# Content



# *This is Natural*



**Natural is a listed technology company involved in the development and commercialisation of naturally sourced nutritional substances intended for the international food, dietary supplements and animal feed markets.**

Natural has worked on the development of CLA since 1996, and since 1999/2000 the company has focused most of its resources on this activity. CLA is a naturally occurring lipid (fat substance) which has a number of demonstrated positive effects on humans and animals. The evidence for Tonalin®/CLA's beneficial effect on humans has been further strengthened by the positive results of the first 12 months of a comprehensive 24 months clinical trial.

2002 and the start of 2003 saw Natural achieve the objectives of its CLA project. The company has now entered into exclusive long-term license agreements with BASF for animal feed applications and with Cognis for use in dietary supplements, health foods, nutrition, cosmetics and pharmaceuticals. The license agreements with BASF and Cognis cover all the currently known commercial uses of CLA.

Royalty payments from the license agreements are expected to generate significant income for Natural over the period of up to 16 years for which the agreements run. Natural will in addition be able to release liquidity since it will require less working capital as a result of changes to its organisation and will be able to run down its inventories.

As a result of the successful CLA project, the Board of Natural ASA intends to introduce a dividend policy for the duration of the license agreements which will return the company's excess liquidity as it arises from the license agreements to its shareholders. This will take the form of dividends or such other transactions as may be appropriate from time to time.

Natural has developed a revised strategy based upon the CLA licensing agreements. Monitoring the license agreements and providing support for the two licensees BASF and Cognis will be important tasks for the company.

The targets and strategies for Natural's divisions Technology and Development and Sales and Marketing have been adapted to ensure that they monitor and follow up the license agreements in an effective manner. Natural will ensure that its continuing activities protect and develop further the value the CLA project has built up in the company. The two divisions Technology and Development and Sales and Marketing will be developed into financially independent business areas.

| Key figures | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|
| Group revenue | 172 357 | 125 982 | 95 454 | 67 518 |
| Ordinary depreciation | 2 303 | 1 029 | 1 147 | 2 511 |
| Depreciation of intangible fixed assets | 4 499 | 4 489 | 4 308 | 3 380 |
| Cash flow from operations before R&D | 71 673 | 11 297 | -2 720 | 9 070 |
| Cash flow from operations | 31 507 | -16 703 | -19 833 | -6 443 |
| Operating profit/loss | 4 486 | -16 282 | -17 200 | -23 989 |
| Net financial items | -2 323 | -78 | 2 661 | 276 |
| Profit before tax | 2 163 | -16 360 | -14 539 | -23 713 |
| Total assets | 147 651 | 105 040 | 94 370 | 61 885 |
| Equity ratio | 78,3 % | 56,9 % | 76,5 % | 74,3 % |
| Net liabilities (cash – interest bearing liabilities) | 52 016 | -20 368 | 33 236 | 22 639 |
| Average number of employees | 28 | 31 | 27 | 35 |
| Average number of shares | 9 982 | 8 846 | 8 328 | 6 643 |

# Highlights of 2002

- Natural ASA carried out a rights issue of 1 million shares and a private placement of 126,167 shares with the underwriters of the main issue. The share price for both transactions was NOK 45 and they raised a gross total of NOK 50.7 million for Natural ASA, which was received in February 2002.

- Natural increased its investment in research and development from NOK 28 million 2001 to NOK 40.2 million 2002. The year's activities included completing and processing the results of the first year of a two-year study of Tonalin® which showed very good results for fat reduction and no evidence of any side-effects. This study involves 180 people in Norway.

- Natural was granted 8 new patents in 2002, bringing its total portfolio of patents to 21. Natural has worked hard over many years to build up the patent protection needed for the commercial potential that CLA offers.

- Natural developed and implemented new technology for the production of CLA which produces a purer and higher quality product.

- Natural achieved a 36% increase in sales revenue between 2001 and 2002.

- BASF continued its work on animal trials and on progressing its applications for the use of CLA with the relevant authorities in 2002. During the course of the year BASF transferred the CLA project from its R&D department to its marketing and sales department.

- In August Natural signed a licensing agreement with the international food ingredients supplier Cognis to license patents and technology for CLA. Implementation of the contract was initiated in February 2003. The license agreement relates to the production, marketing and sales of Tonalin®/CLA for health foods, dietary supplements, food products, cosmetics and pharmaceuticals. The minimum payments due to be received by Natural over the first three years of the agreement are in high double digits of million Norwegian krone. The license agreement runs until December 2018.

- 2002 and the start of 2003 saw Natural reach an important milestone for its CLA project. The company has now entered into exclusive long-term license agreements with BASF and Cognis. The license agreements with BASF and Cognis cover all the currently known commercial uses of CLA.

- **As a result of the successful CLA project, the Board of Natural ASA intends to introduce a dividend policy for the duration of the license agreements which will return the company's excess liquidity to its shareholders as it arises from the license agreements. This will take the form of dividends or such other transactions as may be appropriate from time to time.**

Tore H. Rasmussen (42)
*Chairman*

Bengt Belfrage (50)
*Deputy Chairman*

Aasmund Rygnestad (42)
*Board Member and acting Managing Director*

Morten Ulstein (49)
*Board Member*

# Director' report 2002

**Natural is a listed technology company involved in the development and commercialisation of naturally sourced nutritional substances intended for the international food products, health foods and animal feed markets.**

2002 was a successful year for Natural. In August Natural signed a licensing agreement with the international food ingredients supplier Cognis to license patents and technology for CLA. Implementation of the contract was initiated in February 2003.

The license agreement relates to the production, marketing and sales of Tonalin®/CLA for health foods, dietary supplements, food products, cosmetics and pharmaceuticals. The minimum payments due to be received by Natural over the first three years of the agreement are in high double digits of million Norwegian krone. The license agreement runs until December 2018.

The license agreement with the German ingredients supplier BASF licenses the use of patents and technology for production, sales and marketing of CLA for the animal feed market.

The license agreements with BASF and Cognis represent an important milestone for Natural's development of CLA. These two license agreements cover all the currently known commercial uses of CLA.

As a result of the successful CLA project, the Board of Natural ASA intends to introduce a dividend policy for the duration of the license agreements which will return the excess liquidity accruing to the company from the license agreements to its shareholders. This will take the form of dividends or such other transactions as may be appropriate from time to time.

