133.9

Includes Amide and the Human Generics Business of Alpharma for the full year

Exceptional items

Net interest expense was EUR19.2 million. Financial items also included the write-off of EUR4.6 million of fees relating to the syndicated loan that was refinanced as part of the Alpharma acquisition, favourable FX movements of EUR7.7 million, and the write-down of EUR1.7 million of investments in unquoted companies.

Earnings per share

After-tax earnings per share increased 18% for the whole year (including the consolidation of Alpharma) to EUR0.02551 (2004: EUR0.02162). The corporate tax for companies resident in Iceland is 18%.

For the 2005 full year, the Group's tax charge was EUR11.7 million, and the effective tax rate was 12.3% (2004: 14.3%). The Group's effective tax rate in 2005 decreased slightly from the previous year as a result of increased revenues generated in Malta, which were subject to a lower tax rate. The tax charge was further reduced by an increase of EUR11.9 million in deferred tax assets in Malta as a result of the Group's continued investment there.

Cash flow

Net cash flow from operating activities in 2005 was EUR103.0 million, an increase of 120% from 2004. Capital expenditures ("CAPEX") for the full year totalled EUR98.7 million, including reflecting investments in development projects and in-licensing of EUR40.0 million and in fixed assets of EUR58.7 million. The major fixed-asset investments were in Bulgaria, Iceland, Malta and the US. The Group had a net free cash flow for the year of EUR4.6 million.

Dividend and shareholders' funds

In 2005 the Company's Board of Directors proposed and accepted a payment of a final dividend of 10% of outstanding shares, amounting to 5.1% of the after-tax profit for 2004, which totalled EUR3.6 million. The final dividend was paid on 7 April.

Investments

The Group's investing activity amounted to EUR961.2 million during the year. Capital expenditure in 2005 was EUR58.7 million, or 10.1% of total revenue. The principal areas of investment during the year were the manufacturing sites in Iceland, Malta, Bulgaria and the US. The Group acquired eight new companies in 2005. In February 2005 the Group finalised the acquisition of Biovena. In April 2005 the Group acquired the Indian research and development company Lotus Laboratories and the Czech company Pharma Avalanche, which specialises in the sale and marketing of generic pharmaceuticals. In September 2005 the Group acquired the Bulgarian company Higia AD, a large distributor of pharmaceuticals in Bulgaria, and the sales and marketing company Keri Pharma in Hungary. In November 2005 the Company acquired the Danish company Ophtha A/S, which specialises in the sales and marketing of generic pharmaceuticals. The Group established a strong foothold in the US generic market through the acquisition of Amide Pharmaceuticals in May 2005 and the human generic business of Alpharma Inc. in October 2005.

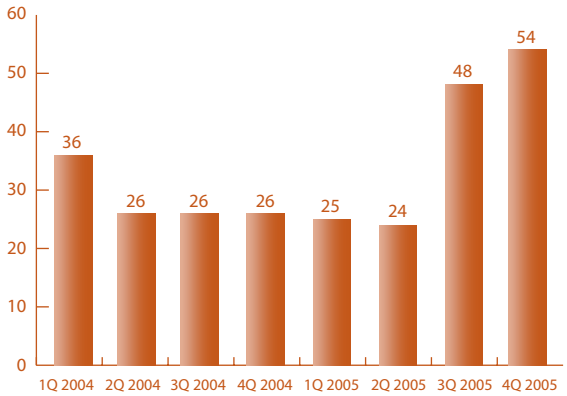
Implementation of IFRSs

The Group's financial statements are prepared in accordance with the International Financial Reporting Standards (IFRSs). The Group's financial statements have previously been prepared in accordance with the Act on Financial Statements and generally accepted accounting principles in Iceland. The change in the Group's stockholders' equity at 1 January 2005, as a result of the implementation of IFRSs, is an increase amounting to EUR5.9 million.

An explanation of how the transition from previous GAAP to IFRSs has affected the Group's financial position and financial performance was set out in a Press Release on 26 May 2005.

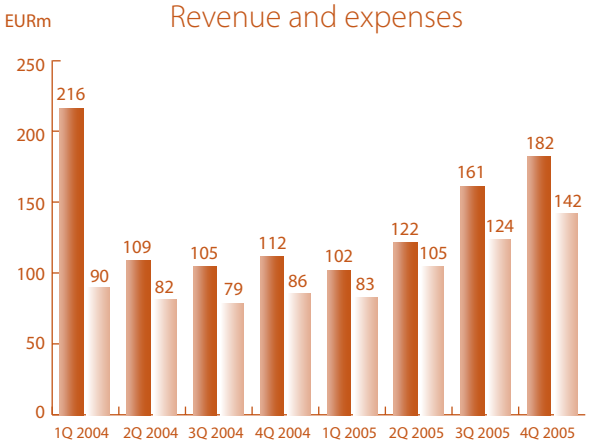
The effect of IFRSs on the Corporate accounts is explained further in Notes to the consolidated financial statements, Note nr. 30.

EBITDA



Figures are before the acquisition of Alpharma

Revenue and expenses



The colour of internationalism

Its global strength firmly anchored in local roots, Actavis is adaptable, agile and responsive to customer needs.

Sales & marketing

Delivering a fully integrated management team that shares a common strategy and philosophy, Actavis continued the consolidation of its own-label sales & marketing network to great effect in 2005. The Company maintained healthy revenue from the sale of intellectual property and products to third parties.

Actavis successfully introduced its brand in 2004, subsequently achieving its goal to unite its own-label operations financially and strategically in 2005. This global fusion of approach and vision, together with continued rapid growth in numerous markets last year, is now catered for in three revenue streams that are responsible for sales and marketing in defined geographic areas and are complemented by a Third-party sales division.

Organic and external growth continues to extend the Group's reach, an expansion that will be accommodated simply and efficiently by Actavis' new organisational structure, which was defined and implemented last year.

The US division was created in July 2005. The sub-division of other international markets into two further divisions occurred late in the year; therefore, performance is not reported separately for 2005.

* WEMEA: Western Europe, Middle East and Africa
** CEEA: Central & Eastern Europe and Asia

Sales & marketing International

The division performed strongly in 2005, increasing revenue by 22.5% over the previous year and contributing EUR294.1 million, just over 50% of total Group revenue, not including Alpharma.

Sales & marketing International sells products developed by Actavis and those that have been in-licensed from other companies. Key markets include Turkey, Russia, the Ukraine and the Commonwealth of Independent States (CIS), Bulgaria, Serbia, the Baltics and the Nordic region.

An intensive product rebranding programme was rolled out over the course of last year, with all new own-label products launched in the Actavis brand. The division delivered 63 new product and market launches during the year.

The acquisition of the Polish pharmaceutical company Biovena was finalised at the start of the year. Higia AD, the largest pharmaceutical distributor in Bulgaria; the generics arm of Keri Pharma in Hungary; and the Czech company Pharma Avalanche all present clear opportunities to register and launch Actavis products in new markets. And in September, the acquisition of the Danish company Ophtha further strengthened the division's distribution network in Northern Europe.

Actavis' largest acquisition of the year was the human generics business of Alpharma in December. The acquisition included Alpharma's sales and marketing operations across Europe as well as in the US. Principal markets in Europe include the Nordic region, Germany, the UK, Portugal and The Netherlands.

Please see the "Acquisitions and divestments" chapter for more information and the rationale of the above acquisitions.

Strong performance in key markets

Results in **Turkey** showed over 30.9% growth from 2004, contributing 36.7% of own-label sales for 2005. After having addressed a number of performance issues since the Fako acquisition at the start of 2004, Actavis has been able to utilise the strength of its Turkish business in other markets. The emphasis last year was on reshaping the business' product portfolio, the benefits of which are yet to be felt due to the slow regulatory process in Turkey. Underlying growth was 13.8% despite mandatory price decreases in the Turkish market (11% in Q1 and 9% in Q2). Volume increases were noted on most products, and top sellers included the antibiotic products Cravit and Oraceftin.

A consistently high and above-forecast level of growth was the hallmark of **Russia**, the **Ukraine** and the **CIS** throughout 2005. Revenue of EUR58.1 million showed a growth of 21.7% compared to 2004, reflecting five new product launches and a strong increase in sales across the region. Russia is predominantly a branded generics market with strong customer loyalties; hence Actavis' successful focus last year was on increased promotion and branding activities to strengthen brand awareness. Key growth drivers were the cardiovascular drugs Troxevasin and Adrianol and the combined analgesics Sedalgin-Neo and Benalgin. The Ukraine's results were boosted by the effectiveness of the company's medical representatives and successful co-operative efforts with major distributors.

While Actavis remains the leading generic pharmaceutical company in **Bulgaria**, with a 10.5% market share, revenue was on a par with 2004 in the country, following a difficult year in this market for a number of reasons. Earlier in 2005, part of the Razgrad plant – the unit that produces active pharmaceutical ingredients, primarily for veterinary products – was sold, allowing Actavis to focus on its core business. Shake-ups and consolidation in the distribution sector continued throughout the year, which had repercussions for the industry and prompted Actavis' acquisition of Higia AD, the largest pharmaceutical distribution company in the country. Finally, Bulgaria is just starting the transition towards EU membership, with consequential implications on the regulatory front.

Sales in **Northern Europe** (including Iceland, Denmark, Sweden, Finland and Norway) and the Baltics increased 18.7% overall last year compared with 2004, contributing EUR34.8 million, or 11.8% of the division's total revenue. Launches of new products in the region fuelled the growth.

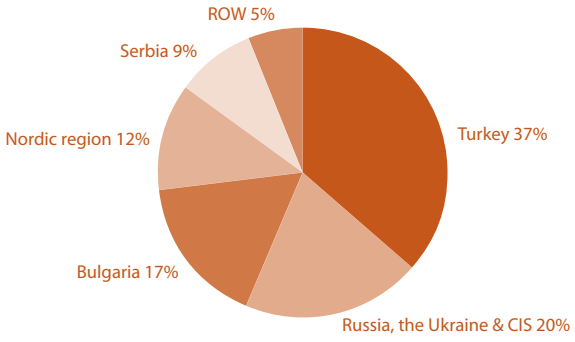
Sales by volume were on target in **Serbia** and the **Balkans** last year, although negatively affected by exchange and inflation rates. Revenue increased by 9.6% on the previous year to EUR26.9 million. Strong fieldwork and improved brand awareness contributed to this result, along with a government contract secured in Q2. Actavis has 97 products on the market in Serbia, where it is currently the third-largest generics company, with around 15% market share.

Europe, Middle East and Africa

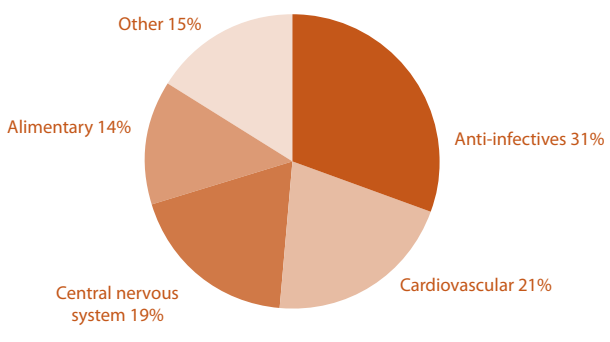
A number of new European markets for Actavis combine with existing own-label territories in Europe, the Middle East and Africa to create exciting opportunities for 2006. Significant progress has been made in key account management, as well as streamlining the organisation and portfolio for this division. Substantially increased sales & marketing activities for over-the-counter "OTC" generics and proprietary prescription brands are expected to deliver good levels of continual growth over the next 12 months in all areas, supported by timely product launches and, particularly in the Nordic region, a revitalised OTC portfolio.

Business in what were previously Alpharma's markets (Portugal, the Netherlands, the UK, Germany, and a strong position in all four Nordic markets) experienced a tremendous turnaround last year as a result of significant cost take-out and a much-increased number of product launches. This trend is expected to continue in 2006, boosting Actavis' results in these markets.

Own-label sales by market



Own-label sales by therapeutic classes



Central & Eastern Europe and Asia

Continued growth is expected across Central Eastern Europe and Asia. Healthy growth is expected in Turkey over the next 12 months as product portfolio restructuring begins to pay returns. Also utilising the diversity of the Group-wide portfolio and manufacturing facilities, Russia, the Ukraine and the CIS anticipate a number of new products and new launches for 2006, after filing 59 registrations in 2005. Development plans for every market show the potential for strong growth.

Sales in Bulgaria are expected to maintain their position as EU accession approaches and consolidation of the recently acquired distribution company Higia is completed.

The impact of last year's three acquisitions in Central Europe will be felt in 2006, with a number of product launches, of both Actavis development products and in-licensed products. Actavis' bases in Poland, the Czech Republic, Slovakia and Hungary form a solid platform for expansion across the region, exploiting the Group's enlarged portfolio of products to the fullest. After a complex year of transition, when all marketing authorisations had to be revised after entry into the European Union, good growth is also forecast for the Baltic region.

Last year, sales to Asia were limited to exports only. However, the Alpharma acquisition has brought with it additional manufacturing bases in China and Indonesia. The CEEA sales division will explore the potential of this capacity during 2006.

US sales & marketing

In 2004 Actavis had already made clear its intentions to build up a platform in the world's largest generics market, the US. And in May 2005 the first step towards achieving that goal was taken when the Group announced its agreement to acquire Amide Pharmaceutical Inc., a privately owned US generic pharmaceuticals company. Late in December a further acquisition was finalised, that of the human generics business of Alpharma.

Last year's rapid growth in this market was reflected in the creation of a new US revenue stream. The division contributed over EUR68.2 million in total to the Group's 2005 revenue, following the incorporation of the two acquisitions into Actavis' accounts (Amide – 1 July / Alpharma – 19 December).

Possessing a solid portfolio covering all major therapeutic areas, Amide brought with it the necessary credibility for Actavis to start trading in the market. Employing over 200 people, its facility is capable of manufacturing 1.5 billion tablets and capsules per annum. The operation based in Little Falls, New Jersey, has been generally based around smaller-volume/high-value niche products.

The scope of Alpharma's human generics business in the US made Actavis the eighth-largest generic pharmaceutical company in the US at the time of the acquisition. This new dimension to the division develops, produces and sells a broad range of generics in solid-dose, liquid and topical forms, typically the more complex dosage forms such as time-controlled and sustained-release products.

All the Group's operations in the US took the Actavis name and identity in early 2006. Sales are currently split among three New Jersey-based business units: two focusing on solid oral-dose products and a third concentrating on a semi-solids (cream, ointments, etc.). and liquids portfolio.

At the year end Actavis had a total of 162 products on the North American market. In 2005 a total of 10 ANDAs were approved and another 13 submitted. At year end 30 applications were under review at the FDA.

2005 review

The North American market continues to grow, and opportunities to increase generics penetration remain. From the date it was incorporated into Actavis' accounts - 1 July 2005 - the business unit comprising Amide's operations delivered a strong performance, producing revenue of EUR62.9 million. Growth for the full year was up 45.7% compared to 2004. Seven new products were launched by the division in 2006, including three that were acquired from other pharmaceutical companies.

The addition to the division of Alpharma's business close to the year end has strengthened Actavis' sales network in the US considerably. Its contribution to the Group of EUR5.3 million in revenue since its incorporation represents less than two weeks of its annual income, an indicator of the division's potential for 2006. With an effective management in place that has been turning the business around over the past year, Alpharma has brought with it a well-diversified product portfolio and development pipeline. Extensive manufacturing facilities in New Jersey, Baltimore and North Carolina complete the picture.

Integration of the division's businesses in 2005 has been heavily prioritised around the areas where it makes good business sense to integrate, such as finance, IT and elements that produce the most value in terms of increasing sales and reducing costs.

Construction work was underway last year for a new manufacturing facility called "Riverview" in Totowa, New Jersey.

Conceived and developed to address growing demand, it will also provide additional capacity to support an aggressive new product introduction schedule. It will position Actavis' US sales division to meet the increasingly rigorous demands of the country's regulatory environment and to maximise market expansion opportunities.

Outlook

Next year the division expects to launch 15 new products and to file 30 ANDAs. After the two acquisitions last year and some initial streamlining, this new division now has around 1,470 employees.

The next steps for the division in 2006 include the creation of a fully integrated sales force to support the determined effort behind the introduction of Actavis as a new brand in North America. A marketing campaign is planned to launch the brand, which will combine and consolidate the Actavis, Amide and Alpharma portfolios.

Work continues on strengthening the Actavis culture among staff and producing a fresh, open mindset to achieve strategic objectives in this relatively new market for the Group. Emphasis will also be placed on delivering synergy targets from the acquisitions and, as in other divisions, an aggressive approach to lowering costs is high on the agenda.

From the middle of 2006, work will start on combining the distribution function and customer service groups. The development of one central hub for North America aims to create a more efficient and cost-effective service. The opening of the new manufacturing facility "Riverview" in 2006 will expand production capacity, and increasing development activity in India will help to keep new Actavis' high-volume drugs cost-competitive for the market.

Third-party sales & marketing

In 2004, sales to third-party customers reached a record high. As predicted, matching them in 2005 was always going to be a big challenge, but at the close of the year product revenue had topped EUR137.5 million, just 9.3% below the previous period. Sales of intellectual property and registration dossiers accounted for further income of EUR12.3 million. Overall, the division contributed 26.5% of Group revenue, not including Alpharma.

Less frequent patent expiries of high-volume products and aggressive price squeezing and reimbursement list delays by some governments were the primary hurdles in 2005. However, an increase of 45.1% in sales to the French market and strong progress elsewhere in Southern Europe helped to balance a drop in sales in Germany, traditionally the division's largest market, which has been subject to government price freezes and mandatory discounting in recent times. The blockbuster cardiovascular product Ramipril, the biggest product launch of 2004, maintained a strong position, as did the anti-depressant Citalopram, still the highest-selling product for the division. Nine new products were launched by the division, eight of which were first to market. There were 34 further launches of existing products into new markets. Launch highlights for the year included the capsule and tablet forms of the anti-depressant drug Sertraline, which was launched in 15 countries in October; the central nervous system drug Lamotrigine, which was launched in two dosage forms in nine European countries in May; and the anti-fungal treatment Terbinafine, which was launched in 11 countries in August. In all these major launches, Actavis was first to market.

Organisationally, the division took steps to strengthen its regulatory functions in 2005 with special emphasis on the German and UK offices. The increasing use of in-house specialists is providing better control over the prioritisation of projects and ultimately improving service to customers.