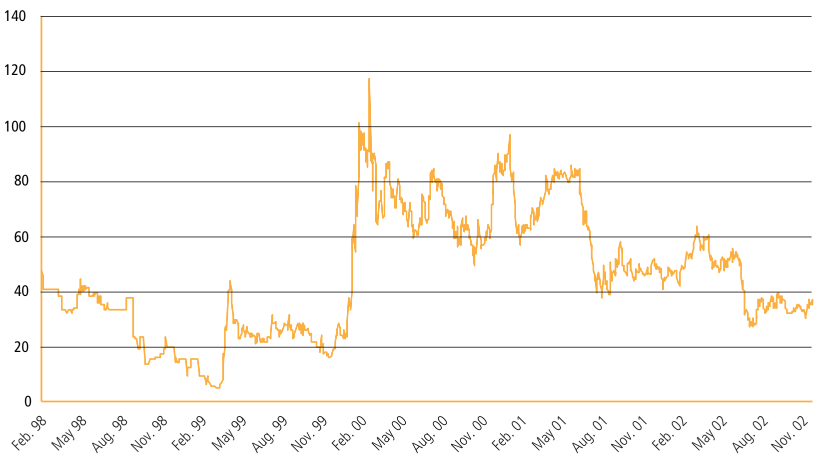
Natural has developed a new strategy based upon the CLA licensing agreements. Monitoring these license agreements and supporting the licensees BASF and Cognis represent important tasks for the company.

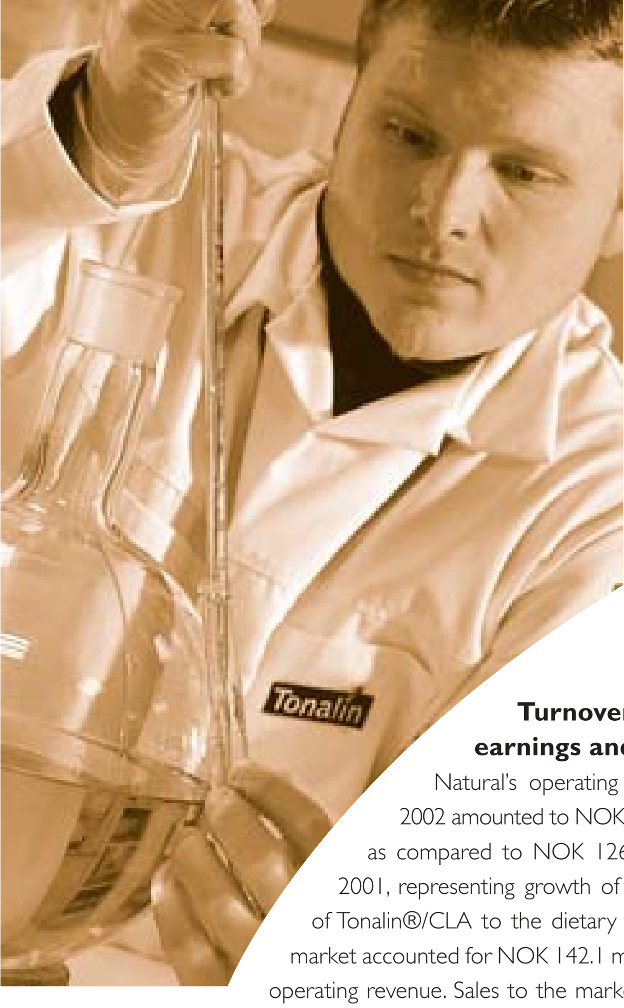
The targets and strategies for Natural's divisions Technology and Development and Sales and Marketing have been adapted to ensure that they monitor and follow up the license agreements in an effective manner. Natural will ensure that its continuing activities protect and develop further the value the CLA project has built up in the company. The two divisions Technology and Development and Sales and Marketing will be developed into financially independent business areas.

Natural achieved profitable growth in 2002 from international sales of Tonalin®/CLA in the dietary supplements and health food markets. Total operating revenue was 36.8% higher in 2002 than in the previous year.

2002 was the first year in Natural's history as a listed company for which it was able to report an operating profit and a net profit for the year after tax. This was achieved by an increase in sales combined with a focus on cost control.

**Share price development, Natural ASA 1998 – 2002**






## Turnover, earnings and equity

Natural's operating revenue for 2002 amounted to NOK 172.4 million as compared to NOK 126.0 million in 2001, representing growth of 36.8%. Sales of Tonalin®/CLA to the dietary supplements market accounted for NOK 142.1 million of total operating revenue. Sales to the market for animal feed additives amounted to NOK 20.8 million, other sales accounted for NOK 2.8 million and NOK 6.7 million of royalty payments were received.

Natural achieved a balance between income and costs in 2002. This was reflected in a modest operating profit and post-tax profit for the year. Post-tax profit for 2002 was NOK 1.9 million as compared to a loss of NOK 16.6 million 2001. The sharp improvement in earnings in 2002 reflects the combined effect of higher operating revenue and a focus on cost control.

The equity ratio stood at 78.3% at 31 December 2002.

## License agreements with BASF and Cognis

**The license agreement with BASF** was signed in May 2000. The agreement gives BASF exclusive rights for the production and sale of CLA in the market for animal feedstuff additives. The exclusivity granted is based on Natural's CLA technology, patents and licenses.

BASF is one of the world's largest chemical companies with more than 93,000 employees. It has production facilities in 38 countries and has customers in more than 170 countries. BASF reported turnover of 32.5 billion in 2001, with an operating profit of 1.2 billion. BASF is one of the largest global players in the market for animal feedstuff ingredients.

In October 2001 BASF confirmed its intention to proceed with CLA for the global animal feed ingredient market. BASF had already submitted applications prior to this date for the use of CLA in a number of important international animal feed markets.

BASF has carried out a number of trials on the use of CLA in animal feed in preparation for the market launch of CLA and in support of its applications for official approval.

BASF continued its work on animal trials and on progressing its applications for the use of CLA with the relevant authorities in 2002. During the course of the year BASF transferred the CLA project from its R&D department to its marketing and sales department.

**The license agreement with Cognis** was signed in August 2002 and its implementation was initiated in February 2003. The license agreement gives Cognis exclusive global rights to produce, market and sell Tonalin®/CLA in the areas of health foods, dietary supplements, food products, cosmetics and pharmaceuticals. The exclusivity granted is based upon Natural's CLA technology, patents and licenses.

Cognis is a worldwide supplier of specialty chemicals and nutritional ingredients. The company is a world leader in technology and production for refined vegetable oil products. Cognis has 9,100 employees in 50 countries. Cognis is owned by a financial consortium made up of Schroder Ventures Life Sciences, Primera Funds and GS Capital Partners that acquired the company in 2001 from the Henkel Group. Cognis reported turnover of 3.1 billion for 2001 with profit of 174 million.

The license agreement is royalty-based, with payments calculated as a percentage of sales of Tonalin®/CLA. Royalty rates vary from middle single digit to low double-digit figures depending on the particular area of application for CLA. The sum of Cognis' guaranteed minimum payments to Natural, which consist of upfront payments and royalties over the next three years, are in the high double digit range in million Norwegian krone. The license agreement runs until 31 December 2018. All payments due to Natural from Cognis will be made in US dollars.

Cognis took over sales of Tonalin®/CLA to the dietary supplements and health food markets in February 2003.

This involved Cognis taking over Natural's inventory of Tonalin®/CLA and most of its customers. Natural will remain responsible until 2005 for certain European distributors of the retail product, and Cognis will supply Natural with Tonalin®/CLA during this period under a separate agreement.

The transfer of know-how and clinical studies in progress from Natural to Cognis will take place in the winter and spring of 2003. Natural will continue to be responsible after this transfer for maintaining the patent portfolio and protecting the intellectual property rights.

Cognis plans to introduce Tonalin®/CLA as an ingredient in human food as soon as the regulatory authorities in countries around the world grant approval.

The use of CLA in cosmetics is an interesting commercial opportunity. CLA has certain cosmetic qualities, and Cognis already has a significant position in this market. Further research on CLA may offer possibilities for CLA as an ingredient in pharmaceutical applications.

## Strategic consequences for Natural

2002 and the start of 2003 saw Natural reach an important milestone for its CLA project. The company has now entered into exclusive long-term license agreements with BASF for animal feed applications and with Cognis for dietary supplements and health food, nutrition, cosmetics and pharmaceuticals. The license agreements with BASF and Cognis cover all the currently known commercial uses of CLA.

Royalty payments from the license agreements are expected to generate significant income for Natural over the period of up to 16 years for which the agreements run. Natural will in addition be able to release liquidity since it will require less working capital as a result of changes to its organisation and a reduction in its inventories.

As a result of the successful CLA project, the Board of Natural ASA intends to introduce a dividend policy for the duration of the license agreements which will return the excess liquidity accruing to the company from the license agreements. This will take the form of dividends or such other transactions as may be appropriate from time to time.

The strategic consequences of Natural achieving an important milestone for the CLA project include the need to adapt the company's divisions Technology and Development and Sales and Marketing in order to further develop the value that Natural represents and to maintain sufficient capacity to monitor and follow-up the license agreements in an effective manner. The value built up in the company relates to its ability to discover, protect, develop and sell or license new substances

The Board intends to facilitate the development of Natural's divisions Technology and Development and Sales and Marketing into financially independent business areas. The company's relationship with its business areas will be kept under continual review to ensure the appropriate development of these activities.

## The Technology and Development business area

Natural's Technology and Development business area works in close collaboration with an external research network in the area of nutrition technology. The major part of the business area's resources was committed in 2002 to research and development related to CLA.

Research and development expenditure amounted to NOK 29.6 million in 2002. In addition the company made royalty payments of NOK 10.6 million, principally to the owners of certain applications patents for CLA. Total expenditure was therefore NOK 40.2 million as compared to NOK 28.0 million in 2001. Research and development costs, including royalty payments, were equivalent to 23.3% of total operating revenue in 2002 as compared to 22% in 2001.

During 2002 Natural carried out a number of clinical trials on the effects of Tonalin®/CLA on the human body. These trials provided further evidence of the effect that Tonalin®/CLA has on the balance between fat and muscle in the body. Natural received the results of the first 12 months of a two-year study into Tonalin®/CLA in 2002. This long-term study is producing very good results in respect of fat reduction, and has not identified any side effects. The study involves 180 subjects in Norway.

Natural filed a number of new patent applications in 2002 for CLA and CLA derivatives with special characteristics. Applications for eight patents related to CLA were approved in 2002. Natural now has 21 approved patents which, together with a small number of patents licensed from third parties, give the company a sound and well protected long-term basis for the production, sale and use of CLA.

Natural's new patents include new technology for the production of CLA which produces a purer and higher quality product than has so far been available in the market.

The long-term license agreements that the company has been able to arrange with BASF and Cognis serve to confirm that Natural's patent position for CLA must be considered strong.

Natural's Technology and Development department operates a highly specialised laboratory facility and a pilot production plant. The department represents extensive expertise and a strong network of research collaboration in the lipids area.

In addition to supporting the license agreements with Cognis and BASF and the further development of CLA, the target for this business area is to use its expertise and experience of the external research network developed over the course of the CLA project to identify new substances and nutritional technologies with potential commercial value. Natural will seek to ensure that the Technology and Development business area becomes a financially independent unit within Natural by attracting income-generating external assignments.

## Sales and Marketing

Natural's Sales and Marketing business area carries out the sales and marketing of well-documented products primarily intended for the dietary supplements and health food markets.

The main product is CLA, sold as a retail product under the brand name Tonalin® and as an ingredient in products offered by other brand-name products. Natural increased its sales of Tonalin®/CLA by 30.2% in 2002, with a 48.8% increase in the Norwegian krone value of sales to the North American market.

Sales to the Norwegian market were satisfactory in 2002, but sales to other European countries were lower than expected. This was principally due to some uncertainty among European distributors over questions of geographic exclusivity in respect of the license agreement with Cognis.

This matter was clarified with Cognis over the course of 2002, and Natural will continue its distribution agreements with certain European distributors until 2005. These distribution agreements will be managed by the Sales and Marketing business area, and represent a commercially attractive opportunity for Natural.

Sales of Tonalin®/CLA to the dietary supplements and health food markets made a net contribution to profit of NOK 36.5 million in 2002, providing financing for Natural's other activities including its work on license agreements and research and development.

Normal seasonal fluctuations again affected sales of Tonalin®/CLA in 2002, but were not as pronounced as in 2001. Seasonal variations arise because consumers and the media normally show greater interest in health and fitness issues in the earlier part of the year.

Natural's sales of CLA as an additive for animal food generated NOK 20.8 million in 2002 as compared to NOK 12.2 million in 2001. The sales are expected to come to an end in 2003 once BASF takes over all sales for the animal feed market, and Natural will then receive royalty income from BASF.

Natural maintained a good standard of product availability and delivery throughout 2002. The company's inventories were at too high a level at the beginning of 2002, but were reduced to a satisfactory level over the course of the year.

Following the initiation of the license agreement with Cognis in February 2003, most of Natural's sales of Tonalin®/CLA to the dietary supplements and health food market have been transferred to

Cognis. Natural will now earn royalty payments based on the sales of Tonalin®/CLA achieved by Cognis. This will ensure income for Natural over the next three years within the framework of a high double-digit amount in million Norwegian krone.

Steps will be taken in 2003 to develop Natural's Sales and Marketing department into a financially independent business area operating in the market for dietary supplements and health food products.

The agreement with Cognis for Natural to continue to distribute Tonalin®/CLA to certain European markets provides a sound commercial platform for this business area. It will also market new substances to strengthen the basis for its commercial operations. Natto vitamin K2 represents the first new substance to be marketed starting in 2003.

Natural has entered into an exclusive agreement to distribute Natto vitamin K2 to the markets for dietary supplements/health food and food ingredients in Europe and the USA. This agreement was signed with Nattokin, a Japanese product development company that has spent many years developing a unique process technology to produce a naturally sourced extract with a high standardised content of vitamin K2.

Japanese researchers have demonstrated that Natto vitamin K2 has a direct beneficial effect in areas including osteoporosis, a condition particularly prevalent amongst post-menopausal women. Considerable research into Natto K2 has also been carried out in Europe and serves to confirm the Japanese findings. Natural has already launched this product in the Nordic countries and plans to extend this to several other European countries and the USA during 2003.