Background

Third-party sales is the Actavis revenue stream that delivers registration dossiers and products to third parties, which then sell the products under their own labels. Exporting to most EU countries and trading under the name Medis, the division has extensive experience in generic pharmaceuticals and offers a wide portfolio of products and intellectual property. Medis has a proven track record in securing regulatory approval prior to patent expiries, obtaining marketing authorisations in 43 countries to date. The division currently has around 100 third-party customers. At year end it employed 34 staff (22 based in Iceland, four in Germany and eight in the UK).

Sales to third-party customers represent two key elements of increasing opportunity. Demand remains high, and the division continues to generate significant revenue for Actavis.

Global strength anchored in local roots

Third-party sales produce economies of scale by offsetting development costs against own-label sales. This type of demand also supports the growth of Actavis' manufacturing operations, thus strengthening its purchasing power for raw materials and other supplies.

Medis is confident of maintaining its strong position in Europe, despite the emergence of low-cost competition from companies in India and elsewhere. It has the advantage, built up over many years, of a deep understanding of European markets and the complexities of their regulatory requirements. Rapid progress in France, for example, is a reflection of effective local roots. Time and effort invested in regulatory work in the region over the past few years is paying off, and there are numerous cases where the division has been able to get Actavis products registered when other companies have been unsuccessful.

Third-party sales by market

Key markets for the division include Germany, the UK, The Netherlands and France. An increasingly diverse geographic reach is lessening dependency on the German market, and progress in France and Southern Europe last year was encouraging.

Germany is Europe's biggest consumer of generic pharmaceuticals, and Medis has a wide portfolio and good sales team in the country. However, several years of cutbacks in national health spending and mandatory price discounting have had an impact in this market. The situation for Actavis has begun to recover slowly.

Overall sales for the year in Germany amounted to EUR53.3 million, reflecting the success of Ramipril, Ramipril HCT, Lisinopril HCT, Ciprofloxacin and Lamotrigine dispersible tablets. Sales of Lisinopril, traditionally one of the most important products in the market, declined in 2005, due mainly to the expiry of some five-year supply agreements.

The **UK** market remains extremely competitive and variable. Sales last year totalled EUR12 million, down 41.7% from the previous year, due mainly to extensive price erosion, increased competition and a reduction in the sales of Ramipril capsules. Citalopram, Paroxetine and Lamotrigine were the three other highest sellers in the UK.

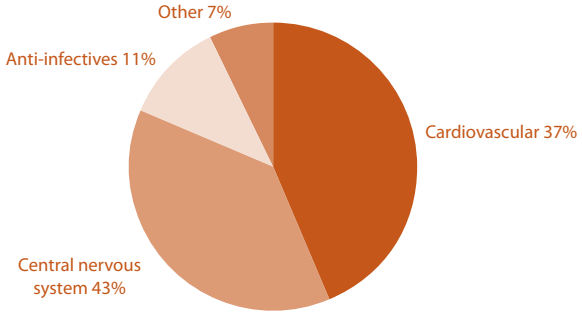
A market of growing importance for Third-party sales, despite being an extremely price-competitive environment, is **The Netherlands**. While sales for the year were largely on a par with sales in 2004, sales during Q4 amounted to EUR3.6 million, up 99.3% from the same quarter in the previous year. Key products in The Netherlands remain Ciprofloxacin for international distribution, followed by Fosinopril and Ketoconazole.

Outlook

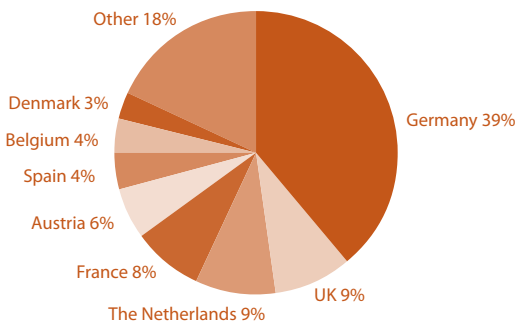
Third-party sales in 2006 are expected to generate a low single-digit growth in 2006, although there are a limited number of patent expiries scheduled in the division's current markets over the next couple of years. Instead, the focus for 2006 will be on entering new markets and securing more customers in existing markets. Focus is also intensifying in Central Europe and the EU accession countries, where in-licensing opportunities are in demand from small and medium-sized companies.

The transfer of production contracts for the division from Iceland to Malta continues, eliminating capacity constraints in manufacturing. Eventually Malta will be the largest source of products sold via the division. In an effort to create further cost efficiencies, Medis is also beginning to transfer some of its production contracts to India.

Third-party sales by therapeutic class



Third-party sales by market




actavis

The colour of value

A strong advocate of affordable, high-quality medicine, Actavis also believes in creating value for its customers, staff and shareholders.

Research & development

Research & development

Actavis offers one of the broadest product portfolios and strongest pipelines in the generics industry today. Around 600 products are on the market, registered in more than 60 countries, and at the close of 2005 the Group's R&D division had 188 products in the development pipeline.

In terms of newly developed products, nine marketing authorisations (MAs) for the EU and ten abbreviated new drug applications (ANDAs) for the US were secured last year. Another nine EU development projects and 13 US projects were completed for submission. A further 46 new product registrations were in progress.

The division has been equally busy in securing new MAs for existing licensed Actavis products to facilitate their introduction into new markets where the Company is strengthening its presence. In 2005 over 300 MAs were granted in new markets, and over 200 were in progress.

Other major highlights of 2005 included the opening of a new purpose-built pilot plant in Iceland and the increased capacity and capability of the division, which was brought about by the acquisitions of Amide and the generics business of Alpharma.

Development focus

One of the key elements of Actavis' corporate strategy is a broad portfolio brought faster to market. In line with this objective, Actavis has been enhancing its development capacity, strengthening various units over the course of the year. The number of clinical development staff has increased, for example, allowing greater numbers of products to move through the pipeline and simultaneously boosting capacity for more bioequivalence studies. A growing number of staff in regulatory affairs is focusing on post-launch marketing activities, submitting more MAs in order to take existing products into new markets.

Actavis is also filing and screening more patents than ever before. The addition of new staff to its Intellectual Property unit aims at supporting technical staff in exploring ways to circumvent and by-pass patents while achieving robust protection of Actavis' own Intellectual Property.
The division continues to strengthen Actavis' value chain by advancing the development of active pharmaceutical ingredients (APIs). These efforts have been centred in Turkey, where Actavis has a process development laboratory and a US-FDA approved API manufacturing site. API process development will be further enhanced in 2006 with the establishment of a new laboratory at the Group's Lotus facilities in India.

In-licensing

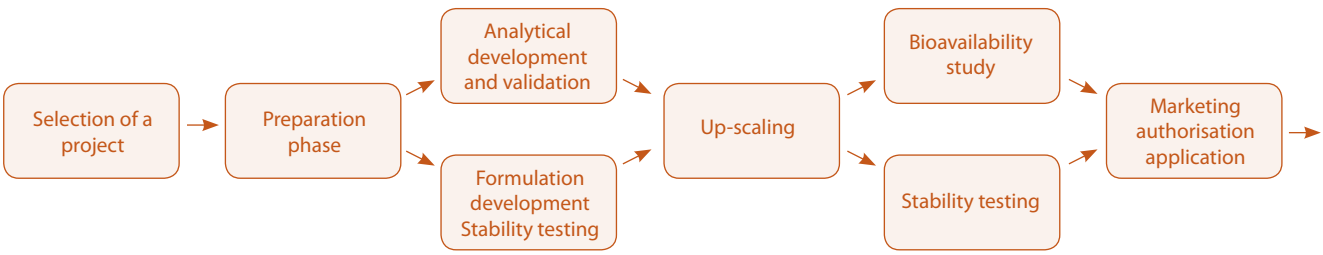
Prompt identification of suitable in-licensing opportunities complements the Group's in-house development capabilities when it is viable and cost-effective to do so. More than 20 new generic molecules were successfully in-licensed by Actavis last year for launch in key European markets. That, combined with Alpharma's in-licensing activities in various markets during the year, raises the total to almost 90. The in-licensing function has been strengthened in order to support corporate business goals even more effectively in 2006. A global team of seven specialists aims to:

- Ensure entrance into new therapeutic areas
- Reduce costs by synchronising and expanding most current in-licensing agreements for a wider range of territories
- Enhance and optimise constantly the Group's portfolio in key markets, as quickly and efficiently as possible.

New development centre in Iceland

A new pilot plant was opened in Iceland in September 2005. The "pilot-scale" production building is part of a wider EUR13 million investment in facilities for R&D, Quality and Operations, enabling Actavis to develop a broader range of products more efficiently. The purpose-built site is designed to accommodate all R&D functions in a single location by the end of 2006. The new centre caters for complex formulations containing light- and/or moisture-sensitive materials. Pilot-scale facilities manufacture small volumes of tablets and capsules, both for early development phases and for regulatory submissions. Pilot-scale batches are used for bioequivalence or clinical trials; therefore, the production is carried out under strict GMP regulations.

Development process



R&D integration and outlook

At the close of 2005, 702 R&D staff members were working at the Group's modern facilities in Denmark, Iceland, India, Malta, North America, Turkey and the UK. The increase from 2004, when the Group employed around 200 people in R&D, came about primarily as a result of acquisitions during the year.

The enlarged R&D capacity presents the opportunity to select and develop more of the drugs going off patent in the years ahead and to expand the Actavis portfolio still further. In 2006 Actavis is planning to file 30 new ANDAs and MAs for 15 new products. Successful authorisations in the year, combined with MAs for new markets, are expected to drive around 150 product and market launches.

The two major acquisitions of 2005, Amide and Alpharma, have complemented an already strong R&D division.

The Amide acquisition brought with it a very sound R&D unit, as well as providing Actavis with a foothold in the US market. The team in New Jersey has built good relationships with partners in the US and in India, with a number of exclusive deals on API supplies for its niche products. Actavis will maintain that approach in 2006, supporting staff to focus predominantly on R&D activity for the North American market.

The Human Generics Business of Alpharma adds significantly to Actavis' capabilities. Not only has the acquisition advanced the Group's solid, semi-solid and oral liquid capabilities, it has also further diversified Actavis' expertise through the use of extended-release technology, particularly in the field of microparticulate formulations in which Alpharma has vast experience. Alpharma also maintains valuable product development partnerships in India, providing further portfolio-enhancing opportunities.

New developments, pipeline and registration summary for products developed 2005

Therapeutic category	Developments completed for EU submission	Developments completed for US submission	Total ongoing developments in pipeline	Total ongoing new product registrations	Total ongoing secondary registrations	First MAs granted	ANDA approvals
Alimentary tract & metabolism	1		25	3	24	1	2
Cardiovascular system	4	2	43	10	55	5	
Nervous system	1	7	59	18	61	2	4
Genito-urinary & sex hormones		1	10	2	9		
Anti-infectives for systemic use	1		8	2	10	1	
Musculo-skeletal system		1	11	4	11		3
Respiratory system		1	10	2	12		
Dermatologicals	1	1	13	3	17		1
Veterinary							
Other	1		9	2	8		
Total	**9**	**13**	**188**	**46**	**207**	**9**	**10**

Lotus Laboratories, India

In February 2005, Actavis acquired Lotus Laboratories, an Indian Contract Research Organisation. Headquartered in Bangalore, India, Lotus was established in 2001 and employs around 260 people, half of whom are experienced scientists or medical professionals. The company specialises in the management of clinical trials to study the bioavailability and bioequivalence of drugs, drug-drug interaction, and early- and late-phase clinical trials.

A profitable business that recorded 30% revenue growth last year, in 2005 Lotus conducted more than 200 bioequivalence studies, primarily pivotal studies for submissions to regulatory authorities, 20 of which were for the US market. Regulatory inspections were successfully completed by a number of regulatory authorities, including the US Food and Drug Administration, European Union authorities, the World Health Organisation (WHO) and South African authorities. Its new clinical trials division oversaw three trials last year, and many more are predicted for 2006.

Actavis' acquisition of Lotus Laboratories demonstrates a clear intent to lower R&D costs and take greater control of the value chain.

In March 2006 Actavis opened new facilities for Lotus in Bangalore, a total of 3,000 sq m designed to accommodate offices, laboratories and other facilities for clinical bioequivalence studies. A centre for stability studies is also planned. Lotus' old premises are being lined up for the development of APIs and other activities.

Quality & compliance

The production of generic pharmaceuticals is one of the most highly regulated industries in the world. Effective quality control is of paramount importance to Actavis' success. The Group's commitment to high-quality products and services is borne out by its work in 2005, when the Quality & compliance unit undertook top-to-toe corporate "health checks" of 90% of Actavis' manufacturing facilities, as well as numerous quality/capacity audits of potential partners and suppliers.
The Quality & Compliance team guide and audit quality systems and regulatory compliance across the Group, ensuring continuous improvement. The emphasis in 2005 was on strengthening the corporate quality assurance system established the previous year. The Corporate Manual was completed and approved. It outlines Actavis' quality management system and environmental, health and safety (EHS) management system, ensuring that everything is in place to tackle new opportunities and integrate new companies as simply as possible.

All Actavis companies continue to contribute to the Corporate manual and last year generated individual plans for its implementation. Approved by the Corporate Quality Board, these are now being rolled out.

Over the course of 2005, ten Actavis manufacturing sites passed rigorous independent inspections by the relevant regulatory bodies. Three sites manufacturing primarily for third-party clients were also audited by up to 30 customers during the period.

One of the main tasks for the year ahead is to integrate the acquired Amide and Alpharma operations into Actavis' quality structure, further developing the Group's quality assurance system. Integration plans have been formulated and are underway, plans that are prioritised around harmonising quality and lowering costs. In order to best support its goals, a new organisational structure for the unit has been introduced.

EU/GMP: European Union Good Manufacturing Practices
FDA: US Food and Drug Administration
AA: part of the Alpharma acquisition

Operations

The Operations function is geared to support successful product launches across all Actavis markets. Three-year tactical plans for manufacturing and all site development projects remain on target. Excellent progress was also made in a number of other areas in 2005. A global purchasing team was strengthened and continues to produce tremendous cost savings for the Group. Environmental Health & Safety "EHS"* compliance and Good Manufacturing Practice "GMP" standards were further enhanced, and experienced senior managers are now in place at all operational sites, driving optimisation programmes and implementing site-specific strategic plans with their teams. The Capital Expenditure programme continues to be in line with strategic plans.

Following the Alpharma, Amide and other acquisitions last year, Actavis now has manufacturing operations in 11 countries, providing considerable production capacity to meet the needs of its growing customer base (see next two pages for an overview of manufacturing sites). In order to manage the increasing number of manufacturing sites to best effect and to support revenue divisions in line with the Group's structure, the Operations function was divided into two parts at the end of 2005 and now covers distinct geographical areas: "Central Eastern Europe and Asia"and "Western Europe and the US".

2005 achievements

A programme to ensure sufficient capacity for both current and future new product launches was completed last year. In all areas, bulk and packaging performance exceeded budget expectations. Back-orders were much improved in Iceland and Malta and practically eliminated elsewhere as part of the ongoing commitment to customer service.
A number of other key objectives were all achieved on schedule:

- Eight new products launches in Iceland
- Customer service improvements (on-time delivery improved by 20%)
- The Maltese facility ramped up to full capacity from Q2/Q3 2005
- Waste stockpiling eliminated
- Razgrad facility divestment programme completed
- Serbian and Bulgarian organisational split (operations/sales) completed
- Sales and operations planning programme further enhanced
- Supply partnership agreements made with all Sales & marketing groups
- Detailed monitoring system and reporting structure in place to optimise performance

In North America, construction work on the new Riverview plant continued. Due for completion in 2006, it will also provide additional manufacturing capacity to support an aggressive new product introduction schedule.

The former Alpharma plants achieved significant improvements in customer service, quality, costs and inventory. The turnaround in these facilities has been supported by the quality programme known as "Lean Six Sigma", and there are plans to extend the programme to other sites. In Elizabeth, NJ, plant conversion costs have been reduced by over US$20 million, and work continues on FDA compliance issues in preparation for a successful GMP audit certification in 2006. Two products will be transferred to the UK site in Barnstaple next year in order to achieve lower cost of goods for supply back into the US market.

The plant in Lincolnton, NC, increased semi-solid volumes by 15% in 2005, and a further 15% increase is expected in 2006. In Baltimore, MD, the focus for 2006 is on maintaining good levels of quality, service, safety performance, and costs.

Lowering costs through global strength

In 2005 the Global Purchasing group set itself an aggressive savings target for raw materials of EUR11 million. In fact, it delivered well in excess of that target, producing cost savings over 2004 of EUR19 million, a 17% reduction. In addition, the vendor base was rationalised further.

This international function focuses on efficient and cost-effective sourcing across the Group, utilising information on common suppliers and products, which is grouped appropriately and analysed to make optimum savings. Last year the team developed a Group-wide purchasing policy, establishing indicators for efficiencies and quality procurement. The goal is to develop internal knowledge of vendor networks and make the most of Actavis' shared purchasing experience. Cost efficiencies will be viewed as Group savings, so all sites benefit from this highly focused approach to purchasing.

Business continuity

Following up on risk and business impact analyses that were conducted in 2005, business continuity management "BCM" plans are being developed throughout the Group with the support of external specialists. The status of BCM within Actavis' more recent acquisitions is being reviewed in 2006.

Actavis' approach to BCM is in accordance with the developing international business continuity standards. Plans will be audited against these standards. A Group-wide process has been established for monitoring the possible impact of an influenza pandemic and for determining the appropriate responses should one occur.

Actavis has an effective and ongoing programme to provide the operational capacity necessary to meet customer and business requirements. Continuing on from a very successful 2004, the strategic focus for Operations last year covered the following areas:

- Strategic planning
- Purchasing
- New product introductions (site readiness)
- Quality assurance and continuous improvement
- Planning and control
- Site development
- Environmental, health and safety management (EHS)
- Business continuity management (BCM)

* See the Corporate responsibility report page 53 for more information on EHS

Manufacturing sites

Following the acquisition in the latter part of 2005 of the human generics business of Alpharma, Actavis' manufacturing operations now span 11 countries, offering comprehensive facilities for the production of quality generic pharmaceuticals.

*EU/GMP: European Union Good Manufacturing Practices
*FDA: US Food and Drug Administration
*AA: facility incorporated into Actavis' accounts in December 2005 as part of the Alpharma acquisition
*ANDA: Abbreviated New Drug Application

Iceland

Two EU/GMP* approved production plants manufacture tablets, capsules and suppositories for domestic and Western European export markets. Another pilot-scale facility manufactures batches of tablets and capsules for the early development phase. Iceland is the principal launch site for new Actavis products (eight launches last year). A new warehouse and packaging extension has recently been completed.

UK (*AA)

A large solid-oral-dosage and suppository facility, the Barnstaple plant has capacity for 7 billion tablets and capsules serving the generic, OTC and Rx markets in Europe, the Middle East and Africa. EU/GMP* approved and preparing for FDA certification in 2006. This site has successfully maintained a highly competitive low-cost position (comparable to Indian suppliers).

North America

Actavis has four finished-product manufacturing sites for solid, liquid and semi-solid dosage forms in North America:

- Elizabeth, NJ (*AA) – solid-oral-dose facility with capacity of four billion tablets and capsules, supporting a broad therapeutic range. Core competency in modified-release products.
- Baltimore, MD (*AA) – a large-scale liquid manufacturer for the US market, this facility produces prescription (Rx) and over-the-counter (OTC) ANDA* liquids, lotions, shampoos and topical liquids. Capacity is in excess of 13 million litres a year. Completed a successful full systems' GMP audit in February 2006.
- Lincolnton, NC (*AA) – a growing production site for creams, ointments, and liquid and suppository products serving the OTC, branded and Rx markets in the US. Leading supplier of first aid, feminine hygiene, hydrocortisone, antifungal and permethrin products for private-label and own-label sales. Expansion of the laboratory and liquids capacity will be completed in 2006.
- Little Falls and Taft, NJ – solid-oral-dose facility with capacity of 1.8 billion tablets and capsules supporting a broad therapeutic range of high-value niche products. Known for high service levels and competitive costs. A new "Riverview" facility project is underway to increase solid-oral-dosage capacity to 8 billion units in 2006.

Norway (*AA)

Oslo – a modern, highly automated multi-products facility producing tablets, capsules, liquids, creams, ointments and suppositories, serving the Nordic, EU and Middle East markets. Focus on OTC, Rx and generic product lines.

Venessla – the Norgesplaster business supplies a large range of self-adhesive plasters and tapes for wound care, sports and specialty applications.

Bulgaria

Sites in Dupnitza, Troyan and Razgrad. One of three units in Dupnitza is already EU/GMP* approved, and another is currently being refurbished to the same standard. API unit at Razgrad successfully divested at mid-year, rest of the facility refurbished on schedule. Produces wide range of formulations, including tablets, infusion solutions and capsules.

Serbia

The Actavis company Zdravlje specialises in gastroenterology and cardiology products. Business streamlined to reflect the Group's core business. Site refurbishment programme underway to achieve EU/GMP* approval when required. In 2005, preparation commenced for ISO 14001 (EHS) certification and Business Continuity Management programme was finalised.

China (*AA)

The Foshan plant produces a multi-product range of generic pharmaceuticals and traditional Chinese medicines in tablet, capsule, liquid, cream and powder forms. Serving the local Chinese market, the site achieved full Chinese GMP certification in 2006. Solid-oral-dose capacity in excess of 2.5 billion units.

Malta

Refurbished facility with current capacity of 1.7 billion tablets per annum. Skilled employees, EU/GMP* approval and high-volume capacity make the Malta plant a vital supply source for Actavis' Western European markets. Production increased considerably in the second half of 2005, and continuing expansion will further increase capacity.

Turkey

The Actavis company Fako is a springboard for markets in and around Turkey. Three facilities manufacture finished-dosage forms: one focusing on general products to supply EU markets, another on cephalosporin products, and one where the emphasis is on penicillins. A fourth facility produces APIs. Capital expenditure programme in Turkey is ensuring that these facilities continue to meet market requirements.

India *contract manufacturing

A collaborative agreement with Emcure Pharmaceuticals, a contract manufacturer based in Pune, will deliver a number of Actavis drugs cost-effectively for the US market.

Indonesia (*AA)

The Jakarta operation produces injectables, dry powder for oral use, tablets and capsules. The facility is co-located with Indonesian head office functions and serves, in addition to the domestic market, Singapore, Hong Kong, Sri Lanka, Australia, the Netherlands and Norway.

The colour of excellence

The determination to excel at every level keeps Actavis on its toes, attracting and retaining world-class professionals.

High performance

Human Resources

Actavis is strong on ambition. An absolute determination to become one of the world's leading generic pharmaceutical companies means that the Group seeks to recruit and retain people who want results – people who naturally push themselves that little bit harder and who are unafraid to challenge the status quo.

Highly focused employees are the driving force behind the success of Actavis, the most important element of executing its strategy and realising its vision. In order to maintain and develop this team, Actavis has cultivated a global approach to human resources (HR), investing in a wide range of training and performance management systems designed specifically to support corporate strategy.

HR strategy

HR has a central role to play in building and fostering the challenging mentality that characterises the Actavis corporate culture. In 2005 Actavis established a clear HR strategy, encompassing recruitment, motivation, remuneration, and interaction with employees. Actavis recognises the importance of the people it employs and aims to engage, develop and reward staff appropriately in order to maximise business performance.

The focus is on four particular areas that the Company considers vital to strategic success.

- **Recruitment and selection**
  Actavis aims to be proactive, fair and efficient in its efforts to recruit and select self-motivated, talented and results-oriented people. The Company uses professional tools that have been developed to give the best results and ensure that its employees' conduct accurately reflects the corporate brand and values.

- **Development**
  Development is an investment in people that enhances individual, team and business performance. It is a shared commitment, established to extend the capabilities of our employees and give the business a competitive advantage. The Actavis Academy is the umbrella forum for the Group's employee development plans.

- **Compensation**
  Actavis believes in a competitive compensation structure based on market and job value. We continue to develop this structure, which is designed to recognise and reward performance and behaviour that add value.

- **Employee relations**
  Actavis aims to build and maintain the best possible relations with all its employees and their representatives. We endeavour to engage with our employees on the issues of key business objectives, overall performance, and matters affecting their employment. We aim to respect our employees' individual differences and dignity throughout our relationship with them.

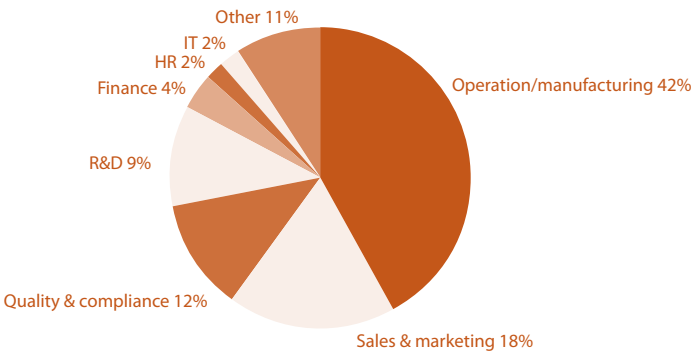
Training and development

HR practices and procedures, including managerial training and performance management, are co-ordinated throughout the Company. The Actavis Academy was established in 2005 in order to support staff development and supplement locally-based vocational training.

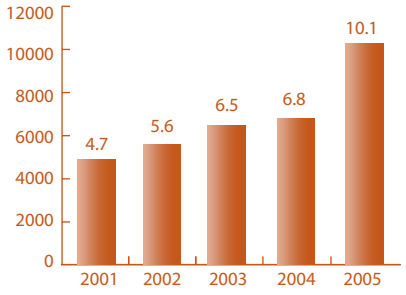
Training is an important element of Actavis' day-to-day activities. It includes induction for new staff, as well as comprehensive GMP(Good Manufacturing Processes) training and a number of projects designed to augment those skills and talents that are necessary if Actavis is to stay ahead in today's competitive environment. In 2005 the foundations were laid for PER4MA – the Actavis performance management system – and a leadership development programme.

The leadership programme is designed to improve managers' interpersonal and management skills, making them more results-oriented and enhancing their ability to lead organisational change. It is designed for those people who are responsible for delivering corporate strategy and for developing the competitive culture in their local environment. These are also the people who must work constantly to broaden Actavis' product portfolio and to control costs, the managers at the forefront of efforts to use the Group's global power and local expertise to best advantage.

Employees by division



Average number of employees




actavis

Acquisitions and divestm

Acquisitions in 2005

One of Actavis' strategic objectives for 2005 was to establish a strong presence in the world's largest generics market, the United States. The Group also wanted to strengthen its market position in Central and Eastern Europe and expand its position in India. In keeping with these objectives, Actavis made eight acquisitions during the year.

In April Actavis acquired the generic pharmaceutical company Pharma Avalanche in the Czech Republic and Slovakia, and in September it acquired the Hungarian company Keri Pharma. Both businesses have enhanced the Group's sales and marketing presence in Central and Eastern Europe, as well as offering additional product capabilities. Furthermore, Actavis acquired Higia AD, one of the largest pharmaceutical distributors in Bulgaria. This acquisition provides the Group with the opportunity to combine a strong product portfolio and manufacturing capabilities with Higia's distribution network, and it will help drive revenue growth in this important market. Financial details for these acquisitions were not disclosed.

Outside Europe, Actavis acquired the Indian Contract Research Organisation (CRO) Lotus Laboratories in April 2005, for a cash consideration of approximately EUR20 million. The company specialises in the management of clinical trials to study the bioavailability and bioequivalence of drugs, drug-drug interaction, and early- and late-phase clinical trials. The acquisition gives Actavis a strategic foothold in a rapidly-growing market. In March 2006, Actavis opened new premises for Lotus, which will house offices, laboratories and facilities for clinical bioequivalence studies. Actavis is further strengthening its API process development by setting up a laboratory in existing facilities during 2006.

Amide and Alpharma's human generics business

In 2005 Actavis completed its two largest acquisitions ever with its purchases of the US company Amide Pharmaceuticals Inc., for US$600 million, and the human generics business of Alpharma Inc., for US$810 million.

Amide Pharmaceuticals was a privately-owned generic pharmaceuticals company based in New Jersey. Founded in 1983, it develops, manufactures and sells a broad range of solid-dose generic pharmaceutical products. The business employs over 200 people, and its primary New Jersey facility is currently capable of manufacturing 1.5 billion tablets and capsules per annum.

The acquisition provides Actavis with an important foothold in the US and places the Company in a strong position to penetrate the US market with additional Actavis products, using Amide's extensive experience in development, registration and marketing. The result is a stronger development pipeline and increased product diversity with minimal overlap between the companies' respective portfolios. In its examination of Amide's portfolio, Actavis identified products that could be marketed in the Group's existing markets. The Company expects to launch these products in 2007-08. At the time of the acquisition in May 2005, Amide had a portfolio of 67 marketed products in tablet and capsule form and a development pipeline of 30 products, in addition to 12 ANDAs pending approval with the FDA.

Amide became part of the Actavis Group's accounts as of 1 July 2005. The integration process has gone well, and the Company has delivered a strong performance that exceeded management expectations. Sales after 1 July 2005 were EUR62.9 million.

Actavis' acquisition of Alpharma Inc.'s human generics division unites two businesses with complementary strengths in Europe and the US. The acquisition also represented a significant milestone in Actavis' goal of becoming one of the leading companies in the industry worldwide. Alpharma was incorporated into Group's accounts as of 19 December 2005.

Founded in 1903 in Norway, Alpharma's human generics business develops, manufactures and sells a broad range of solid-dose, liquid and topical forms of generic pharmaceutical products. The business employs approximately 2,800 people with its own operations in 11 countries around the world. The company was the eighth-largest generic pharmaceuticals company in the US and the fourth-largest in the UK, as well as having a strong position in Scandinavia, the Netherlands and Portugal. In addition, Alpharma has established a presence in China and Indonesia.

The combination of Actavis' brand and geographic coverage, both in Europe and the US, with Alpharma's attractive position in the US market and own-label sales in key European markets is expected to generate substantial opportunities to drive revenue growth, provide significant synergies and create shareholder value for the enlarged Group. Following this acquisition, Actavis is positioned among the five largest companies in generic pharmaceuticals worldwide in terms of revenue.

The addition of Amide and Alpharma to the Group means that around 40% of the Group's revenues are expected to come from the growing US market.

Based on a pro-forma invoice for 2005, the contribution of Amide would have been around 10% of the Group's revenues for the whole year and Alpharma's around 50%.

Financing activity in 2005

The year 2005 was a busy one in terms of financing activity. The Group financed roughly US$2.7 billion from various sources, which was largely driven by its acquisitive nature. The principal milestones were the acquisition and financing of Amide Pharmaceutical Inc., which took place in the middle of the year; a rights issue that also took place at mid-year; and the financing of the human generic division of Alpharma Inc., which occurred late in the year.

ents 2005

In July Actavis announced the closing of a EUR600 million syndicated credit facility, which had been increased from EUR500 million following a successful syndication. Mandated lead arrangers for the five-year loan, which has a fixed margin for 12 months at 0.70%, were ABN AMRO N.V., Bank of America Securities Limited, and WestLB AG. The facility supported Actavis' acquisition of Amide Pharmaceutical Inc., a privately-owned US generic pharmaceuticals company. It was also used to refinance Actavis' existing short-term and long-term debt.

A rights issue took place between 15 and 23 June. A total of 543 million shares, including treasure shares, was offered to shareholders at ISK38.5 a share, which amounted to a total of EUR263.0 million. The issue was oversubscribed by 46.2%, with shareholders subscribing for nearly 795 million shares with a total value of EUR383 million.

At the end of the year, the Group successfully completed the syndication of a US$1.3 billion acquisition facility. The sole underwriter and bookrunner was UBS Limited. The facility is split into a US$970 million five-year term loan and a US$300 million five-year revolving credit facility. The proceeds of the facility – together with a concurrent preferred share offering in Iceland with net proceeds of US$443 million, underwritten by Islandsbanki hf. and Landsbanki Islands hf. – funded the acquisition of Alpharma's human generics business for a total consideration of US$810 million, as well as refinancing Actavis' June 2005 syndicated credit facility. The syndication was oversubscribed. ABN Amro, Bank of America, BNP Paribas, HSBC and WestLB joined as mandated lead arrangers, seven banks joined as arrangers, and 13 joined at co-arranger level.

The landmark financing transaction at the end of the year represented both the largest capital-raising exercise ever carried out by the Company and the largest acquisition financing raised by any European pharmaceutical company in 2005. The transaction was well received in the European loan market and was significantly oversubscribed.

Integration management

As a highly-acquisitive organisation, Actavis views the achievement of successful integration of businesses as an item of paramount importance. Thus the Group maintains an integration team that always works closely with employees from the acquired company in order to ensure a smooth transition and integration. Typically the process begins with an initial meeting of the two management teams, where the level of integration is defined and an action plan formulated. Strategic issues are discussed, compared and contrasted with the aim of ensuring that each company adds value to the other as they move forward together. Areas of company strategy, structure, culture, communications, human resources and defined corporate functions are aligned and a prioritised action plan is drafted.

Actavis' strategy is to integrate only key strategic areas. Task forces, with participants from both companies, are appointed to address the major integration challenges in the pre-defined strategic areas. Synergy targets are defined at the initial meeting, and each team defines areas of synergy, sets targets, and formulates an action plan. Strategic targets are set in the first 30 days, and major integration issues are completed within 100 days. Tracking of synergy and integration activity is performed on a regular basis.

Acquired companies are, in general, re-branded as Actavis in time, along with changes in product packaging and marketing material.

With major acquisitions such as Amide and Alpharma, Group-wide meetings are held to educate the employees of the enlarged Group about the Company and to initiate cultural integration. Employees of acquired companies receive training in the Actavis brand, mindset and values.

Divestments in 2005

Actavis partly divested its Bulgarian subsidiary, Balkanpharma Razgrad AD, to Biovet AD Peshtera in July. The business focuses on the manufacture of active pharmaceutical ingredients (APIs), veterinary products and finished pharmaceutical forms. Actavis divested a part of the site, which manufactures APIs and veterinary products. Actavis will continue operating part of the plant related to the manufacture of finished forms. Financial details were not disclosed, and the sale did not affect Actavis' financial results or operations in 2005.

The sale of the plant reflects Actavis' strategy of focusing on the growth of its core business.

Actavis shares

Share trading

Actavis Group's (Symbol: ACT) shares are listed on the Iceland Stock Exchange (ICEX). The Company is quoted on its main index ICEX-15, the selected share index. Actavis shares traded 29.0% higher for 2005 as a whole. The total value of trading in Actavis shares was ISK76.7billion, or EUR981.1 million, for the year 2005, which corresponds to a turnover of 58.0%. The average spread between bid and offer was 0.62% for the year. The market value of the Company at the year end was approximately EUR2.2 billion.

Increase in share capital

Share offering in June of 2005

Following an approval at a shareholders' meeting, Actavis' Board decided to increase its class A common shares by 344,864,993 shares, or 11.5% of total share capital. The share offering was placed to finance the acquisition of Amide Pharmaceuticals Inc. The share offering took place on 15-23 June, and a total of 543 million shares, including treasure shares, were offered to shareholders at ISK38.5 per share, amounting to EUR263.0 million. Oversubscription was 46.2%, as shareholders subscribed for nearly 795 million shares for a total value of EUR383.0 million. Actavis Group hf. sold 198,613,449 of its own shares in the share offering. Following the share offering, Actavis shares totalled 3,338,645,294.

Islandsbanki was the underwriter of the share offering and made an agreement with Landsbanki to participate in the underwriting.

Increase in share capital in November

The Company increased its class A common shares in November to meet exercisable stock options to key employees. The class A common shares were increased by 16,025,823 due to this obligation, and the total common shares were 3,354,671,117 after the increase.

Listing of Preferred Shares in December 2005

As part of the financing of the acquisition of the Human Generics Business of Alpharma, the Board decided on a placement of EUR369.0 million (US$443 million) equivalent in Preferred Shares (class B). The placement took place in December 2005, and the underwriters were Glitnir (previously Islandsbanki hf.) and Landsbanki Islands hf. The Preferred Shares are denominated in EUR, carry a cumulative preferred dividend, and can be redeemed by Actavis at any time. They carry no voting rights and, if not redeemed, have a conversion right six months after the fifth anniversary of the issue.

Stock options to key employees

Exercisable	Number of shares (in thousands)	Exercise price (ISK)	Exercisable in
Level 1	22,078	38.5	2005-2007
Level 2	22,078	38.5	2005-2007
Level 3	13,680	38.5	2005-2007
Total	**57,836**		

Ownership structure 1 March 2006

Shareholding	Total no. of shares	%	No. of shareholders	%
1 – 10,000	5,960,986	0.2	1184	33.2
10,001 – 50,000	39,587,496	1.2	1607	45.1
50,001 – 100,000	21,497,994	0.6	301	8.4
100,001 – 500,000	64,591,689	1.9	309	8.7
500,001 – 5,000,000	179,599,026	5.4	107	3.0
5,000,001 – 10,000,000	176,137,746	5.3	24	0.7
10,000,001 – 50,000,000	608,386,041	18.1	27	0.8
50,000,001 – 100,000,000	232,940,581	6.9	4	0.1
100,000,001 –	2,025,969,558	60.4	4	0.1
Total	**3,354,671,117**	**100.0**	**3567**	**100.0**

Earnings per share

Actavis Group reported net earnings per share of EUR0.02551 in 2005, which corresponds to ISK1,991. The Group's equity totalled EUR1008.0 million at the year end 2005.