## The external environment

The company leases production capacity for the main product, CLA, from Napro Pharma AS in Brattvåg on the north west coast of Norway. The basic raw material for the production is imported refined sunflower oil or saffron flower oil. The main processing takes place in reactor tanks under pressure and heat. Waste material from the process is disposed of under controlled circumstances and does not pollute the environment. After processing at Napro Pharma the semi-finished product is sent elsewhere for final distillation. Waste from the distillation process takes the form of small amounts of fat that are securely taken care of and burnt as fuel.

Following the initiation of the license agreement with Cognis in February 2003, Natural will no longer contract high-volume commercial production of CLA.

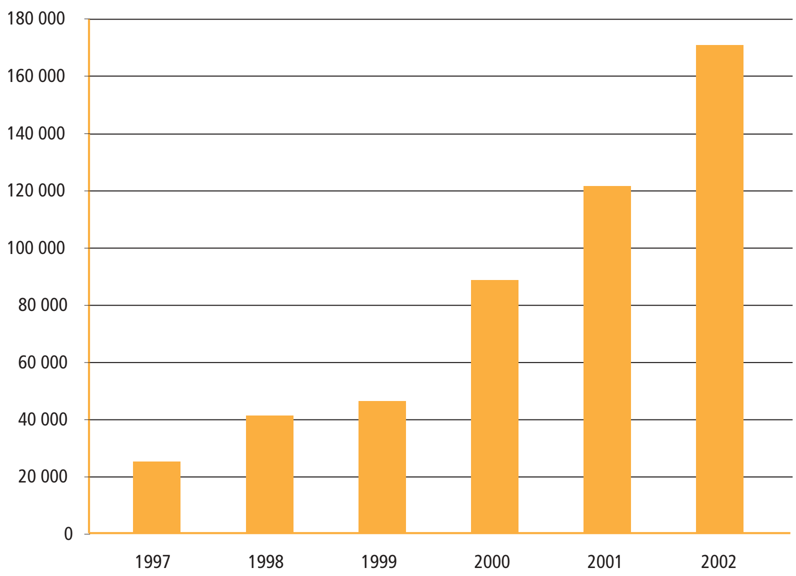
## Employees, Board of Directors and management

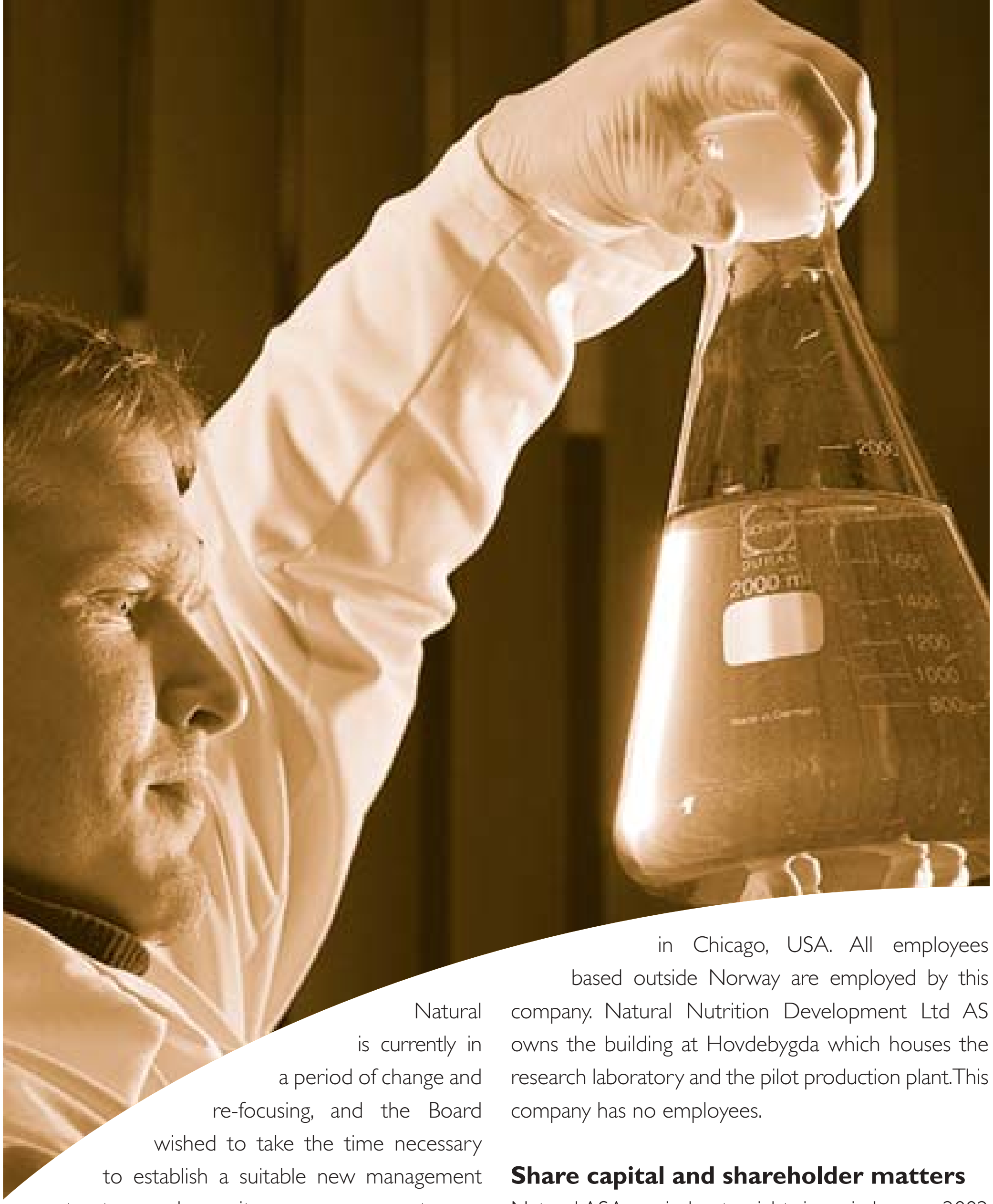
The Natural group has 25 employees of which 5 are based outside Norway.

The Annual General Meeting of Natural ASA held on 10 April 2002 elected Tore Heldrup Rasmussen as the Chairman of the Board. The other members of the board are Bengt Belfrage, corporate adviser, Morten Ulstein, chartered engineer and Aasmund Rygnestad, lawyer.

Natural has reached an important milestone for its CLA project, and this together with consequent changes has led to a number of changes in the management of the company. Nils B. Vogt left his position as Managing Director of Natural ASA on 1 December 2002.

**Development of sales, NOK 1000** **1997 – 2002**





Natural is currently in a period of change and re-focusing, and the Board wished to take the time necessary to establish a suitable new management structure and recruit a new permanent managing director. In the intervening period Tore H. Rasmussen will take responsibility for the executive management of Natural as working chairman, with Aasmund Rygnestad as Managing Director.

In a research and development company such as Natural, employees are the company's most important asset. The Board is very satisfied with the commitment shown by the employees in the past year. Natural strives to maintain a good working environment and aims to foster individual training and career development within the company wherever possible.

Absence due to illness in the company is low, under 1%. No serious incidents or accidents resulting in damage or personal injury have occurred or been reported during the year. The working environment is considered to be good, and improvements are undertaken as a continuing process.