Employee stock option

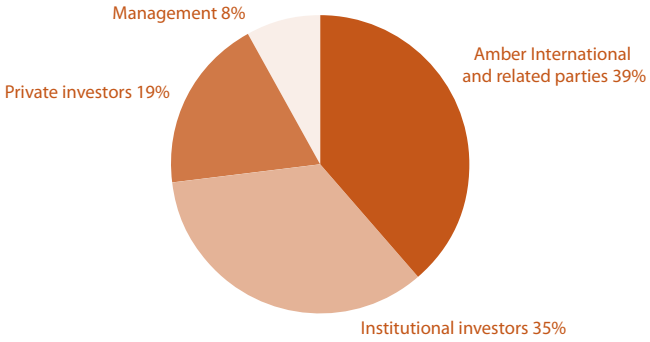
A proposal for a stock option plan was approved at the Annual General Meeting of Actavis Group hf. on 31 March 2005. The AGM agreed to authorise the Board to implement a stock option plan for its employees, for up to a nominal value of ISK58,000,000 (fifty-eight million).

See table: Stock options to key employees.

Own trading of Actavis' shares

Actavis purchased 22,318 thousand treasury shares for EUR288 thousand in 2005. Actavis sold 198,613 thousand shares in a share offering on 15-23 June 2005.

Main groups of shareholders 1 March 2006



Free float	45%
Total shares	3,354,671,117
Outstanding shares	3,354,671,113

Management shareholdings 1 March 2006

Name	Number of shares	%
Board members		
Thor Bjorgolfsson and related parties	1,296,379,823	38.64
Karl Wernersson and related parties	111,350,884	3.32
Sindri Sindrason	12,539,829	0.37
CEO		
Robert Wessman and related parties	126,930,522	3.78
Deputy to the CEO		
Svafa Gronfeldt	982,845	0.03
Executive Vice Presidents		
Gudbjorg Edda Eggertsdottir	21,573,986	0.64
Stefan Jokull Sveinsson	2,100,278	0.06
Sigurdur Oli Olafsson	989,145	0.03
Mark Burgess Keatley	735,931	0.02
Aidan Kavanagh	1,029,845	0.03
Jonas Tryggvason	192,965	0.01

Included in the shareholding of Robert Wessman is a forward contract with Straumur Burdaras for the purchase of 64.8 million shares.

Investor relations

Actavis aims to provide capital markets, investors and other stakeholders with consistent, open and prompt disclosure of relevant information that contributes to the fair valuation of the Company.

Key principles in investor relations are:

- Commitment of senior management
- Consistent level of information, regardless of whether news is positive or negative
- Prompt handling of any IR-related issues
- Directness and openness
- A service-oriented mindset

Compliance

Actavis Group has issued strict rules on compliance, insider information and insider trading, in accordance with the guidelines of the Iceland Stock Exchange. The compliance officer is responsible for monitoring such trading. Further information about Compliance within Actavis can be found on page 52.

20 largest shareholders 1 March 2006

1 Amber International Ltd	1,177,532,098	35.10%
2 Landsbanki Luxembourg S.A.	348,676,530	10.39%
3 Straumur-Burdaras Investment Bank	313,080,049	9.33%
4 Landsbanki Islands hf	186,680,881	5.56%
5 Milestone Import Export Ltd	63,204,289	1.88%
6 Olof Vigdis Baldvinsdóttir	59,448,385	1.77%
7 Gildi-lifeyrissjodur	55,626,747	1.66%
8 Lifeyrissjodur verslunarmanna	54,661,160	1.63%
9 Milestone ehf	48,146,595	1.44%
10 Den Danske Bank A/S	39,565,658	1.18%
11 Jon Halldorsson	38,380,208	1.14%
12 Robert Wessman	36,546,336	1.09%
13 Jon Zimsen	33,734,063	1.01%
14 Arion safnreikningur	32,515,621	0.97%
15 Lifeyrissjodir Bankastraeti 7	30,404,330	0.91%
16 MP Fjarfestingarbanki hf	26,875,433	0.80%
17 Kristjan S Gudmundsson	26,547,275	0.79%
18 Olafur Steinn Gudmundsson	26,547,275	0.79%
19 Aceway	25,569,371	0.76%
20 Fjarfestingasjodur Bunadarb, hf	23,939,700	0.71%

Amber International Ltd is owned by Actavis' Chairman, Thor Bjorgolfsson.
Milestone Import Export Ltd and Milestone ehf are owned by Actavis' Board Member, Karl Wernersson, and related parties
Aceway is owned by Actavis' President and CEO, Robert Wessman

The colour of individuality

Never afraid to challenge the norm, Actavis is constantly looking for ways to do things differently, to do things better.

Executive biographies

Robert Wessman

President & CEO

Robert became the President and CEO of Actavis in 2002, following the merger with Delta, where he had served as CEO since 1999. Rapid growth and organisational development have been the hallmarks of his leadership. A business graduate and lecturer at the University of Iceland, he previously worked at the Icelandic transport company Samskip, advancing to the post of CEO in Germany.

Holdings in Actavis 1 March 2006: 126,930,522 Call options: 377,089

Svafa Gronfeldt

Deputy to the CEO

Robert Wessman's deputy since October 2005, Svafa joined Actavis the previous year as Chief Executive of Strategy and Organisational Development. She was formerly a member of the EMEA leadership team for Deloitte Consulting in Europe and a Managing Partner for IMG Deloitte in Iceland. An associate professor in the department of Economics and Business Administration at the University of Iceland, Svafa has conducted leadership training in the US and the UK. She has a PhD in Industrial Relations from the London School of Economics and Political Science. She also holds an MSc in Technical and Professional Communication from the Florida Institute of Technology and a BA in Political Science and Journalism from the University of Iceland.

Holdings in Actavis 1 March 2006: 982,845 Call options: 1,471,861

Mark Keatley

Chief Financial Officer & Executive Vice President of IT

Mark joined Actavis in 2005 from Famar SA, the leading European contract manufacturer of pharmaceuticals, where he had served as the CFO in London since 2002. He was previously CFO at Ardana Bioscience Ltd in Edinburgh, and at Ashanti Goldfields Company Ltd in Accra, Ghana. Formerly an investment banker and a financial analyst, Mark is a member of the UK Chartered Institute of Management Accountants. He holds an MBA from Stanford Business School and graduated from Cambridge University with an MPhil in International Relations and an MA in History.

Holdings in Actavis 1 March 2006: 735,931 Call options: 1,471,861

Aidan Kavanagh

Executive Vice President of Operations, CEEA

Aidan joined Actavis in 2003, bringing with him over 18 years' experience in the global pharmaceutical industry. Before assuming his present position he was a consultant to Actavis during its acquisition of the Serbian subsidiary, Zdravlje.

Holdings in Actavis 1 March 2006: 1,029,845 Call options: 1,471,861

Gudbjorg Edda Eggertsdottir

Executive Vice President of Third-party Sales & marketing

Gudbjorg joined Actavis in 2002 following the Company's merger with Delta, where she had served as Deputy CEO and Managing Director, Exports. She has an MSc in Pharmacy and has worked in the pharmaceutical industry since 1976.

Holdings in Actavis 1 March 2006: 21,573,986 Call options: 1,471,861

Jonas Tryggvason

Executive Vice President of CEEA Sales & marketing
Jonas joined Actavis in 2003 as a Business Development Manager in Bulgaria. He subsequently moved to Moscow, serving as Regional Director for Eastern Europe. He was previously Vice President of Marketing with Pacific Horizon Petroleum in Seattle. He holds an MA in International Relations from the University of Kent, BSIS, Brussels. He studied computer science at the University of Iceland and graduated from the State Institute of Physical Education in Moscow with an MA in Physical Education and Sports Training.

Holdings in Actavis 1 March 2006: 192,965 Call options: 735,931

Svend Andersen

Executive Vice President of Western Europe, WEMEA Sales & marketing
Svend joined Actavis in 2005 from Alpharma, where he was Vice-President and General Manager for Europe, Middle East and Africa. Before that, in his role as Vice President, Commercial Operations, he was instrumental in the turnaround and management buy-out of Ferrosan. He has worked in the pharmaceutical industry for the past 20 years and holds three commercial degrees from Copenhagen Business School.

Stefan J. Sveinsson

Executive Vice President of Research and Development
Stefan joined Actavis in 2002 following the merger of Delta and Pharmaco (now Actavis). Working with Delta since 1993, he served as Managing Director, Development. Before that, he was Assistant Professor of Pharmaceutics at the University of Iceland for two years. He has a Master's degree in Pharmaceutics from Dalhousie University, Canada.

Holdings in Actavis 1 March 2006: 2,100,278 Call options: 1,471,861

Sigurdur Oli Olafsson

President of US Sales & marketing
Sigurdur joined Actavis in 2003 as Managing Director of Actavis, Inc. in the US. In 2004 he became Chief Executive of Corporate Development and, in 2005, Chief Executive of Sales & Marketing, International. Previously he worked for Pfizer UK, moving to Pfizer US in 2001 to work in global research and development. Before that, he served as Marketing Manager of Omega Farma (now part of Actavis), eventually becoming Drug Development Manager at the company. Sigurdur holds a degree in Pharmacy from the University of Iceland.

Holdings in Actavis 1 March 2006: 989,145 Call options: 1,471,861

Elin Gabriel

Executive Vice President of Operations, Western Europe and the US
Elin joined Actavis in 2005 from Alpharma, where she had served as Vice President, Global Supply Chain, for the previous two years. She brings over 20 years' experience in supply chain and operations in the pharmaceutical, chemical, fibre, plastic, films, and semiconductor industries, principally with Honeywell and Allied Signal. She has a degree in Chemical Engineering from North Carolina State University and an MBA from the College of William and Mary.

The colour of growth

A fast-growing pipeline and an aggressive in-licensing strategy are just two of the elements fuelling Actavis' unparalleled expansion.

Risk management

Financial risk

The principal objective of financial risk management at Actavis 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. Limits are set, and procedures are in place. While it is expected that these procedures are in place, Actavis will seek to improve these controls even further in 2006.

The Group's financial risk management function is centralised through the Actavis Treasury Centre (ATC). 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 ATC. 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.

Market risk

Foreign exchange 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 not hedged.

Interest rate risk

The treasury policy defines the means of managing interest rate risk. For flexibility, Group funding is kept at a relatively short time span. Current market conditions have led the ATC to keep this at the shorter end of the range set by the Board.
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.

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. The application of these policies at all entities, combined with active monitoring at Group level, has resulted, in recent years, 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 ATC 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 the ATC as counterparty, and only the ATC is authorised to enter into third-party treasury deals of any kind.

The ATC 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 programmes. During the year, a new global insurance structure, which is in line with the two strategic acquisitions in the US, was put in place.

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 are set aside if and when they are needed.

Corporate governance

High standards

Actavis Group supports high standards of corporate governance. It has taken steps to comply with the guidelines adopted in 2005 by the Chamber of Commerce, the Confederation of Icelandic Employers and the Icelandic Stock Exchange.

The Group has a two-tier management structure: a Board of Directors and an Executive Board, led by the Company's President & CEO.

Appointment of the Board of Directors

A meeting of shareholders elects the Company's directors. When a new Board is elected, it determines whether a director is deemed independent as defined by the guidelines of the Icelandic Stock Exchange. It has been a long-standing practise in the Icelandic corporate environment to appoint representatives of major shareholders to serve on company Boards. As a result, the Company's directors are often either shareholders or representatives of the major shareholders, as is the case with Actavis' directors. Directors submit necessary information about themselves in order to enable the Board to determine their independence and are required to notify changes in their circumstances that may affect that view.

The Board of Directors consists of five directors, all of whom are non-executive. The Board is responsible for protecting the interests of all shareholders, with due respect for all other stakeholders, and performs a supervisory role.

Chairman
Thor Bjorgolfsson

Directors
Andri Sveinsson
Karl Wernersson
Magnus Thorsteinsson
Sindri Sindrason

The board was re-elected at the Annual General Meeting on 28 March 2005.

Board meetings

At least half the directors must attend a Board meeting to constitute a quorum for decision-making. Major decisions may not be made, however, unless all Board members have had an opportunity to discuss the issue. Matters are decided by a vote. In the case of a draw, the Chairman has the deciding vote.

Board meetings are held at least six times a year and the Board of Directors met six times during the past financial year. Meetings are generally called by the Chairman of the Board but can be convened at the request of any director or the CEO. Meetings are called by e-mail with reasonable notice, and the agenda of the meeting is specified. Documents to be discussed at the meeting are normally sent to attendees in advance.

A Board meeting may be held by electronic communication or telephone, if appropriate. The proceedings are recorded in the minutes, which are signed by those who attended the meeting. All decisions made at the meeting are recorded; directors and the CEO are entitled to have their comments recorded in the minutes if they do not agree with any of the Board's decisions.

The Board ensures that an operational plan and financial plan are made for each financial year.
At regular Board meetings the following business is always on the agenda:

1 Minutes of the last Board meeting
2 CEO's report on the operations of the Company
3 Review of status of accounts and the Company's performance.

Directors must observe confidentiality regarding the proceedings of Board meetings. If a director violates confidentiality or other trust confided in him/her, the Chairman calls a shareholders' meeting, which decides whether the director should be removed and a new director elected.

Responsibilities of the Board of Directors

The Company's Board is responsible for its affairs and ensures that the organisation and activities of the Company normally comply with good and correct practice.

- The Board represents the Company externally; for instance, in courts of law and with government authorities. The signatures of a majority of the Board are binding for the Company.
- The Board monitors all the Company's operations thoroughly and continuously monitors and acquires all information necessary to enable it to perform its tasks. The Board supervises the Company's adherence to its operational and financial plans, and makes decisions on reports on the Company's credit, major undertakings, important guarantees, finance, cash flow and special risk factors. The Board determines how often the CEO submits interim accounts.
- The Board is responsible for compliance with regulatory provisions on annual accounts and bookkeeping. It ensures that the necessary basis for audit exists and that the annual accounts, signed by Board members and the auditor, are completed no later than one week before the Company's AGM.
- Each year's annual accounts are accompanied by a report from the Board, which provides information on important factors that pertain to the assessment of the Company's financial status and performance during the financial year which do not appear in the balance sheet or profit and loss account, or the notes to them. The report explains the Board's proposals for disposal of profit or balancing of loss for the previous financial year. It states the number of shareholders at the beginning and end of the financial year and states the percentage holdings of shareholders who own at least 10% of shares.

- The Board's report also discusses the company's future prospects, research and development work, and important events that have taken place after the end of the financial year.
- Board members have access to all the Company's books and documents.
- The Board engages a CEO and determines his/her salary, terms of employment, and job description.
- The Board monitors the work of the CEO and governs the Company together with him/her.
- The Chairman of the Board ensures that an evaluation of the Board's performance and work is carried out at least once a year.

The Chairman may engage an outside party to carry out the performance evaluation.

Board sub-committees

The Audit Committee
The Company's Board appoints three directors to the audit committee. Directors who are also Company employees may not serve on the committee and must have knowledge and experience of finance, bookkeeping and accounts.

The committee's role is to advise the Board on the following:
- Monitoring of the Company's financial status.
- Evaluation of Company's internal monitoring system and risk management.
- Evaluation of managers' reports on financial matters.
- Evaluation of compliance with regulatory provisions.
- Preparation of the selection of a chartered accountant as Company auditor.
- Direct access to the chartered accountant who is Company auditor.
- Evaluation of audit reports.
- Evaluation of other work of the chartered accountant who is Company auditor.

The Compensation Committee
The Company Board appoints three Board members to the compensation committee. Board members who are also Company employees may not serve on the committee.

The role of the committee is to advise the Board on the following:
- Policy-making on the principles of the Company's terms of employment, including performance-related salaries and stock options in the Company.
- Contract with the CEO concerning salary and other terms of employment.
- Contracts with other employees also on the Board concerning salaries and other terms of employment.

Plans for stock options approved by the Board are submitted to a shareholders' meeting for approval.

The sub-committees will be appointed at the first Board meeting following the 2006 AGM.

Tasks of the CEO

The Board defines the tasks of the CEO in a job description that includes, at a minimum, the following:
- The CEO deals with the day-to-day operation of the Company and must, in these matters, follow the Board's policy and instructions.
- The CEO may not make decisions on extraordinary or major matters without the approval of the Board of Directors unless such decisions are necessary to avoid losses for the Company and a meeting of the Board of Directors cannot be called to make the decision. All such decisions made by the CEO must be reported to the Board of Directors.
- The CEO must ensure that the Company's accounts are kept in accordance with law and customary practise and that the Company's assets are handled in a secure manner.
- The CEO must ensure that the Company's interests are suitably insured.
- The CEO submits to the auditor the information and documents that are significant to the audit, including such information, documents, facilities and assistance as the auditor deems necessary for his/her work.
- The CEO, together with the Board, signs the annual accounts.

Responsibilities of the Executive Board

The primary responsibilities of the Executive Board are to carry out the day-to-day operation of Actavis; to make strategic decisions in accordance with the corporate vision and mission; to align strategy and planning; to ensure that the Company has the appropriate resources to execute its strategy and plans; and to ensure that the Group's budget and forecasts are properly prepared, that targets are met, and that the business is, in general, managed and developed within the overall budget.

The Executive Board meets monthly; meetings are attended by the Vice President of Corporate communications and other senior personnel, as appropriate. The Executive Board follows the policy and directions of the Board of Directors in Actavis' management. The CEO appoints other members of the Executive Board.

The Executive Board consists of ten Chief Executives. It is headed by the President & CEO, Robert Wessman.

Robert Wessman, President & CEO

Svafa Gronfeldt, Deputy to the CEO
Aidan Kavanagh, Executive Vice President of Operations, CEEA
Elin Gabriel, Executive Vice President of Operations, Western Europe and the US
Gudbjorg E Eggertsdottir, Executive Vice President of Third-party Sales & marketing
Jonas Tryggvason, Executive Vice President of CEEA Sales & marketing
Mark Keatley, CFO & Executive Vice President of IT
Sigurdur O Olafsson, President of US Sales & marketing
Stefan J Sveinsson, Executive Vice President of Research & Development
Svend Andersen, Executive Vice President of WEMEA Sales & marketing

In 2005, Agust H Leosson resigned as Chief Excecutive of Finance and was replaced by Mark Keatley. Sigurdur O Olafsson, previously Chief Executive, Corporate Development and Sales & marketing International, became President of US Sales. Ashok Narasimhan, Chief Executive, Strategic Businesses, and Per Edelmann, Chief Executive, Sales & marketing International, left the company.

The Chief Executive of Quality Affairs is no longer part of the Executive Board but is part of the Group's Shared Services. Quality Affairs is still headed by Gudrun S Eyjolfsdottir.

Remuneration of the Board of Directors and Executive Board

The remuneration of the Board of Directors is decided at the Annual General Meeting. The remuneration of the CEO is decided by the Board of Directors.

Competitive remuneration for the members of the Executive Board is important in order to ensure that the Group can attract and retain qualified people with the relevant experience and skills. It is therefore important to offer an attractive package that reflects the required workload and level of responsibility.

The remuneration of the Board of Directors and the Executive Board is on page 76.

Auditing

External audit
An independent auditor is appointed annually by the shareholders at the Annual General Meeting.

Internal audit
The head of the internal audit department reports to the Executive Board and works closely with the Executive Vice President of Finance and the global finance teams.

The internal audit department is currently working on a number of cross-functional projects across the Group. The team works closely with the Group's Executive Vice President of Finance and his team to address any control weaknesses that might be identified. The internal audit function now has auditors in the US and in Western Europe (based in Copenhagen) and will recruit an auditor for the Eastern European region in 2006. The function continues to build on existing processes and procedures and to improve the general control environment across the Group.

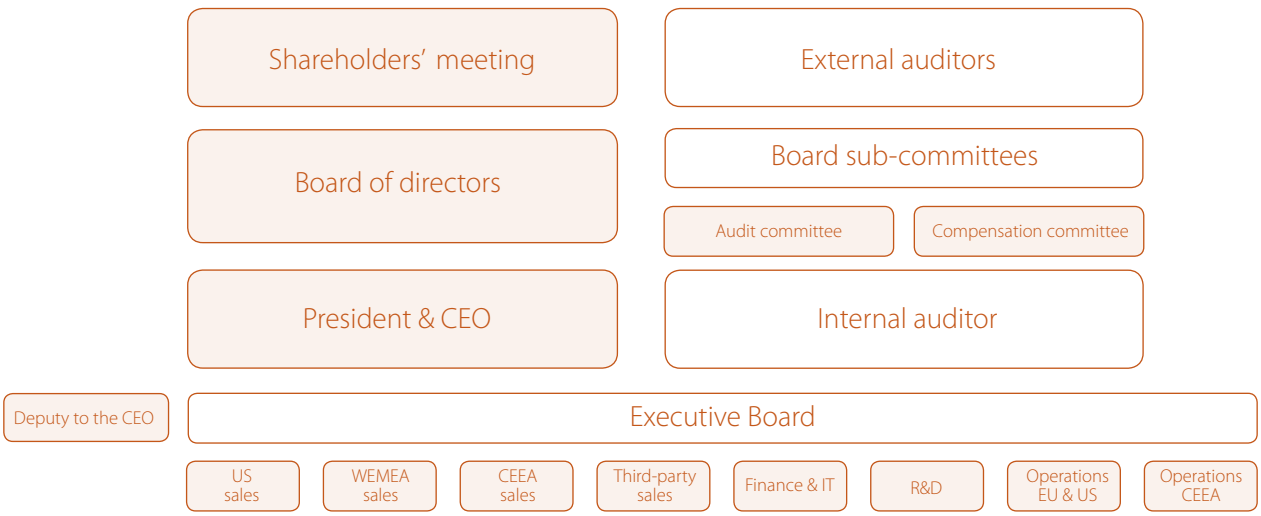
In addition to carrying out project work, the internal audit function also conducts reviews across the Group. The results of these reviews are reported to the relevant management at local, regional and Group level.

The audit findings are presented to the Executive Board twice a year and to the Audit Committee at least once a year.

Annual General Meeting

The Annual General Meeting will take place on 28 March 2006 at 17:00 GMT at Hotel Nordica, Reykjavik, Iceland.

Governance bodies



Compliance

The Company complies fully with the relevant rules and regulations on insider trading. The Compliance Officer, who reports direct to the Company's CEO, ensures that the Company's employees and management are aware of existing laws and regulations. Rules on insider information and insider trading are published and regularly distributed throughout the organisation, and presentations are made regularly to inform new employees of their obligations as insiders.

The Company expects all employees who have access to insider information to act as is required of an insider. All information that relates to the Company's present and future business operations must be kept strictly confidential. The Company's insider register is maintained by the Compliance Officer, and the Icelandic Stock Exchange is informed regularly of any changes to it. Primary insiders are members of the Board, the CEO, the members of the Executive Board and the auditors. Other primary insiders are nominated persons in legal, financial, accounting, R&D, communications and investor relations functions. Persons who participate in the development and preparation of a project, including mergers or acquisitions, are considered temporary insiders. A separate temporary insider register is maintained by the Company when the Compliance Officer considers it appropriate.

During the closed period, insiders are not allowed to trade in the Company's securities. The closed period begins four to five weeks after the last publication date of annual or interim results. These publication dates are published in the financial calendar at www.actavis.com/investors.

Corporate responsibility

Among Actavis' most valuable assets is the trust and confidence of its investors, employees, customers and suppliers, as well as the local communities and environments in which it operates. Their interests are integral to the Group's business operations and corporate reputation. Led by its core values, Actavis maintains a commitment to quality and growth that is equalled by its determination to create value for all its stakeholders.

Management

Effective corporate responsibility requires a high level of commitment from all staff. The Actavis Board and Group Executive Board lead the process and approve the strategic direction of the Group. Actavis' management team (the top two layers of management in the parent company and its subsidiaries) is accountable for the development and implementation of programmes appropriate to its responsibilities, while the Executive Board takes responsibility for matters relating to corporate, social and ethical policies.

Relations with shareholders

Actavis aims to keep its shareholders well informed about corporate affairs and performance. The Group has adopted quarterly reporting, and its website includes its latest presentations, annual reports and notices to the Iceland Stock Exchange, as well as a corporate fact sheet, details of corporate governance, information about its share price and other financial data.

Investor and analyst meetings are held each quarter to present financial results. Separate meetings are held as necessary in order to inform shareholders about specific activities or major events.

Relations with employees

Actavis aims to build and maintain the best possible relations with all employees and their representatives. The Company endeavours to engage its employees actively in key business objectives, overall performance, and matters affecting their employment. It strives to respect the individual differences and dignity of the Group's employees throughout the employment relationship.

Actavis endeavours to be an attractive employer in all markets in which it conducts business operations. The Company provides training to help its employees to perform to the best of their ability and prides itself in providing excellent opportunities for those who wish to expand and develop their careers.

Actavis takes responsibility for providing a non-discriminatory work environment. The Group co-operates with labour unions and maintains an open and informative dialogue with such organisations in the countries where it operates.

Relations with suppliers

Actavis is committed to treating its suppliers fairly and working with them in partnership in order to maintain open and honest relations.

Relations with local communities

Actavis maintains a continuous and open dialogue with various interest groups and is committed to investing in and working with the communities in which it operates. These include universities, research groups, non-profit and political organisations, customers, suppliers, public authorities, and representatives of the financial community.

Charitable contributions

Actavis is an active global sponsor of and contributor to various social initiatives. Its strategy in local communities is to support affairs that are consistent with its business: that of improving health and the quality of life. Through its charitable programme, Actavis helps to make a difference in matters related to children's welfare, health, knowledge creation, culture and sport.

Some major global initiatives in 2005 were:

Youth in Europe
In 2005 Actavis Group announced its intention to sponsor a European project to combat drug abuse among young people. The programme has a threefold objective: to monitor drug abuse among youth in the cities involved; to compare the various preventative methods available; and to involve institutions, governments, schools and the public in measures against drug abuse in the participating cities.

In conjunction with the City of Reykjavik, the University of Iceland, and Reykjavik University, and under the patronage of the President of Iceland, Mr Olafur Ragnar Grimsson, Actavis will be the lead sponsor of this collaborative project, which will include ten cities over the next five years: Reykjavík, Oslo, Stockholm, Helsinki, Riga, Vilnius, Belgrade, Sofia, Istanbul and St Petersburg. The project will utilise Icelandic research and experience from Reykjavik University and the University of Iceland, both of which have been involved in successful programmes to combat drug abuse in Iceland over the past 25 years.

Actavis will contribute funding for studies and preventative campaigns in five cities — Vilnius, Belgrade, Sofia, Istanbul and St Petersburg — as well as funding further research activities in Iceland. The project will be the first overseas initiative to use Icelandic academic research in the social sciences and Icelandic skills and procedures in the field of drug abuse prevention.

The fight against AIDS
In 2005 Actavis, in collaboration with the President of Iceland, took the first steps in setting up an Icelandic AIDS initiative that will offer high-quality anti-retroviral drugs (ARD) at a low price

to those suffering from AIDS in developing countries. Actavis is partnering with world leaders in the campaign against AIDS in order to make a significant contribution to this global fight through effective and sustainable projects. The presidents of Iceland and India have endorsed a collaborative agreement between Actavis and Emcure in India for the development of ARV drugs.

Environmental, health and safety (EHS)

Environmental performance

Actavis is committed to ensuring compliance with all regulatory requirements and strives to exceed these requirements where possible. Processes are in place for monitoring compliance. There were no fines or prosecutions related to Actavis' environmental performance during the year 2005.

A system has been set up to compile baseline environmental data such as energy usage and the generation of waste and wastewater. In 2006 these data will be reviewed and ambitious targets set in order to minimise the Company's impact on the environment. Actavis is also committed to managing environmental risks proactively so as to prevent pollution. Last year the Company made some excellent improvements in the reduction of pollution risk; these included reducing hazardous materials on site and redesigning storage facilities. The introduction of EHS management systems at the Group's facilities has improved the way the Company manages the environmental aspects of its operations, as well as achieving its goal of making continual improvements in environmental performance.

Waste

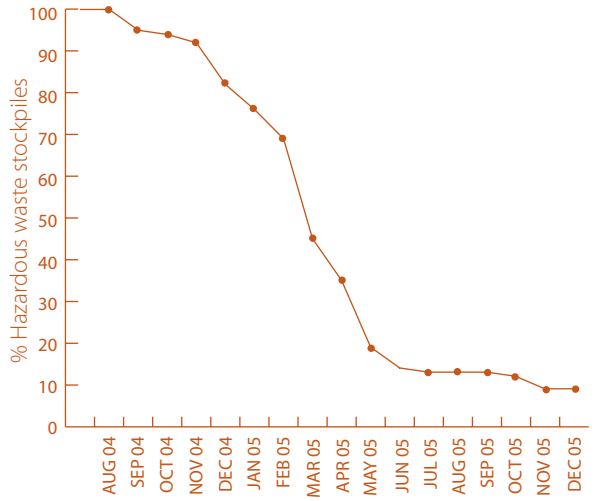
Significant improvements have been made in the management of the stockpiles of hazardous waste that had accumulated over many years at the Group's manufacturing facilities. The Company exceeded its target of 90% reduction. Actavis' environmental specialists conducted audits and selected companies that could demonstrate that the waste would be handled, stored, treated and disposed of according to all legal requirements.

Baseline waste data will be used during the year 2006 to identify targets for waste reused, recycled or recovered (currently 50%).

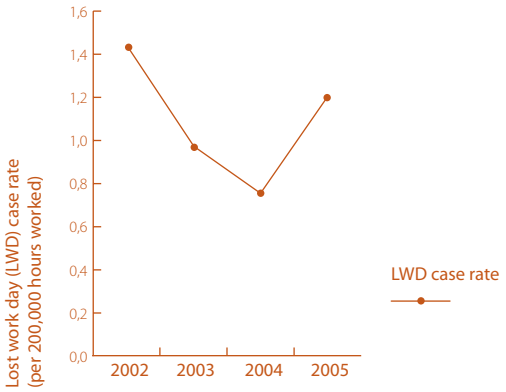
Air emissions

Actavis' environmental specialists have conducted reviews to ensure compliance with all applicable regulatory requirements. Improvements have been made to control systems; however, the priority is to eliminate or minimise emissions at source. A solvent replacement programme has been initiated so as to reduce solvent emissions, as well as reducing health and safety risks. The Company's energy efficiency project is expected to yield significant environmental benefits and cost savings.

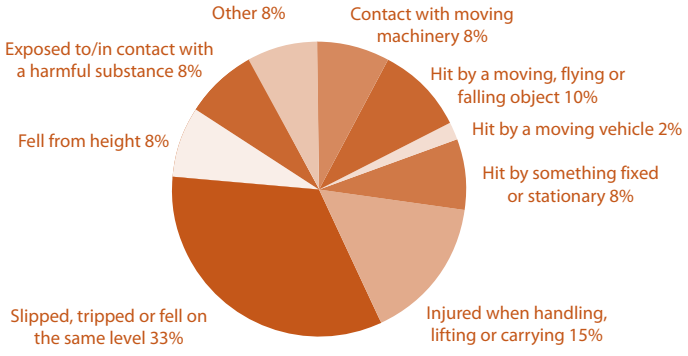
Removal of hazardous waste stockpiles



Illness/injury data 2005



Type of lost-time incident



Wastewater
The volume of wastewater generated monthly is monitored at Group level, as is compliance with permits/licences. There was one instance of COD (chemical oxygen demand) non-compliance in 2005; this incident was thoroughly investigated. More advanced monitoring has been introduced to improve our control of discharges, and technical options to prevent such incidents are currently being assessed by external experts. Actavis has invested in its wastewater treatment infrastructure to improve performance and has further plans for 2006.

EHS management systems
Integrated environmental, health and safety management systems are being implemented across the Group's manufacturing sites. Corporate audits using ISO 14001 and OHSAS 18001 standards were conducted at 87% of our manufacturing facilities in 2005. Quality and EHS continue to work together to ensure that an integrated management system approach is adopted throughout the Company.

Actavis' EHS specialists believe that integrating EHS considerations into the Company's planning and decision-making improves its overall efficiency and provides a wealth of benefits for its employees and the communities in which it operates. The Company's forward-thinking teams seek opportunities to eliminate environmental, health and safety risks at the design stages of projects.

Health and safety
Actavis continuously strives to minimise occupational illness and injuries among its employees and contractors. The Group's injury/illness reporting system was set up in mid-2004 in order to track lost-time incidents throughout Actavis. The Company monitors incidents resulting in one or more days of absence from work (not including the day of the incident).

Actavis' "Lost Work Day" case rate for Actavis employees was 1.2 per 200,000 hours worked, which is significantly lower than the manufacturing industry average of 6.6 per 200,000 hours worked. The increase between 2004 and 2005 is likely the result of the more stringent reporting requirements that were introduced in 2005. This upward trend may also continue in 2006. EHS data are collected from all manufacturing sites and major office locations. Actavis plans to extend the reporting process to smaller office locations and our recent acquisitions during the year 2006.

Actavis monitors the cause of accidents regularly and takes appropriate actions to prevent re-occurrence. The main causes of lost-time incidents in 2005 were "slips, trips and same-level falls" and "handling, lifting or carrying". The most common injuries were contusions, fractures and lacerations. Hand and finger injuries contributed almost 30% of all lost-time injuries. Serious incidents are communicated throughout the EHS networking group. Each site reviews the incident alert and assesses what can be learned in order to prevent the re-occurrence of the incident.

The Group is equally committed to protecting the health and safety of its contractors and has recorded a contractor incident rate of 0.80 per 200,000 hours worked. The main cause of incidents was "falls from height". During the year 2006 Actavis is supporting its contract companies to improve incident reporting by implementing the Company's contractor safety procedures and providing additional training.

Managing risks
Risk assessment programmes have been established at every European manufacturing site. At some locations external experts were contracted to provide risk assessment methodology and training and to evaluate progress. Cross-functional risk assessment teams identify hazards, evaluate risks and implement appropriate controls.

Actavis recognises the importance of identifying and investigating injury-free incidents. Currently the most serious occurrences are tracked at Group level, and there are plans for further improvement of near-miss reporting processes within Actavis.

Actavis encourages management and supervisors to carry out job observations through its inspection programmes. On average there are six documented inspections per site per month.

Actavis cares about the health and welfare of its employees and provides medical surveillance at all manufacturing sites. Currently 89% of its key medical surveillance programmes have been implemented. Plans are in place to close this gap in 2006.

A wide variety of initiatives (newsletters, EHS Week, health promotion activities, local recognition programmes) have been introduced throughout Actavis in order to raise awareness of the importance of environmental, health and safety issues. The Actavis team is committed to promoting a positive culture where every employee accepts personal responsibility for EHS.

Key challenges
In 2006 Actavis will ensure that recent acquisitions are fully integrated into the Company's EHS strategy and processes. The Company will continue to drive its improvement programmes forward whilst identifying opportunities for further enhancement of environmental, health and safety performance.

The colour of care

Committed to a healthy future, Actavis is sponsoring the development of inexpensive generics to use against the HIV virus for those who need them most.

The Actavis Board of Directors

Thor Bjorgolfsson is the largest shareholder in Actavis. He has been a member of the Actavis Board since 1999 and Chairman since 2000. An entrepreneur and investor living in the UK, Mr Bjorgolfsson is the founder and major shareholder of the alternative investment firm Novator in London.

Mr Bjorgolfsson has significant interests in telecommunication companies in Finland, Poland, the Czech Republic, Bulgaria and Greece, and in financial service companies in Iceland and Bulgaria. He is also Chairman of the Board of Straumur-Burdaras Investment Bank in Iceland and, until recently, was a Board Member at the Nordic investment bank Carnegie.

Number of shares 1 March 2006: 1,296,379,823

Karl Wernersson has been a member of the Board since 1999. Mr Wernersson is a founder and Board Chairman of one of Iceland's largest pharmacy chains, Lyf og Heilsa, and one of the largest shareholders and Board Member of Glitnir (formerly Islandsbanki), one of Iceland's leading banks.

Number of shares 1 March 2006: 111,350,884

Sindri Sindrason was previously the Chief Executive Officer of Actavis Group (then Pharmaco). Mr Sindrason is a private investor and has been a member of the Board since 2003.

Number of shares 1 March 2006: 12,539,829

Magnus Thorsteinsson joined the Board in 2003. He is the majority owner and Chairman of the Icelandic airline conglomerate the Avion Group.

Number of shares 1 March 2006: 0

Andri Sveinsson joined the Board in 2004. He is the Financial Director of Novator Ltd and a member of the Board of the National Bank of Iceland.