Natural ASA has two wholly owned subsidiaries. The sales department in North America is operated through Natural Inc., which has its main base in Chicago, USA. All employees based outside Norway are employed by this company. Natural Nutrition Development Ltd AS owns the building at Hovdebygda which houses the research laboratory and the pilot production plant. This company has no employees.

## Share capital and shareholder matters

Natural ASA carried out a rights issue in January 2002 of 1,000,000 shares at a price of NOK 45, together with a private placement of shares with the parties that underwrote the rights issue totalling 126,167 shares at the same price. The share issues were approved by an Extraordinary General Meeting held on 12 December 2001. The two issues raised a gross amount of NOK 50.7 million for the company. Natural ASA also carried out 10 private placements of shares in 2002, issuing a total of 155,005 shares at various prices pursuant to options and other agreements. The company also issued 95,000 options to Board members during the year. During the course of the year options held by key employees and Board members over 180,000 shares were renegotiated and replaced with options over 90,000 shares.

The Annual General Meeting of Natural ASA held on 10 April 2002 granted the Board a mandate to increase the company's share capital through one or more transactions by issuing up to 650,000 shares. Any such share issues will be privately placed with employees and members of the Board related to the Natural group as part of share option and other incentive arrangements. This mandate is valid for two years, and replaces the mandate granted for the same purpose at an Extraordinary General Meeting held on 22 June 2000. The previous mandate was also for a maximum of 650,000 shares.

The Annual General Meeting held on 10 April 2002 also granted the Board a mandate to increase the company's share capital by issuing up to 150,000 shares either for cash or other consideration in connection with possible transactions and contracts in the future. This mandate is valid for two years.

As at 31 December 2002 Natural ASA had a share capital of NOK 10,143,718 made up of 10,143,718 shares owned by 1,605 shareholders. Foreign owners accounted for 2.2%.

## Annual report and accounts

The annual accounts have been prepared on the going concern assumption for Natural ASA.

The going concern assumption for Natural ASA is justified by the results expected for 2003 and the group's long-term strategic forecasts for the years to come. The group has so far been in an investment phase in which costs exceeded income for a transitional period due to a high level of investment in research and development. The group achieved a balance between income and costs in 2002, and income is expected to exceed costs with effect from 2003.

Natural's equity ratio is strong, and on the basis of current and planned operations and current capital structure the group expects to have positive liquidity.

No material circumstances have arisen between the end of the year and the signing of the Annual Report and Accounts that are not dealt with in the Annual Report. The Board is not aware of any matters not dealt with in the Annual Report and Accounts that could be of material relevance to an evaluation of the company.
Variations in earnings between the various parts of the group meant that the parent company Natural ASA made a loss of NOK 15,645,000 for 2002. The Board recommends that the parent company's loss for 2002 be transferred to uncovered losses.

## Prospects for 2003

Natural expects 2003 to be the year in which the value created by the work on Tonalin®/CLA carried out since 1996 will start to be realised through royalty income.

Natural will apply its resources to the following main areas of activity in 2003:

- Implementation of the license agreement with Cognis and supporting Cognis in its sales to the global markets for dietary supplements and health food as well as in its preparation for the introduction of CLA as an ingredient in food products.
- Continue the company's excellent collaboration with BASF to establish and secure Natural's royalty income through sales of CLA as an additive to animal feed.
- Further develop the company's expertise and capacity on the scale needed to protect Natural's interests by monitoring and following up its licensees and business partners.
- Develop the Technology and Development and Sales and Marketing divisions into financially independent business areas.
- Introduce a dividend policy for the duration of the license agreements which will return the company's surplus liquidity from the license agreements to its shareholders.
- In 2003 the Board of Directors of Natural ASA will propose to the Annual General Meeting that the company makes a payment of NOK 50 million to shareholders and establishes a framework for purchases of its own shares. Since the company's accounting profit for 2002 does not provide the basis for such a dividend payment, the Board's proposal for the payment goes on to propose that Natural ASA transfers funds from the company's restricted capital to its distributable reserves.
- Continue to evaluate and develop the commercially attractive substances and nutritional technologies that the company is currently working with or is otherwise aware of.

***Sandvika, 19 February 2003***
Translation - not to be signed

| | | | |
|---|---|---|---|
| Tore H. Rasmussen<br>Chairman | Bengt Belfrage<br>Deputy Chairman | Aasmund Rygnestad<br>Board Member and acting Managing Director | Morten Ulstein<br>Board Member |

# Natural ASA Group Income Statement 01.01.– 31.12. (NOK 1000)

| Parent company | | | | Group | | |
|---|---|---|---|---|---|---|
| **2001** | **2002** | | **Note** | **2002** | **2001** | **2000** |
| 79 296 | 105 572 | Operating revenue | 3 | 172 357 | 125 982 | 95 454 |
| **79 296** | **105 572** | **Total operating income** | | **172 357** | **125 982** | **95 454** |
| 37 563 | 55 742 | Raw materials and consumable used | 5 | 72 597 | 54 606 | 39 780 |
| 13 286 | 16 795 | Staff costs etc. | 6 | 27 015 | 20 295 | 20 064 |
| 905 | 2 110 | Depreciation | 7 | 6 802 | 5 518 | 5 455 |
| 49 734 | 45 296 | Other operating expenses | 4,10 | 61 457 | 61 844 | 47 356 |
| **101 488** | **119 943** | **Total operating expenses** | | **167 871** | **142 264** | **112 654** |
| **-22 192** | **-14 371** | **Operating loss** | | **4 486** | **-16 282** | **-17 200** |
| 792 | 392 | Interest on intercompany debt | | 0 | 0 | 0 |
| 933 | 1 790 | Other interest income | | 1 842 | 937 | 1 645 |
| 4 070 | 7 226 | Other financial income | 2 | 7 226 | 4 178 | 3 587 |
| -922 | -814 | Interest expense | | -1 252 | -1 125 | -274 |
| -4 065 | -9 868 | Other financial expense | 2 | -10 139 | -4 068 | -2 297 |
| **808** | **-1 274** | **Net financial items** | | **-2 323** | **-78** | **2 661** |
| **-21 384** | **-15 645** | **Ordinary profit before tax** | | **2 163** | **-16 360** | **-14 539** |
| 0 | 0 | Tax expense | 12 | 219 | 200 | 27 |
| **-21 384** | **-15 645** | **Ordinary profit for the year** | | **1 944** | **-16 560** | **-14 566** |
| 0 | 0 | Extraordinary income | | 0 | 0 | 0 |
| **-21 384** | **-15 645** | **Net profit (loss) for the year** | | **1 944** | **-16 560** | **-14 566** |
| 21 384 | 15 645 | Allocated to (from) reserves | | | | |
| | | Profit per share - before extraordinary items | 13 | 0.19 | -1.87 | -1.75 |
| | | Profit per share - net profit for the year | 13 | 0.19 | -1.87 | -1.75 |
| | | Profit per share - diluted | 13 | 0.19 | -1.81 | -1.67 |