Number of shares 1 March 2006: 0

Endorsement by the Board of Directors and the President and CEO

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

Net profit for the year amounted to EUR81.0 million, according to the income statement. Total equity amounted to EUR1,008.0 million at the year end as shown in the balance sheet. Changes in total equity and appropriation of net profits are further explained in the financial statements. The Board of Directors does not propose a payment of dividend to shareholders in 2006.

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

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

At the beginning of April 2005 the Company acquired the Indian company Lotus Laboratories Ltd. and the Czech company Pharma AVALANCHEe s.r.o. Lotus Laboratories specialises in research and development and Pharma AVALANCHEe in sales and marketing of generics. The results of both Lotus Laboratories Ltd. and Pharma AVALANCHEe s.r.o. are included in the financial statements from 1 April 2005.

In May 2005 the Company signed a stock purchase agreement for the purchase of the US company Amide Pharmaceuticals Inc., which specialises in the development, manufacture and marketing of pharmaceuticals. The acquisition was supported by a EUR263 million share offering and sale of treasury shares, along with a EUR600 million syndicated credit facility that was also used to refinance the Group's existing short-term and long-term debt. The results of Amide Pharmaceuticals Inc. are included in the financial statements from 1 July 2005.

At the beginning of September 2005 the Company acquired the Bulgarian company Higia AD, a distributor of pharmaceuticals in Bulgaria. At the end of September the Company acquired the generic business of the Hungarian company Keri Pharma. Keri Pharma specialises in the development, sales and marketing of generic pharmaceuticals. The results of Keri Pharma and Higia AD are included in the financial statements from 1 October 2005 and 1 December 2005 respectively.

At 17 October 2005 the Company signed an agreement to purchase the human generic business of the US listed company Alpharma Inc., for a total consideration of US$810 million (EUR675 million) in cash. The Company has secured US$1,695 million (EUR1,413 million) in financing for the acquisition and refinancing of the majority of existing debt. The financing comprises a US$970 million (EUR808 million) term loan facility, a US$300 million (EUR250 million) revolving credit facility and a US$443 million (EUR369 million) preferred share offering. The results of Alpharma's human generic business are included in the financial statements from 19 December 2005.

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

The Group's consolidated financial statements for the year 2005 were approved by the Board of Directors and the President and CEO of Actavis Group hf. on 7 March 2006 and signed on their behalf by:

Thor Bjorgolfsson
Chairman of the Board of Directors

Sindri Sindrason
Director

Karl Wernersson
Director

Magnús Thorsteinsson
Director

Robert Wessman
President and CEO

Andri Sveinsson
Director

Auditors' report

Board of Directors and shareholders of Actavis Group hf.

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

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

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

Reykjavik, 7 March 2006

Alexander G. Edvardsson

Audur Thorisdottir

KPMG Endurskodun hf.

Consolidated income statement

	Notes	2005	2004
Net sales		551.384	424.596
Cost of sales		(276.470)	(225.007)
Gross profit		274.913	199.589
Other operating income		27.880	28.616
Sales and marketing		(81.374)	(64.892)
Research and development		(54.289)	(32.269)
General and administrative		(60.618)	(39.450)
Impairment losses of goodwill		0	(3.128)
		(168.401)	(111.123)
Profit from operations		106.512	88.466
Loss from associates		(1.816)	(1.129)
Financial income and (expenses)	8	(13.216)	(12.347)
Profit before tax		91.479	74.990
Income tax	9	(10.477)	(10.708)
Net profit		81.003	64.282
Attributable to:			
Equity holders of the Parent		78.007	60.286
Minority interest		2.995	3.996
Net profit		81.003	64.282
Earnings per share	10		
Basic earnings per share (EUR)		0.02551	0.02162
Diluted earnings per share (EUR)		0.02548	0.02159

Amounts are in thousands of Euro

Consolidated balance sheet
at 31 December 2005

	Notes	2005	2004
Assets			
Non-current assets			
Goodwill	11	784.634	236.801
Other intangible assets	12	547.956	30.622
Property, plant and equipment	13	346.270	145.228
Investment in associated companies		253	2.032
Other investments		701	6.155
Deferred tax assets	27	54.417	21.247
		1.734.232	442.085
Current assets			
Inventories	16	231.367	71.572
Fair value derivatives	17	9.205	0
Trade and other receivables	18	294.742	153.184
Cash and cash equivalents		99.308	17.325
		634.622	242.081
Total assets		2.368.854	684.166
Equity and liabilities			
Stockholders' equity			
Issued capital	19	52.961	36.181
Share premium		687.764	98.332
Other reserves	20	10.012	(23.410)
Retained earnings		246.597	170.720
		997.334	281.822
Minority interest		10.695	9.853
Total equity		1.008.029	291.676
Liabilities			
Non-current liabilities			
Interest-bearing loans	23	868.389	162.983
Retirement benefit obligation	24	11.558	5.753
Obligations under finance leases	25	15.516	4.894
Deferred income tax liabilities	27	78.506	9.493
		973.969	183.123
Current liabilities			
Interest-bearing loans		22.383	129.868
Accounts payable and other liabilities		359.888	73.379
Obligations under finance leases	25	2.111	2.158
Provisions	28	2.474	3.962
		386.855	209.367
Total liabilities		1.360.825	392.490
Total equity and liabilities		2.368.854	684.166

Amounts are in thousands of Euro

Consolidated statements of cash flows

	Notes	2005	2004
Cash flows from operating activities			
Net earnings		81.003	64.282
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and impairment of fixed assets	13	21.159	13.372
Amortisation of intangible assets	12	20.801	8.793
Impairment of goodwill		0	3.128
Currency fluctuations and indexation		(14.208)	8.025
Changes in deferred taxes		(5.856)	(5.119)
Other changes		6.182	(365)
Working capital provided by operating activities		109.079	92.116
Changes in operating assets and liabilities:			
Inventories, (increase) decrease		(13.630)	9.831
Receivables, decrease (increase)		5.988	(58.289)
Short-term liabilities, increase		1.567	3.052
Changes in operating assets and liabilities		(6.075)	(45.406)
Net cash provided by operating activities		103.004	46.710
Cash flows to investing activities			
Increase in intangible assets		(41.188)	(13.790)
Proceeds from sale of intangible assets		1.426	0
Investment in property, plant and equipment		(62.365)	(43.081)
Proceeds from sale of property and equipment		3.686	1.650
Investment in subsidiaries and other companies net of cash acquired		(884.578)	(8.374)
Proceeds from sale of investment in other companies		3.792	0
Securities, change		18.001	451
Net cash used in investing activities		(961.227)	(63.144)
Cash flows from financing activities			
Changes in capital stock		247.379	(768)
Issuance of preference shares		356.498	0
Dividend paid		(3.554)	(3.182)
Proceeds from long-term borrowings		661.348	36.766
Payments of long-term debt		(163.307)	(18.508)
Changes in bank loans		(160.113)	(9.041)
Changes in finance lease		(471)	0
Net cash generated from financing activities		937.780	5.267
Net change in cash and cash equivalents		79.557	(11.167)
Effects of foreign exchange adjustments		2.426	(1.475)
Cash and cash equivalents at beginning of year		17.325	29.967
Cash and cash equivalents at end of year		99.308	17.325
Other information			
Interest paid		(18.756)	(13.714)
Income tax paid		(18.795)	(6.252)

Amounts are in thousands of Euro

Consolidated statement of changes in shareholders' equity

	Issued capital							
	Common stock	Preference shares	Share premium	Other reserves	Retained earnings	Shareholders equity	Minority interest	Total equity
Balance at 1 January 2004	36.113	0	99.447	(21.252)	113.609	227.917	7.316	235.233
Translation difference				(2.158)		(2.158)		(2.158)
Changes in treasury stock	68		(1.115)			(1.047)		(1.047)
Net profit for the year					60.286	60.286	3.996	64.282
Changes in minority interest							(1.459)	(1.459)
Dividend paid					(3.175)	(3.175)		(3.175)
Balance at 31 December 2004	36.181	0	98.332	(23.410)	170.720	281.823	9.853	291.676
Change due to implementation of IAS 39					1.429	1.429		1.429
Adjusted equity at 1 January 2005	36.181	0	98.332	(23.410)	172.149	283.252	9.853	293.105
New shares issued	4.557		160.895			165.452		165.452
Changes in treasury stock	2.223		82.039			84.262		84.262
Preference shares issued		10.000	346.498			356.498		356.498
Translation difference				31.674		31.674		31.674
Accrued stock option				1.748		1.748		1.748
Net profit for the year					78.007	78.007	2.995	81.003
Changes in minority interest						0	(2.153)	(2.153)
Dividend paid					(3.560)	(3.560)		(3.560)
Balance at 31 December 2005	42.961	10.000	687.764	10.012	246.596	997.334	10.695	1.008.028

Amounts are in thousands of Euro

1. General Information

Actavis Group hf. (the Company) is a limited liability company domiciled in Iceland. Actavis Group and its subsidiaries (the Group) specialises in the development, manufacturing and sale of generic pharmaceuticals on international markets. The Group is financially strong and has experienced rapid growth in recent years.

The Group operates across five continents with its headquarters in Iceland. Principal markets include North America, Germany, the United Kingdom, the Nordic Countries, Turkey, Bulgaria and the Netherlands. Teams of pharmacists, chemists and other scientific professionals make up a total workforce of around 10,000 in over 30 countries. The Group maintains modern manufacturing facilities in USA, Bulgaria, China, Iceland, Indonesia, Malta, Turkey and UK. The plants produce a variety of medicines in different formulations, including tablets, capsules, injectables, suspensions, suppositories, creams and ointments.

An extensive network of sales and marketing offices facilitates effective market penetration. Strategic acquisitions, the opening of new sales offices, and intensive investment in the development of generic pharmaceuticals are fuelling the growth of the Group and have positioned it to take advantage of future opportunities.

These financial statements are presented in thousands of euro, with amounts rounded to the nearest thousand, as the euro is the currency of the primary economic environment in which the Group operates.

2. Significant accounting policies

Basis of accounting
The consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as of 1 January 2005. The disclosures required by IFRS 1 concerning the transition from IS GAAP to IFRSs are given in Note 30-32.

The consolidated financial statements are prepared on a historical cost basis, except for the revaluation of certain properties and financial instruments. The principal accounting policies adopted are set out below.

Basis of preparation
The consolidated financial statements are prepared on the basis of the stable platform of International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB).

The IFRS financial information is prepared on the basis of all IFRS, Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) interpretations issued by the IASB effective for 2005 reporting.

The preparation of the financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of judgements made about the carrying values af assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates

Background

The IFRS project

In June 2002, the Council of the European Union adopted a Regulation requiring listed companies in its Member States to prepare their consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs) from 2005.

The Group's task of converting its financial reporting from IS GAAP to IFRSs has now been completed. A training programme has been completed and rolled out to all finance staff worldwide, and the adjusted historical data, which provide the comparative information under IFRSs in 2005, have been prepared.

The transition date to IFRSs for the Group is 1 January 2003. Normally, accounting changes of this nature would require full retrospective application, but under the IFRS transitional rules, certain adjustments can be applied with effect from the transition date of 1 January 2003.

IFRS 1 exemptions

IFRS 1, First-Time Adoption of International Financial Reporting Standards, permits those companies adopting IFRSs for the first time to use some exemptions from the full requirements of IFRSs in the transition period. The Group intends to take the following key exemptions:

• Business combinations: Business combinations prior to the transition date (1 January 2003) have not been restated on IFRS basis.

• Fair value or revaluation as deemed cost: An entity may elect to use fair value or a previous GAAP revaluation at the date of the opening balance sheet date as deemed cost. The carrying amount of property, plant and equipment is not recalculated.

• Share-based payments: A first-time adopter has an option not to apply IFRS 2 retrospectively to equity instruments granted on or before 7 November 2002. This exemption is taken because it is not allowed to disclose the fair value of those equity instruments, which value was not disclosed as determined at the measurement date.

• Financial instruments: Financial instruments are recorded on IS GAAP basis prior to 1 January 2005, rather than in accordance with IAS 32, Financial Instruments: Disclosure and Presentation, and IAS 39, Financial Instruments: Recognition and Measurement.

The Group adopted IAS 39 in full on 1 January 2005. One of the exemptions available under IFRS 1 relaxes the requirement to comply with IAS 32 and IAS 39 until that time. The Group took the advantage of this exemption; therefore, in 2003 and 2004, financial instruments are accounted for and presented on an Icelandic GAAP basis. On 1 January 2005 an adjustment to the opening balance sheet was made to reflect the movements from the IS GAAP carrying values to the IAS 32 and IAS 39 values, which for many financial instruments is fair value.

The IFRS financial information has been prepared by applying these exemptions.

Basis of consolidation

Subsidiaries

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

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

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

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

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

Associates

An associate is an entity over which the Group is in a position to exercise significant influence, but not control or joint control, through participation in the financial and operating policy decisions of the investee.

The associates are incorporated in these financial statements using the equity method of accounting. Investment in associates is carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of associates in excess of the Group's interest in those associates are not recognised.

When companies within the Group transact with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Losses may provide evidence of an impairment of the asset transferred, in which case appropriate provision is made for impairment.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and tested for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed. On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Goodwill arising on acquisitions before the date of transition to IFRSs has been retained at the previous IS GAAP valuation subject to testing for impairment at that date. Goodwill amortised under IS GAAP prior to 2003 has not been reinstated and is not included in determining any subsequent profit or loss on disposal.

Revenue recognition

Revenue is recognised in the income statement when goods or services are supplied or made available to external customers against orders received and when title and risk of loss passes to the customer.

Revenue is recognised as follows for the different activities of the business after deductions for discounts and returns.

- Revenue from sales of pharmaceutical products is recognised on delivery to the customer, at which point the risk and rewards of ownership pass to the customer.
- Revenue from dossier sales is recognised in accordance with contractual milestones, upon confirmation of acceptance of the completion of the milestones by customers.
- Payments received from customers in advance of performance of the Group's obligations are included as deferred revenue and are not recognised as income until the obligations have been fulfilled.

Financial income and expenses

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investment is recognised when the Group's right to receive payments has been established.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are recognised as assets at their cost value at the date of inception of the lease and are depreciated on a basis consistent with similar owned assets or the lease term, if shorter. The corresponding liability to the lessor is included in the balance sheet as an obligation under finance leases.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing on the balance sheet date. Foreign exchange differences arising on translation are recognised in the income statement.

On consolidation, the assets and liabilities of the Group's subsidiaries are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the income statement.

Post-retirement benefit

Defined contribution scheme

The Group's contributions to defined contribution plans are charged to the income statement as incurred.

Employee termination indemnity

In accordance with the existing social legislation in Turkey, companies are required to make certain lump-sum payments to employees on retirement or on termination for reasons other than resignation or misconduct. These payments are calculated based on a pre-determined formula and are subject to certain upper limits. The accrued liability is based on the present value of the future obligation of the Group that may arise from the retirement of the employees.

Post-retirement payment scheme

Government legislation in Bulgaria requires employers to pay retirement benefits based on an employee's final salary and years of service to the Group. A calculation is performed annually by a qualified actuary to determine the Group's obligation according to this scheme.

Taxation

The tax expense comprises tax currently payable and deferred tax.

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

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

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

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

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

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. The calculation of dilution due to stock options is made by applying the Treasury Stock method.

Intangible assets

Research & Development

Research and development costs comprise of costs relating to the Group's research and development activities, including clinical studies, amortisation and depreciation, and labour costs that are directly or indirectly attributable to the Group's research and development activities. Research costs are recognised in the income statement as incurred. An internally generated intangible asset arising from the Group's clinical development is only recognised if all of the following conditions are met:

- It is technically feasible to complete the intangible asset so that it will be available for use or sale.
- It is intended to use or sell the intangible asset.
- The intangible asset is capable of being used or sold.
- The intangible asset will generate probable future economic benefits. The Group has identified, amongst other things, the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.
- The expenditure attributable to the intangible asset during its development can be reliably measured.

Internally generated intangible assets are amortised on a straight-line basis over their expected useful lives, generally five years.

Other intangible assets

Other intangible assets separately acquired or acquired as part of a business combination are amortised over their estimated useful lives from the time they are available for use. The amortisation charge for each period is recognised as an expense.

Property, plant and equipment

Property, plant and equipment are carried at acquisition or manufacturing cost, less depreciation and impairment losses. Subsequent acquisition costs are capitalised. The manufacturing cost of self-constructed property, plant and equipment is calculated on the basis of the directly attributable costs as well as an appropriate share of overheads. In the case of acquisitions denominated in foreign currencies, subsequent exchange rate movements do not affect recognition of the asset at the original acquisition or manufacturing cost.

The depreciable amount of assets is allocated on a straight-line basis over their expected useful lives. The useful life is regularly reviewed and adjusted to the expected life. Impairment losses are charged where required in accordance with IAS 36, and these are subsequently reversed if the original grounds for the write-down no longer apply. The depreciation charge for each year is recognised as an expense, on the following bases:

Property and plant	2-8%
Equipment	10-33%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or the lease term, if shorter.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where assets do not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but not to exceed the carrying amount if no impairment loss has been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. An impairment loss in respect of goodwill is not reversed.

Investment

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

Securities that the company has the expressed intention and ability to hold to maturity are valued at cost, less an allowance for estimated irrecoverable amounts.

Inventories

Inventories are stated at the lower of cost or net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overhead expenses that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less the estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Trade receivables

Trade receivables are stated at their nominal value as reduced by appropriate allowances for estimated irrecoverable amounts. Accounts receivable in other currencies than Euro are valued at the exchange rates prevailing on the balance sheet date.

Cash and cash equivalents

Bank balances and cash comprise cash and short-term deposits held by the Group's treasury function. The carrying amount of these assets approximates their fair values.

Equity instruments

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

Preference share capital

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

Repurchase of share capital

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

Dividend

Dividend is recognised as a liability in the period declared.

Share-based payments

On 1 January 2003, Actavis Group hf. applied the requirement of IFRS 2, Share-based Payments. In accordance with the transition provisions, IFRS 2 will be applied to all options granted after 7 November 2002 that had not been vested as of 1 January 2003.

The Group has issued share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest.

Financial liability and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all its liabilities.

Bank borrowings

Interest-bearing loans are recorded on the basis of the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis on the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Interest-bearing loans

Interest-bearing borrowings are recorded initally at fair value less attributable transaction cost. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value recognised in profit or loss over the period of the borrowings on an effective interest basis.

Accounts payable

Accounts payable are valued at nominal value, and accounts payable in other currencies than Euro have been recorded at the exchange rates prevailing on the balance sheet date.