# Natural ASA Group Balance Sheet at 31.12. (NOK 1000)



| Parent company | | | | Group | |
|---|---|---|---|---|---|
| 2001 | 2002 | ASSETS | Note | 2002 | 2001 |
| 3 127 | 5 041 | Patents | 7 | 6 167 | 4 778 |
| 0 | 0 | Goodwill | 7 | 2 447 | 6 504 |
| **3 127** | **5 041** | **Total intangible fixed assets** | | **8 614** | **11 282** |
| 14 777 | 14 440 | Machinery, equipment etc. | 7 | 14 670 | 15 291 |
| 0 | 0 | Buildings | 7,9 | 6 396 | 2 912 |
| **14 777** | **14 440** | **Total tangible fixed assets** | | **21 066** | **18 203** |
| 48 912 | 48 912 | Investment in subsidiaries | | 0 | 0 |
| 0 | 0 | Long-term receivables | | 0 | 0 |
| 14 458 | 0 | Loans to group companies | | 0 | 0 |
| **63 370** | **48 912** | **Total financial fixed assets** | | **0** | **0** |
| **81 274** | **68 393** | **Total fixed assets** | | **29 680** | **29 485** |
| 26 749 | 16 047 | Inventories | 5 | 19 939 | 37 801 |
| **26 749** | **16 047** | **Total inventories** | | **19 939** | **37 801** |
| 6 667 | 12 110 | Accounts receivable | | 25 860 | 17 742 |
| 3 633 | 4 868 | Other receivables | | 5 268 | 4 935 |
| 17 468 | 8 818 | Receivables from subsidiaries | 11 | 0 | 0 |
| **27 768** | **25 796** | **Total receivables** | | **31 128** | **22 677** |
| 0 | 6 113 | Forward foreign exchange contracts | 2 | 6 113 | 0 |
| **0** | **6 113** | **Total financial instruments** | | **6 113** | **0** |
| 13 674 | 57 170 | Bank deposits, cash etc. | 16 | 60 791 | 15 077 |
| **13 674** | **57 170** | **Total bank deposits and cash** | | **60 791** | **15 077** |
| **68 191** | **105 126** | **Total current assets** | | **117 971** | **75 555** |
| **149 465** | **173 519** | **Total assets** | | **147 651** | **105 040** |
| **2001** | **2002** | **EQUITY AND LIABILITIES** | | **2002** | **2001** |
| | | **EQUITY** | | | |
| 8 863 | 10 144 | Share capital (10,143,718 par value NOK 1) | 15 | 10 144 | 8 863 |
| 116 916 | 165 445 | Share premium reserve | 15 | 165 445 | 116 916 |
| 387 | 387 | Other paid in capital | 15 | 387 | 387 |
| **126 166** | **175 976** | **Total paid in capital** | | **175 976** | **126 166** |
| -17 629 | -27 161 | Accumulated losses | 15 | -60 320 | -66 442 |
| **-17 629** | **-27 161** | **Other equity/reserves** | | **-60 320** | **-66 442** |
| **108 537** | **148 815** | **Total equity** | | **115 656** | **59 724** |
| | | **LIABILITIES** | | | |
| 0 | 2 229 | Provisions | 8 | 2 926 | 0 |
| **0** | **2 229** | **Total provisions** | | **2 926** | **0** |
| 5 491 | 4 560 | Long-term liabilities | 9 | 8 775 | 10 216 |
| **5 491** | **4 560** | **Total long- term liabilities** | | **8 775** | **10 216** |
| 25 229 | 0 | Overdraft facility | | 0 | 25 229 |
| 4 012 | 8 520 | Accounts payable | | 9 823 | 4 777 |
| 1 785 | 1 612 | Official duties etc. payable | | 1 612 | 1 785 |
| 0 | 0 | Tax payable | 12 | 313 | 200 |
| 2 073 | 0 | Payable to group companies | 11 | 0 | 0 |
| 2 338 | 7 783 | Other current liabilities | 20 | 8 546 | 3 109 |
| **35 437** | **17 915** | **Total current liabilities** | | **20 294** | **35 100** |
| **40 928** | **24 704** | **Total liabilities** | | **31 995** | **45 316** |
| **149 465** | **173 519** | **Total equity and liabilities** | | **147 651** | **105 040** |

# Natural ASA Cash Flow Analysis 01.01.– 31.12. (NOK 1000)

| Parent company | | | Group | | |
|---|---|---|---|---|---|
| **2001** | **2002** | | **2002** | **2001** | **2000** |
| -21 384 | -15 645 | Net profit for the year | 1 944 | -16 560 | -14 566 |
| 0 | 0 | - gain on sale of fixed assets | 0 | 0 | -90 |
| 0 | 0 | - write-down of shares | 0 | 0 | 0 |
| 905 | 2 109 | + depreciation | 6 802 | 5 518 | 5 455 |
| 0 | 0 | + issue of stock options | 0 | 0 | 387 |
| **-20 479** | **-13 536** | **Source of funds** | **8 746** | **-11 042** | **-8 814** |
| | | | | | |
| | | **Liquid assets added to/ used in the operation** | | | |
| -20 479 | -13 536 | Source of funds | 8 746 | -11 042 | -8 814 |
| -24 529 | 9 768 | Change in inventory/receivables/payables | 14 788 | -26 823 | -14 411 |
| 32 450 | 12 841 | Change in other accruals | 7 973 | 21 162 | 3 392 |
| **-12 558** | **9 073** | **Net cash from operations** | **31 507** | **-16 703** | **-19 833** |
| | | | | | |
| | | **Investment activities** | | | |
| -13 906 | -3 685 | - investments in fixed assets and shares | -7 412 | -15 560 | -10 286 |
| 0 | 0 | + sale of fixed assets and shares | 0 | 0 | 90 |
| -1 165 | 14 458 | Change in long term receivables | 0 | 0 | 89 |
| **-15 071** | **10 773** | **Net cash from investment activities** | **-7 412** | **-15 560** | **-10 107** |
| | | | | | |
| | | **Financing activities** | | | |
| 4 400 | 0 | + new borrowings | 0 | 8 000 | 0 |
| -472 | -26 160 | - repayment of borrowing | -26 670 | -622 | -630 |
| 0 | 0 | + purchase of minority interests in Natural Inc. | 0 | 0 | 0 |
| 0 | 0 | + increase in equity on purchase of subsidiaries | 0 | 0 | 5 237 |
| 4 182 | 49 810 | + paid in new equity | 49 810 | 4 182 | 35 908 |
| **8 110** | **23 650** | **Net cash contribution from financing activities** | **23 140** | **11 560** | **40 515** |
| | | | | | |
| 0 | 0 | - currency conversion differences | -1 521 | -294 | -608 |
| | | | | | |
| **-19 519** | **43 496** | **Net change in liquid assets** | **45 714** | **-20 997** | **9 967** |
| 33 193 | 13 674 | + liquid assets January 1. | 15 077 | 36 074 | 26 107 |
| 13 674 | 57 170 | Liquid assets December 31. | 60 791 | 15 077 | 36 074 |

***Sandvika, 19 February 2003***

Translation not to be signed

Tore H. Rasmussen
Chairman

Bengt Belfrage
Deputy Chairman

Morten Ulstein
Board Member

Aasmund Rygnestad
Board Member and acting Managing Director

## Note 1

### Accounting principles and effects of change on principles

The annual accounts have been prepared in compliance with the Norwegian Accounting Act, of 1998, and have been prepared in accordance with Norwegian accounting standards.

### Consolidation principles

The consolidated financial statements include the parent company, Natural ASA, and all companies where the parent company has a direct or indirect controlling interest. The consolidated financial statement expresses the consolidated result and financial position when the parent company and the subsidiaries are presented as one economic unit. In the consolidated financial statement, all shares in subsidiaries, internal receivables and debt and transactions between group companies are eliminated. Unrealised profits on internal delivered goods held as inventory are eliminated in the level of inventory shown in the consolidated accounts. Balance sheet items are translated at the exchange rate prevailing on the balance sheet date. The income statements of foreign subsidiaries have been translated at the average monthly exchange rate over the year. Conversion differences are applied directly to equity.

The following companies are included in the group at 31.12.2002:

| Natural ASA | Parent Company | Ørsta |
|---|---|---|
| Natural Nutrition Development Ltd AS | 100 % | Ørsta |
| Natural USA Inc. | 100 % | Vernon Hills, Illinois, USA |

### Classification and valuation principles

*Assets and liabilities*

Assets meant for permanent ownership or use and receivables that are not due for payment within one year of the balance sheet date are classified as long-term assets. Other assets are classified as current assets. Equivalent classifications are used for the classification between short-term and long-term debt.

*Use of estimates*

Preparation of the consolidated financial statement in accordance with generally accepted accounting principles requires that the company's management make estimates and establish assumptions that affect the value of assets and liabilities in the balance sheet and reported revenues and costs for the financial year. The values eventually realised may vary from these estimates.

*Revenue recognition*

The sale of goods is recognised to income at the date of delivery. Operating revenues are defined as gross operating revenues less commission, discounts and other price reductions.

Revenues from royalty agreements are recognised when they are earned. Lump sum payments from royalty agreements are recognised when the contract is signed as long as the payment does not relate to future performance by the company.

*Transactions and reserves in foreign currency*

Income statement items are based on the exchange rate on the date of transaction. Monetary items in foreign currencies are translated at the exchange rate on the balance sheet date. Monetary items that are hedged are recorded at the hedged rate. Forward foreign exchange contracts are recorded in the company's balance sheet at 31 December 2002 at market value. Unrealised gains and losses on forward contracts that meet the conditions to be treated as hedging of future cash flows are applied directly to other equity. When the contracts mature, the difference between the maturity amount and current exchange rate is treated as an operating income or loss. Realised and unrealised gains and losses on forward contracts that do not meet the conditions to be treated as hedging contracts are recognised as financial income or expense. Other realised and unrealised exchange gains and losses are classified as financial items in the financial statements.

*Intangible assets*

Acquired and internally developed intangible assets are capitalised when the expenses can be reliably measured and there is a probable future economic benefit. Intangible assets are valued at historical cost and are depreciated linearly over the expected economic life of the intangible asset.

*Goodwill*

The potion of the acquisition cost of a subsidiary that cannot be assigned to identifiable assets and liabilities in the subsidiary is recognised as goodwill in the balance sheet. Goodwill is depreciated linearly over the expected economic life.

*Research and development*

Costs for research and development are expensed in full as they are incurred.

*Receivables*

Accounts receivable and other receivables are recorded at face value, reduced by provisions for expected losses. Provisions for losses are made on a separate evaluation of each individual receivable.

*Inventories*

Inventories are valued at the lower of cost price (on the FIFO principle) and net market value. The net market value of raw material and goods in process is the market value of finished goods less the remaining production costs and sales costs. The cost price for finished goods includes the direct cost of materials, direct wages and a portion of indirect production costs.

*Tangible fixed assets*

Tangible fixed assets are recorded at historical cost reduced by accumulated depreciation. Depreciation is calculated on a linear schedule based on the expected economic life of fixed assets. When the fixed assets are sold or scrapped, the gain or loss is booked as income or cost.

*Pensions*

Expenses incurred in respect of the company's defined contribution pension schemes are recognised in the accounts in pace with premium payments.

*Remuneration related to the company's shares*

The group accounts for employee stock option plans in accordance with the guidelines issued by Oslo Børs. This implies that when options or warrants are granted to employees with an exercise price > the market price at the date of allocation, no charge is recognised to the income statement. Any liability to employer's social security contributions arising from the grant of options or warrants is recognised to the income statement. The calculated liability to employer's contributions in respect of options not yet exercised is calculated on the basis of the value of the option using the price of shares in Natural ASA at the balance sheet date.

*Use of stock options and warrants as consideration for purchase of goods and services*

When the consideration for goods and services provided by external parties takes the form of stock options or warrants, the purchase price is recorded as the value of the consideration at the time of transaction. The consideration at the time of transaction is calculated as the value of the warrants or stock options at the time when the warrants or stock options are issued. The value is calculated based on recognised principles for stock options pricing (Black & Scholes). Options and warrants issued are booked directly to other paid in capital.

*Earnings per share*

Earnings per share is calculated on the basis of profit for the year due to ordinary shares divided by the weighted average number of ordinary shares outstanding in the period. Diluted profit per share is based on the weighted average number of ordinary shares outstanding adjusted by the diluting effect of potential additional shares.

*Taxes*

Liability to tax is recognised as an expense when it is incurred, i.e. tax payable is related to the accounting profit or loss before tax. The total charge for taxation includes current tax payable and changes in deferred tax. For the part of the Group subject to Norwegian tax law, deferred tax is calculated as 28 % of the temporary differences that exist between the accounting and taxation values for assets and liabilities. Deferred tax is calculated in a similar manner for foreign subsidiaries.

Temporary positive or negative differences that are reversed or can be reversed in the same period are set off, and the tax effect is calculated on a net basis. Only temporary positive and negative differences for entities within the same tax regime are offset. Deferred tax related to the fair value in excess of book value of assets and liabilities acquired on the acquisition of a subsidiary is not offset, and deferred tax on such items is treated separately.

*Liquid assets*

Liquid assets include cash, bank deposits and investments with due date within three months.

## Note 2
## Financial market risk

Financial instruments that are associated with credit or currency risk mainly comprise bank deposits and accounts receivable. Accounts receivable relate to operating revenue that mainly arises in the USA and Europe in local currencies.
The group has been exposed to changes in the exchange rate since it has imported raw materials, mainly in USD and Euro. Similarly, a significant portion of the company's sales and royalty income is in foreign currencies, mainly in USD. Income of USD 5 million in 2002 was hedged through forward contracts at an average exchange rate of USD/NOK 9.13. The gains realised on these forward contracts were recognised as financial income in 2002.