Provisions

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

Provisions for restructuring costs are recognised when the Company has a detailed formal plan for the restructuring, which has been reported to affected parties.

3. Quarterly statements

	Total 2005	Q4 2005	Q3 2005	Q2 2005	Q1 2005
Net sales	551.384	185.316	153.390	115.720	96.958
Cost of sales	(276.470)	(89.970)	(72.864)	(63.090)	(50.546)
Gross profit	274.914	95.345	80.526	52.631	46.412
Other operating income	27.880	9.231	7.548	6.269	4.832
Sales and marketing	(81.373)	(24.311)	(22.219)	(20.722)	(14.122)
Research and development	(54.290)	(21.472)	(14.443)	(9.497)	(8.877)
General and administration	(60.618)	(24.284)	(14.860)	(12.100)	(9.374)
Impairment losses	0	0	0	0	0
Profit from operations	106.513	34.509	36.552	16.580	18.871
Financial income/(expenses)	(13.216)	3.153	(8.683)	(487)	(7.199)
Loss from associates	(1.816)	(1.015)	(801)	0	0
Profit before tax	91.481	36.647	27.068	16.094	11.672
Income tax	(10.477)	(1.232)	(3.864)	(4.802)	(579)
Net profit	81.003	35.415	23.204	11.291	11.093
EBITDA	148.471	52.156	48.303	23.447	24.565

4. Segment reporting

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

	Western Europe	Eastern Europe	USA	Other segments	Eliminations	Total
Own brand	33.945	260.187	68.153	0	0	362.285
Product sales	143.388	1.138	0	801	0	145.327
API	0	18.519	0	0	0	18.519
Dossier	10.717	1.305	0	0	0	12.022
Other sales	6.615	18.428	0	0	0	25.043
Other revenue	4.209	3.542	3.810	4.506	0	16.067
Total external revenue	198.875	303.119	71.963	5.307	0	579.264
Internal revenue	165.561	3.061	0	207	(168.829)	0
Total segment revenue	364.436	306.180	71.963	5.514	(168.829)	579.264
Segment results	41.791	40.736	24.762	1.144	(1.920)	106.513
Net financing cost						(15.033)
Income tax						(10.477)
Profit for the period						81.003
Segment assets	1.840.316	314.663	847.551	34.871	(668.547)	2.368.854
Segment liabilities	1.382.697	120.717	515.271	9.673	(667.533)	1.360.825
CF from operations	15.155	39.915	47.341	593	0	103.004
CF to investments	(588.326)	(29.812)	(342.129)	(962)	0	(961.229)
CF from financing	1.019.728	(17.011)	(64.872)	(65)	0	937.780
Capital expenditure	53.948	36.213	12.428	964	0	103.553

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

Consolidated financial statements of Actavis Group hf. 2005 Amounts are in thousands of Euro

Segment reporting. continued:

Segment report for the year end 2004:

	Western Europe	Eastern Europe	USA	Other segments	Eliminations	Total
Own brand	24.882	215.258	0	0	0	240.140
Product sales	148.604	3.306	0	0	0	151.909
API	0	19.770	0	0	0	19.770
Dossier	12.776	395	0	0	0	13.171
Other sales	0	0	0	0	0	0
Other revenue	8.153	20.069	0	0	0	28.222
Total external revenue	194.414	258.797	0	0	0	453.212
Internal revenue	175.837	1.155	0	0	(176.992)	0
Total segment revenue	370.251	259.953	0	0	(176.992)	453.212
Segment results	47.631	41.311	(477)	0	0	88.465
Net financing cost						(13.476)
Income tax						(10.708)
Profit for the period						64.281
Segment assets	682.526	243.504	81	0	(241.945)	684.166
Segment liabilities	523.300	110.818	317	0	(241.945)	392.490
CF from operations	22.861	23.792	57	0	0	46.710
CF to investments	(43.500)	(19.623)	(21)	0	0	(63.144)
CF from financing	4.879	106	282	0	0	5.267
Capital expenditure	34.498	22.354	21	0	0	56.873
Impairment loss	3.023	0	0	0	0	3.023

5. Salaries

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

	2005	2004
Salaries	104.872	83.505
Related expenses	24.889	20.545
	129.761	104.050
Number of employees at end of period	10.153	6.602
Average number of positions	10.145	6.841

Allocation of salaries to items of income statement:

	2005	2004
Cost of goods sold	44.898	35.587
Sales and marketing	31.789	26.346
Research and development	19.811	13.580
General and administrative	28.091	24.150
	124.588	99.662

Allocation of salaries to items of balance sheet:

Development	5.173	4.388
	5.173	4.388

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6. Management salaries and benefits

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

	Salaries and bonuses	Stock options '000	Shares owned '000
Senior executives:			
Robert Wessman, CEO	504	377	35.305
Board of Directors:			
Bjorgolfur Thor Bjorgolfsson, Chairman of the Board	31	0	1.296.380
Andri Sveinsson	15	0	0
Magnus Thorsteinsson	15	0	0
Karl Wernersson	15	0	269.203
Sindri Sindrason	15	0	12.540
Executive vice presidents:			
Gudbjorg Edda Eggertsdottir, Third-party Sales	255	1.472	21.574
Sigurdur Oli Olafsson, North America Sales	224	1.472	989
Deputy to the CEO and four executive vice presidents	983	6.623	5.122
Four former executives	1.312	2.944	2.257
	3.370	12.888	1.643.370

In addition to salaries and benefits, the CEO realised 377,000 shares through the exercise of stock options. The CEO purchased the shares at the exercise price of EUR0.033. The market value of these shares was EUR188,000 at the same time.
The Deputy to the CEO and executive vice presidents realised 6.3 million shares through the exercise of stock options. The purchase price was EUR0.528 per share, and the market value of these shares was EUR4.1 million at the exercise date.

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

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

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

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7. Fees to auditors

	2005	2004
Audit of financial statements	894	608
Review of interim financial statements	166	158
Other services	319	196
	1.380	962

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

8. Financial income and (expenses)

	2005	2004
Net financial income and expenses:		
Interest income	3.824	2.390
Interest expenses	(21.270)	(16.678)
Currency fluctuations	5.636	1.941
Write-down of investment in associated companies	(1.407)	0
	(13.217)	(12.347)

9. Income tax expense

Current tax expense	2005
Current year	22.787
Under/(over) provided in prior years	68
	22.855
Deferred tax expense	
Origination and reversal of temporary differences	(4.261)
Investment tax credit	(11.246)
Other changes	3.129
	(12.378)
Total income tax expense in income statement	10.477

Reconciliation of effective tax rate

Profit before tax		91.479
Income tax using the domestic corporate tax rate	18%	16.466
Effect of tax rates in foreign jurisdictions	7%	6.822
Investment tax credits	(13%)	(11.464)
Non-deductible expenses	1%	500
Tax-exempt revenue	(2%)	(1.767)
Other differences	(0%)	(80)
Total income tax expense in income statement	11%	10.477

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10. Earnings per share

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

	2005	2004
Net profit attributable to equity holders of common shares	78.007	60.286
Basic earnings per common share:		
Outstanding common shares at beginning of year	2.791	2.785
Effect of new shares issued	175	0
Effect of treasury shares	92	4
Total average number of common shares outstanding during the period (in millions)	3.059	2.789
Basic earnings per common share (EUR)	0.02551	0.02162
Diluted earnings per common share:		
Outstanding common shares at beginning of year	2.791	2.785
Effect of new shares issued	175	0
Effect of treasury shares	92	4
Effect of stock options	2	3
Total average number of common shares outstanding during the period (in millions)	3.061	2.792
Diluted earnings per common share (EUR)	0.02548	0.02159

11. Goodwill

	2005
Cost	
At 1 January 2005	240.101
Currency adjustments	408
Recognised on acquisition of subsidiaries	547.425
At 31 December 2005	787.934
Accumulated impairment	
At 1 January 2005	3.300
At 31 December 2005	3.300
Net book value 31 December 2005	784.634

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

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

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

12. Other intangible assets

	Development cost and expertise	Others intangibles	Total
Cost			
At 1 January 2005	34.345	13.385	47.730
Currency adjustments	1.094	673	1.766
Additions due to acquistions	20.607	475.612	496.219
External additions	28.664	6.624	35.287
Internal additions	5.714	86	5.801
Revaluation of assets	0	2.224	2.224
Sales	(1.338)	0	(1.338)
Disposals	(941)	(4.649)	(5.589)
At 31 December 2005	88.145	493.955	582.100
Accumulated amortisation			
At 1 January 2005	9.736	7.372	17.108
Currency adjustments	349	546	895
Sales	(45)	0	(45)
Disposals	(118)	(4.498)	(4.616)
Impairment losses	3.627	0	3.627
Amortisation	5.671	11.503	17.174
At 31 December 2005	19.221	14.922	34.143
Net book value 31 December 2005	68.924	479.032	547.956

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

	2005	2004
Cost of sales	892	616
Sales and marketing expenses	436	1.328
Administration	1.472	913
Research and development	18.001	5.937
	20.801	8.793

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13. Property, plant and equipment

	Property and plant	Machinery and equipment	Total
Cost			
At 1 January 2005	86.242	168.253	254.495
Currency adjustments	14.100	21.448	35.548
Additions due to acquisitions	41.340	115.140	156.481
Additions	10.273	38.432	48.704
Sales	(70)	(1.321)	(1.391)
Disposals	(14.743)	(29.680)	(44.422)
At 31 December 2005	137.142	312.272	449.414
Accumulated depreciation			
At 1 January 2005	28.142	81.125	109.267
Currency adjustments	2.116	11.798	13.914
Sales	(36)	(731)	(766)
Disposals	(12.686)	(27.743)	(40.429)
Impairment losses	515	517	1.032
Depreciation	2.760	17.366	20.127
At 31 December 2005	20.811	82.334	103.145
Net book value 31 December 2005	116.331	229.939	346.270

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

	2005	2004
Cost of goods sold	13.099	7.922
Sales and marketing expenses	2.292	1.980
Administration	2.392	1.315
Research and development	3.375	2.155
	21.159	13.372

Property, plant and equipment are pledged to secure general banking facilities granted.

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14. The consolidation

At the year end the Company owned twenty-four subsidiaries that are all included in the consolidation. The subsidiaries owned 47 subsidiaries at the year end. The companies are as follows:

Name of subsidiary	Location	Ownership	Principal activity
Alpharma (China) Holding Ltd.	Hong Kong	100%	Holding company
Alpharma (Foshan) Pharmac. Co. Ltd.	China	90%	Sales & marketing
Alpharma Holdings Ltd.	UK	100%	Holding company
Alpharma (UK) Ltd.	UK	100%	No activity
Cox Investments Ltd.	UK	100%	No activity
Alpharma Ltd.	UK	100%	Production, S&M and R&D
Alpharma Laboratories Ltd.	UK	100%	No activity
Alpharma (Singapore) Pte. Ltd.	Singapore	100%	Sales & marketing
Actavis hf. (Delta hf.)	Iceland	100%	Production, sales & marketing
Actavis BV (Medis Holland BV)	Netherlands	100%	Holding company
Actavis Ltd. (Pharmamed Ltd)	Malta	100%	Production, S&M and R&D
Actavis Trading Ltd	Malta	100%	Trading
Alpharma B.V.	Netherlands	100%	Sales & marketing
Higia AD	Bulgaria	100%	Distribution
Actavis Ltd.	Cyprus	100%	Holding company
Actavis EAD (Balkanpharma AD)	Bulgaria	100%	Holding company and S&M
Actavis Operations Ltd.	Bulgaria	100%	Holding company
Balkanpharma Dubnitsa AD	Bulgaria	95%	Production
Balkanpharma Troyan AD	Bulgaria	98%	Production
Balkanpharma Razgrad AD	Bulgaria	94%	Production
Balkanpharma Security AD	Bulgaria	100%	Security services
Balkanpharma OOO	Russia	100%	Sales & marketing
Actavis OOO	Russia	90%	Sales & marketing
Balkanpharma Healthcare Int.	Cyprus	100%	Sales & marketing
MM Pharma LLC	USA	100%	Sales & marketing
Verben S.A.	Uruguay	50%	Production, sales & marketing
Actavis UK Ltd.	UK	100%	Administration
Actavis Inc. (Pharmaco Inc.)	USA	100%	Business Development
Alpharma USPD Inc.	USA	100%	Production
Amide Holding Inc.	USA	100%	Holding company
Amide Pharmaceuticals Inc.	USA	100%	Production, S&M and R&D
G.F. Reilly Company	USA	100%	Holding company
Point Holdings Inc.	USA	100%	Holding company (Real estate)
Colony Pharmaceuticals Inc.	USA	100%	Legal company
Purepac Pharmaceuticals Co.	USA	100%	Production
Actavis Ireland	Ireland	100%	Sales & marketing
Actavis Nordic A/S	Denmark	100%	Business support
Alpharma AB	Sweden	100%	Sales & marketing
Alpharma Germany GmbH	Germany	100%	Holding company
Alpharma Management GmbH	Germany	100%	Administration
Alpharma-Isis GmbH & Co. KG	Germany	100%	Sales & marketing
Alpharma International GmbH	Germany	100%	No activity
Alpharma OY	Finland	100%	Sales & marketing
Alpharma Pharmaceuticals GmbH	Germany	100%	No activity
Actavis A/B (UNP Sweden AB)	Sweden	100%	Sales & marketing

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Consolidation, continued:

Actavis A/S	Denmark	100%	Sales & marketing
Actavis A/S	Norway	100%	Sales & marketing
Actavis Norway A/S	Norway	100%	Production
Actavis OY	Finland	100%	Sales & marketing
Nordisk Ibu-Pharma ApS	Denmark	100%	Sales & marketing
GM Invest BV	Netherlands	100%	Holding company
Kéri Pharma Generics Kft	Hungary	100%	Sales & marketing
Orbita ApS	Denmark	100%	Holding company
Ophtha A/S	Denmark	100%	Sales & marketing
UAB Actavis Baltic	Lithuania	100%	Sales & marketing
Actavis Pharma	India	100%	Research and Development
Biovena Pharma Sp.	Poland	100%	Sales & marketing
Colotech AS,	Denmark	86%	Research and Development
Fako İlaçlari AŞ	Turkey	100%	Production, S&M and R&D
Lotus Laboratories Ltd	India	100%	Clinical Research Organisation
Medis GmbH	Germany	60%	Sales & marketing
Medis Ltd.	Isle of Man	100%	Sales & marketing
Medís ehf.	Iceland	100%	Third-party Sales
Medis Danmark AS	Denmark	100%	Third-party Sales
NM Pharma ehf.	Iceland	100%	Sales & marketing
Pharma AVALANCHEe s.r.o.	Czech Rep.	100%	Sales & marketing
Pharma AVALANCHEe s.r.o.	Slovakia	100%	Sales & marketing
PT Alpharma	Indonesia	100%	Production
Zenara Pharma Ltd.	UK	50%	Joint venture
Zdravlje AD	Serbia	73%	Production, S&M and R&D
Zdravlje T Trade Ltd.	Serbia	100%	Sales & marketing

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

At the beginning of April 2005, the Group acquired 100% of the issued share capital of the Indian clinical research company Lotus Laboratories Ltd. and Pharma AVALANCHEe s.r.o. in the Czech Republic. Pharma AVALANCHEe specialises in the sale and marketing of generic pharmaceuticals.

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

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

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

At the end of December 2005 the Group acquired, through its subsidiaries, the human generic business of the US-listed pharmaceutical company Alpharma Inc. Through the acquisitions, the Company and its sudsidiaries purchased 22 new companies.

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15. Acquisitions

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

The IFRS standard allows a period of up to one year from the date of acquisition for the assessments to be completed by the Company. The Company's management considers that the values included in the 2005 balance sheet are free of material misstatement.

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

	Alpharma	Amide Pharma. Inc	Other acquisitions	Total
Tangible assets				
Non-current assets	123.416	22.314	10.751	156.481
Working capital	154.569	799	13.741	169.109
	277.985	23.113	24.492	325.590
Intangible assets				
Intangible assets	286.294	178.033	31.893	496.219
Goodwill	229.399	272.040	45.985	547.425
	515.693	450.073	77.878	1.043.644
Liabilities and commitments				
Long-term liabilities	300.348	9.879	17.309	327.536
Commitment due to earn-out	0	55.111	0	55.111
Deferred income tax liability	0	41.799	1.188	42.987
	300.348	106.789	18.497	425.634
	493.330	366.398	83.873	943.601
Cash and cash equivalents (acquired)	36.832	19.419	1.609	57.859
Net cash outflow	456.498	346.979	82.265	885.742
	493.330	366.398	83.873	943.601

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16. Inventories

	2005	2004
Raw materials	101.299	32.361
Work in progress	34.341	14.348
Finished goods	92.999	24.415
Other inventories	2.729	448
	231.368	71.572

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

17. Financial instruments

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

18. Trade and other receivables

	2005	2004
Trade receivables	232.398	120.127
Other receivables	71.034	39.700
Allowances for doubtful accounts	(8.690)	(6.643)
	294.742	153.184

Included in other receivables is a loan to the CEO in the amount of EUR2.7 million.

An allowance has been made for doubtful accounts and sales returns. This allowance has been determined by management with reference to past default experience. The directors consider that the carrying amount of trade receivables approximates their fair value.

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19. Share capital

Class A shares

The Company increased its class A common stock in a share offering in June 2005. The share offering was a part of the Company's financing of the acquisition of the US-based generic pharmaceutical company Amide Pharmaceuticals Inc. The Company increased its class A common stock again in November to meet exercisable stock options to key employees.

In June the class A common stock was increased by 344,864,993 shares or 11.5% of the total class A common stock. Total class A common stock issued was 2,993,780,301 shares prior to the share increase. Total class A common stock issued after the increase was 3,338,645,294 shares. The new class A common stock was only offered to existing shareholders. The Board of Directors also decided to sell 198,613,449 treasury shares. In all, 543,478,442 shares were sold to shareholders, or 18.15% of the total class A common stock. Class A common stock was increased in November by 16,025,823 shares, and total common stock was 3,354,671,117 after the increase.

Class B shares

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

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

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

	Number of shares '000	EUR
Outstanding common stock at 1 January 2004	2.785.394	36.113
Purchase of treasury shares	(5.108)	(59)
Sale of treasury shares	10.876	127
Outstanding common stock at 1 January 2005	2.791.162	36.181
New shares issued	360.891	4.557
Purchase of treasury shares	(22.318)	(288)
Sale of treasury shares	199.366	2.512
Outstanding common stock at 31 December 2005	3.329.101	42.962

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

	Number of shares '000	Ratio	EUR
Outstanding common stock at the end of the period	3.329.101	99,2%	42.962
Treasury shares at the end of the period	25.569	0,8%	288
Total common stock issued	3.354.671	100,0%	43.250

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20. Other reserves

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

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

21. Stock options

During the year Actavis Group granted its employees stock options exercisable in the years 2006 – 2007. The Company intends to use treasury shares and / or increase share capital to meet the obligations. These stock options at the end of the period amounted to 35.9 million shares.

Contract rate (ISK)/Conditions/Date granted	Number of shares 2006	2007	Total
2.64/Condtional/June 2001	377	0	377
38.5/Condtional/June 2005	18.294	17.249	35.543
	18.671	17.249	35.920

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

	2005	
	Number of shares '000	Weighted average contract rate in ISK
Outstanding stock options at beginning of year	833	3.57
Granted during the year	57,836	38.50
Forfeited during the year	(6.267)	38.50
Exercised during the year	(16.482)	37.55
Outstanding stock options at end of year	35.920	38.12

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22. Risk management

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

Foreign exchange risk
Foreign exchange risk, transaction and translation exposure. The Group operates internationally and is exposed to foreign exchange risk from various currencies. The underlying net foreign exchange transaction exposure is hedged with derivatives, mainly foreign exchange contracts. These instruments all mature within one year. The Group only hedges foreign exchange currency cash flow forecasts of less than 12 months. Translation risk arises as a result of converting the Group's financial results to the functional currency. Translation risk is not hedged.

Interest rate risk
Fluctuations in interest rates have direct impact on earnings. The interest rates used in the Group's budget are based on forward rates, and the Group's policy is to have the majority of funding on floating interest rates.

Credit risk
The Group has no significant credit risk. To minimise credit risk, it focuses on ensuring that customers have an appropriate credit history, and various guarantees are given. There is an active monitoring process within the Group.

Liquidity and refinancing risk
The Group has uncommitted and committed credit lines in place to maintain sufficient liquidity and flexibility in funding. The Company is a net borrower, and surplus liquidity is used to repay external debt.

23. Interest-bearing loans

Interest-bearing loans are specified as follows:

	Weighted average rate	2005	2004
Loans in US$	5,44%	171.673	31.003
Loans in EUR	3,41%	689.476	133.257
Loans in CHF		0	12.209
Loans in GBP		227	2.301
Loans in JPY		0	11.923
Loans in SEK		0	1.442
Loans in MTL	1,76%	8.488	8.272
Loans in BGL	5,00%	1.534	3.268
Loans in ISK	8,10%	16.362	229
Loans denominated in other currencies	10,80%	673	527
		888.433	204.431
Current maturities, included in interest-bearing loans		(20.043)	(41.448)
Interest-bearing loans		868.389	162.983

Aggregated annual maturities are as follows:

	2005	2004
On demand or within 12 months	20.043	41.448
Within 24 months	20.796	30.027
Within 36 months	126.197	23.346
Within 48 months	128.290	82.407
Within 60 months	576.575	6.420
Subsequent years	16.531	20.783
	888.432	204.431

The Company has pledged certain assets to secure banking facilities granted. The EUR808 million loan facility and the EUR250 million revolving credit facility include certain financial convenants, both standard for such a facility and company-specific. Included in the loan agreement are various provisions that limit the Company's actions without prior consultancy with the lender. The main provisions involve certain net debt/EBITDA requirements and restrictions on further M&A activity.

24. Retirement benefit obligation

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

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25. Obligation under finance leases

Accounts payable under finance leases:	Min. lease payments 2005	Min. lease payments 2004	Remaining balances 2005	Remaining balances 2004
Obligation under finance leases	26.414	8.092	17.626	7.052
Current maturities	(3.084)	(2.507)	(2.111)	(2.158)
Long-term obligation under finance leases	23.330	5.585	15.516	4.894
Aggregated annual maturities are as follows:				
On demand or within 12 months	3.084	2.507	2.111	2.158
Within 24 months	3.047	2.203	2.583	1.907
Within 36 months	1.885	919	1.251	820
Within 48 months	1.371	681	766	516
Subsequent years	17.026	1.782	10.916	1.651
	26.414	8.092	17.626	7.052
Less future finance charges	(8.788)	(1.040)		
Remaining balances	17.626	7.052		

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

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

26. Operating lease arrangements

	2005	2004
Minimum lease payments recognised in income statements during the year	3.444	3.071

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

On demand or within 12 months	2.953	1.184
Within 24 months	967	2.526
Within 36 months	932	33
Within 48 months	80	24
Subsequent years	42	20
	4.974	3.786

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27. Deferred tax

	Deferred tax asset	Deferred tax liabilities	Net
At 1 January 2005	21.247	(9.493)	11.754
Recognised directly in equity	0	(2.830)	(2.830)
Additions due to acquisitions	25.321	(68.308)	(42.987)
Calculated tax for the period	595	(11.072)	(10.476)
Income tax payable for the period	6.033	12.036	18.069
Exchange differences	1.220	1.161	2.381
At 31 December 2005	54.417	(78.506)	(24.089)

Recognised deferred tax assets and (liabilities)

	2005
Intangible assets	(77.366)
Operating fixed assets	(4.890)
Inventories	57
Receivables	(3.442)
Liquid funds	(159)
Long-term liabilities	20.487
Current liabilities	3.661
Carry-forward income tax losses	13.789
Investment tax credits	23.772
Net tax liability	(24.089)

28. Provisions

	Other provisions
At 1 January 2005	3.962
Additional provision during the period	2.021
Utilisation of provision	(3.580)
Exchange difference	57
Currency adjustments	13
At 31 December 2005	2.474

29. Commitments

	Commitments
Contingent liability due to earn-out clauses	35.830
Loan guarantee granted to subsidiaries	12.000
Commitment to invest in Serbia during next three years	4.300
Commitment to increase share capital in subsidiary during next three years	2.000
At 31 December 2005	54.130

Purchase agreements in respect of acquired businesses include earn-out clauses based on performance. The total value of these earn-out clauses is capped at EUR88.0 million. Within this amount, the earn-out clause in respect of the acquisition agreement for Amide Pharmaceuticals Inc. represents a value of up to EUR83.0 million. As of 31 December 2005, EUR55.1 million of the Amide Pharmaceutical Inc. earn-out had been recognised. Subject to conditions, the balance of up to EUR27.9 million will be payable in March 2007.

Consolidated financial statements of Actavis Group hf. 2005 Amounts are in thousands of Euro

30. Explanation of Transition to IFRSs

As is stated in Note 2, these are the Group's first annual financial statements prepared in accordance with IFRSs. The Accounting policies in Note 2 have been applied in preparing the consolidated financial statements for the year ended 2005, the comparative information for the year 2004, the financial statements for the years ended 31 December 2004 and 2003 and the preparation of an opening IFRS balance sheet at 1 January 2003 (the Group's date of transition).

In preparing its opening balance sheet, the comparative information for the 12 months ended 31 December 2004, and the financial statements for the year ended 31 December 2004, the Group has adjusted amounts previously reported in financial statements prepared in accordance with previous GAAP.

An explanation of how the transistion from previous GAAP to IFRSs has effected the Group's financial position and financial performance is set out in the following tables and in the notes that accompany the tables.

Reconciliation of equity at 31 December 2004

	Note	Previous GAAP	Effect of 1/1/04 transition to IFRSs	Effect of 2004 transition to IFRSs	IFRSs
Property, plant and equipment	13.	142.523	1.502	1.203	145.228
Goodwill	11.	229.126	6.995	680	236.801
Intangible assets	12.	32.905	(993)	(1.290)	30.622
Deferred tax asset		21.217	12	18	21.247
Financial assets		10.002	(688)	(1.127)	8.187
Total non-current assets		435.773	6.828	(516)	442.085
Trade receivables		113.974	0	0	113.974
Inventories	16.	71.572	2.469	(2.469)	71.572
Other receivables		39.850	0	(640)	39.210
Cash and cash equivalents		17.325	0	0	17.325
Total current assets		242.721	2.469	(3.109)	242.081
Total assets		678.494	9.297	(3.625)	684.166
Interest-bearing loans	23.	297.561	(4.753)	45	292.852
Trade and other payables		78.029	(5.769)	1.119	73.379
Employee benefits		5.753	0	0	5.753
Restructuring provision		0	5.071	(1.110)	3.961
Obligation under finance leases	25.	0	6.661	391	7.052
Deferred tax liability		9.578	621	(706)	9.493
Total liabilities		390.921	1.831	(261)	392.490
Total assets less total liabilities		287.573	7.466	(3.364)	291.676
Outstanding capital stock		135.297	(503)	(281)	134.513
Accrued stock option		47	(281)	234	0
Other reserves		(29.250)	6.432	(593)	(23.410)
Retained earnings		171.286	1.797	(2.364)	170.720
Stockholders' equity		277.380	7.445	(3.004)	281.823
Minority interest		10.193	21	(361)	9.853
Total equity		287.573	7.466	(3.365)	291.676

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31. Explanation of transition to IFRSs, continued

Reconciliation of income statement for YTD 2004

	2004 Previous GAAP	Effect of transition to IFRSs	2004 IFRSs
Net sales	424.761	(165)	424.596
Cost of sales	(214.376)	(10.631)	(225.007)
Gross profit	210.385	(10.796)	199.589
Other income	26.936	1.680	28.616
Sales and marketing expenses	(61.584)	(3.308)	(64.892)
Research and development expenses	0	(32.269)	(32.269)
General and administrative expenses	(36.973)	(2.477)	(39.450)
Other operating expenses	(24.056)	24.056	0
Depreciation and amortisation	(25.646)	25.646	0
Impairment losses on goodwill	0	(3.128)	(3.128)
Income / (Loss) from associates	0	(1.129)	(1.129)
Finance income (expenses)	(10.611)	(1.736)	(12.347)
	(131.934)	7.335	(124.599)
Profit before tax	78.451	(3.461)	74.990
Income tax	(11.431)	723	(10.708)
Net profit (loss)	67.020	(2.738)	64.282

Presentation

Depreciation of fixed assets is now allocated to the appropriate line items in the income statement, such as cost of goods sold, sales and marketing, research and development, and general and administrative, instead of presenting it in a separate line as was previously done. Impairment losses of goodwill are presented as a separate line in the income statement. Previously the impairment losses were included in the depreciation and amortisation line.

Balance sheet items have been reclassified to conform to the newly applied IFRS rules.

Investment in subsidiaries

In March 2004 the International Accounting Standards Board issued revised rules on business combinations. The Group's accounting methods concerning the acquisition of subsidiaries have been adjusted to the new regulations.

All business combinations are accounted for by applying the purchase method. Goodwill has been recognised in acquisitions of subsidiaries and represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Goodwill is stated at cost less any accumulated impairment losses. Goodwill is not amortised but is tested annually for impairment.

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32. Explanation of transition to IFRSs, *continued*

Negative goodwill arising on an acquisition is recognised directly in the income statement.

The effect of applying IFRS to business combinations concerning subsidiaries is an increase in net equity at year end 2004 by the amount of EUR12.7 million. The effect on the income statement for the year 2004 is an increase in net earnings of EUR48.000.

Development expenses

According to the IFRSs, companies that undertake product development should capitalise such cost if an entity can demonstrate that the projects meet certain conditions and it can be demonstrated that future economic benefit will flow to companies. The Group has capitalised development cost that meets such conditions.

The Group retained the service of specialists to assist in reviewing the Group's compliance with the IFRSs concerning capitalised development expenses. The specialists submitted a detailed report on the matter, which was used as a guide when the accounting methods concerning capitalisation of development cost were established.

The changes made to the capitalised development expenses resulted in a reduction of EUR4.2 million at the year end 2004. The effect on the operation in the year 2004 is a reduction in net earnings amounting to EUR1.6 million.

Associates

The associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's interest in those associates are not recognised.

The effect of new accounting methods concerning associates results in a reduction of net equity in the amount of EUR2.2 million. Net earnings for the year 2004 are reduced by EUR1.1 million due to this change.

Translation reserve

Accumulated foreign exchange difference arising on the translation of financial statements of foreign subsidiaries to the Group's reporting currency is eliminated as of 1 January 2003. Other changes in the translation reserve relate to the changes made to the financial statements of the subsidiaries when applying the IFRSs.

The change in translation differences in the Group's stockholders' equity due to the implementation of IFRSs by foreign subsidiaries is a reduction of EUR2.8 million.

Other changes

Other changes made to the Group's financial statements on the implementation of IFRSs relate to the recognition of leased assets, changes in depreciation of fixed assets, and share-based payments.

The total increase in the Group's stockholders' equity at year end 2004 due to other changes amounts to EUR0.9 million. Net earnings for the year 2004 are reduced by EUR0.4 million due to these other changes.

The Group applied IAS 39 as of 1 January 2005. The application results in a recognition of derivatives that are recognised at fair value; and interest-bearing loans are stated at amortised cost, with any difference between cost and redemption value recognised in profit or loss over the period of the borrowings on an effective interest rate. The effect of applying IAS 39 is an increase in net equity at 1 January 2005 amounting to EUR1.3 million.

33. Contingent liabilities

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 market authorisation for the product is withdrawn, the subsidiary's operating income would be significantly affected The subsidiary was included in the acquisition of the Alpharma subsidiaries effective 18 December. In the purchase price allocation, the fair value of this product was determined taking this uncertainty into consideration.

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 the late 1990s. The Company responded to this request and has been informed by the SFO that it has initiated a criminal investigation of possible violations of laws by the Company and its former UK executives. If the Company is found guilty, it could be subject to a fine in an amount not limited by statute.

34. Related-party transactions

Identity of related parties:

The Group has a related-party relationship with its subsidiaries (see Note 14) and with its directors and executive officers (see Note 6).

Transactions with key management personnel:

Directors of the Company own, directly or indirectly through holding companies, 47.0 per cent of the voting shares of the Company. Loans to the CEO amounted to EUR2.7 million with market interests at the year ended 31 December 2005. The loan to th CEO is included in other receivables (see Note 18).

Other related-party transactions:

Subsidiaries
The Company has an intercompany position with its subsidiaries that is eliminated in the consolidated financial statements.

35. Events after the balance sheet date

Changes in shareholder structure

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

At 9 January 2006 Milestone ehf. and Dialog Global Investment Ltd., investment companies owned by one of the members of the Board, Karl Wernerson, and related parties, sold 98.6 million shares in the Company. Karl Wernerson controls over 170.6 million shares after the transaction, or 5.1 per cent of total shares in the Company.

36. Other matters

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

37. Financial ratios

The main financial ratios for the Group are as follows:	2005	2004
Equity ratio	0,43	0,43
Current ratio	1,64	1,16

	2005	2004
Return on equity	19,6%	27,8%
EBITDA	148.471	113.759
EBITDA as a percentage of revenues	25,6%	25,1%
Working capital provided by operating activities	109.079	92.116

Consolidated financial statements of Actavis Group hf. 2005 Amounts are in thousands of Euro

Three year summary

Income Statement	2005	2004	2003
Net sales	551.384	424.596	293.525
Cost of goods sold	(276.470)	(225.007)	(198.627)
Gross profit	274.913	199.589	94.898
Other income	27.880	28.616	22.626
Sales and marketing expenses	(81.374)	(64.892)	(21.585)
Research and development expenses	(54.289)	(32.269)	(19.457)
General and administrative expenses	(60.618)	(39.450)	(26.205)
Impairment of goodwill	0	(3.128)	2.729
	(168.401)	(111.123)	(41.892)
Profit from operations (EBIT)	106.512	88.466	53.006
Income / (Loss) from associates	(1.816)	(1.129)	(387)
Financial income/(expenses)	(13.216)	(12.347)	(2.671)
Profit before tax	91.479	74.990	49.948
Income tax	(10.477)	(10.708)	(4.450)
Net profit	81.003	64.282	45.498
Attributable to:			
Equity holders of the Company	78.007	60.286	43.703
Minority interest	2.995	3.996	1.795
Profit for the period	81.003	64.282	45.498

Balance sheet	2005	2004	2003
Non-current assets	1.734.232	442.085	403.807
Current assets	634.622	242.081	203.016
Total assets	2.368.854	684.166	606.823
Stockholders' equity	997.334	281.822	227.920
Minority interest	10.695	9.853	7.316
Non-current liabilities	973.969	183.123	189.219
Current liabilites	386.855	209.367	182.368
Total equity and liabilities	2.368.854	684.166	606.823

Amounts are in thousands of Euro

The Actavis story

2005

Acquisition of Alpharma's Human Generics business, placing Actavis in the world's top five international generic pharmaceuticals companies

Acquisition of Keri Pharma in Hungary

Acquisition of Higia in Bulgaria

First major step into the US with the acquisition of Amide

Acquisition of Pharma Avalanche in the Czech Republic and Slovakia

Acquisition of Lotus Laboratories in India

Strategic collaboration with Indian manufacturer Emcure

2004

Acquisition of sales and marketing company Biovena in Poland

A new name for the united Actavis Group, previously known as Pharmaco

Acquisition of Turkish pharmaceutical company Fako

A truly Nordic presence achieved with the acquisition of Pliva in Sweden, Norway and Finland

2003

Acquisition of majority share in Danish R&D company Colotech

Opening of US office and Swedish sales office

2002

Acquisition of Serbian pharmaceutical company Zdravlje

Acquisition of international pharmaceutical company Delta

2000

Merger with major Bulgarian pharmaceutical manufacturer Balkanpharma

1999

The company starts to establish an international presence

1997

Registration on the Icelandic Stock Exchange

1972

Production of own pharmaceuticals for the domestic market begins

1956

Actavis (then Pharmaco) founded as a purchasing alliance

The colour of champions

Always prepared to go the extra mile in the pursuit of its dreams, Actavis plays to win.

Shareholder information

Actavis investor relations

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Information on the internet

For Actavis shareholder information, please see Actavis' website, which carries extensive information on the Company, www.actavis.com

Financial calendar

Actavis will report its results for the year 2005 at quarterly intervals on the following dates:

Q1 results	2 May 2006
Q2 results	1 August 2006
Q3 results	31 October 2006
Q4 results	27 February 2007

Annual General Meeting

The Annual General Meeting of Actavis Group will be held on Tuesday 28 March 2006 at Hotel Nordica in Reykjavik, Iceland, at 17:00 GMT.

The annual report

The annual report is published in English and is available on the Group's website www.actavis.com. For printed copies please contact us at ccom@actavis.com

Stock Exchange

Actavis shares are quoted on the Iceland Stock Exchange (www.icex.is).
Symbol: ACT
Trading currency: ISK

Analyst coverage March 2006

Analyst coverage of Actavis can be accessed at the websites of these financial institutions.

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