The parent company and group have recognised in total NOK 7,226,000 as currency gains included in other financial income. In addition the parent company has recognised NOK 9,649,000 as currency loss included in other financial expense. The currency loss recognised by the group was NOK 9,889,000.

The following hedging contracts were outstanding at 31 December 2002 in respect of the years 2003 to 2005:

***2003:*** *Sold USD 4.17 million at average weighted minimum exchange rate of 7.72 through flexible forward contracts.*

***2004:*** *Sold USD 3.42 million at average weighted minimum exchange rate of 8.05 through flexible forward contracts.*

***2005:*** *Sold USD 2.08 million at average weighted minimum exchange rate of 8.20 through flexible forward contracts.*

Forward foreign change contracts are recognised in the company's balance sheet at 31 December 2002. Forward contracts are valued at the balance sheet date, and any change in market value is applied directly to equity.

The company entered into additional forward contracts in February 2003 for the sale of a further USD 2.13 million with maturities as follows:

***2003:** Sold USD 1.0 million at average weighted minimum exchange rate of 7.06 through flexible forward contracts.*

***2005:** Sold USD 0.75 million at average weighted minimum exchange rate of 7.46 through flexible forward contracts.*

***2006:** Sold USD 0.38 million at average weighted minimum exchange rate of 7.49 through flexible forward contracts.*

## Note 3

### Operating revenue

In accordance with the guidelines provided by the Norwegian Accounting Standards Board, the group's activity in 2002 is deemed to be within a single segment. This includes research, development, production and sale of dietary supplements.

Operating revenues are distributed as follows:

| Operating revenue by country/region | 2002 | 2001 | 2000 |
|---|---|---|---|
| Nordic countries | 12,4 % | 18,0 % | 36,5 % |
| Rest of Europe | 7,0 % | 8,8 % | 10,5 % |
| North America | 78,6 % | 71,6 % | 47,3 % |
| Rest of World | 2,0 % | 1,6 % | 5,7 % |
| **Total** | **100,0 %** | **100,0 %** | **100,0 %** |

| Operating revenue is made up of: (NOK 1000) | | | |
|---|---|---|---|
| Sales income | 165 623 | 121 804 | 88 939 |
| Royalty income | 6 734 | 4 178 | 2 542 |
| BASF - single payment | 0 | 0 | 3 973 |
| **Total** | **172 357** | **125 982** | **95 454** |

## Note 4

### Other operating costs

The analysis of other operating costs for 2002 was as follows:

| NOK 1000 | Parent company | Group |
|---|---|---|
| External research projects | 11 388 | 11 782 |
| Royalty costs | 10 629 | 10 629 |
| External marketing costs | 1 938 | 12 970 |
| Other fees (includinc audit) | 8 044 | 8 711 |
| Legal assistance | 3 217 | 3 319 |
| Insurance | 412 | 1 491 |
| Other | 9 668 | 12 555 |
| **Total** | **45 296** | **61 457** |

## Note 5

### Inventories

| NOK 1000 | Parent company | | Group | |
|---|---|---|---|---|
| | **2002** | **2001** | **2002** | **2001** |
| Raw materials | 2 643 | 2 737 | 2 643 | 2 737 |
| Work in progress | 5 129 | 13 804 | 6 886 | 18 628 |
| Finished goods | 8 275 | 10 208 | 10 410 | 16 436 |
| **Total inventories** | **16 047** | **26 749** | **19 939** | **37 801** |

## Note 6

### Salaries and other personnel expenses

**The analysis of salaries and other personnel expenses is as follows**

| NOK 1000 | Parent company | | Group | | |
|---|---|---|---|---|---|
| | **2002** | **2001** | **2002** | **2001** | **2000** |
| Wages and salaries | 11 602 | 10 329 | 21 346 | 16 897 | 15 406 |
| National insurance | 2 875 | 1 621 | 3 338 | 2 062 | 4 082 |
| Directors' fees | 606 | 700 | 606 | 700 | 350 |
| Pension costs | 674 | 332 | 674 | 332 | 0 |
| Other benefits | 1 038 | 304 | 1 051 | 304 | 226 |
| **Total** | **16 795** | **13 286** | **27 015** | **20 295** | **20 064** |
| Average number of employees | 21 | 22 | 28 | 31 | 27 |

| Remuneration of officers/key employees | MD | Board |
|---|---|---|
| Salaries | 1 109 | 1 093 |
| Other remuneration | 1 232 | 5 |

Other remuneration of the Managing Director includes NOK 1,136,000 as the benefit reported from exercising share options. In addition to the amounts shown above, the company has recognised a cost of NOK 35,000 as contribution to the Managing Director's pension scheme.

Natural ASA introduced a defined-contribution pension scheme for its Norwegian employees in 2001. Payments of premium to the scheme fully finance the company's pension liabilities. This scheme applied to 18 members of staff at the end of 2002.

For more information about stock options for Board Members and leading employees see Note 14.

*Auditor's fee*

Expensed remuneration paid to the auditor for 2002 amounted to NOK 1,473,000 for Natural ASA. This amount is made up of NOK 334,000 audit fee, NOK 151,000 for accounting support and NOK 988,000 for other services.

Expensed remuneration paid to the auditor by the group for 2002 amounted to NOK 2,046,000. This amount is made up of NOK 791,000 audit fee, NOK 201,000 for accounting support and NOK 1,054,000 for other services.

# Notes to the accounts

## Note 7

### Fixed assets and intangible assets

*Parent company:*

| NOK 1000 | Machinery/ fixtures etc. | Patents |
|---|---|---|
| Acquisition cost at 01.01.2002 | 15 066 | 3 438 |
| Additions | 1 331 | 2 356 |
| Disposals | 0 | 0 |
| **Acquisition cost at 31.12.2002** | **16 397** | **5 794** |
| Acc. depreciation at 01.01.2002 | 289 | 310 |
| Depreciation for 2002 | 1 668 | 442 |
| Depreciation on disposals | 0 | 0 |
| **Acc. depreciation at 31.12.2002** | **1 957** | **752** |
| **Book value at 31.12.2002** | **14 440** | **5 041** |
| Depreciation rate | 10-30 % | 10% |

Annual lease payments for off-balance sheet fixed assets amounted to NOK 528,000.The lease agreements are for between 2 and 3 years.

*Group:*

| NOK 1000 | Machinery/ fixtures etc. | Real estate | Goodwill | Patents/ brand names |
|---|---|---|---|---|
| Acquisition cost at 01.01.2002 | 16 312 | 3 583 | 20 281 | 5 478 |
| Translation difference | -282 | 0 | 0 | -474 |
| Additions | 1 368 | 3 725 | 0 | 2 356 |
| Disposals | 26 | 0 | 0 | 0 |
| **Acquisition cost at 31.12.2002** | **17 372** | **7 308** | **20 281** | **7 360** |
| Acc. depreciation at 01.01.2002 | 1 021 | 671 | 13 777 | 700 |
| Translation difference | -196 | 0 | 0 | -108 |
| Depreciation for 2002 | 1 903 | 241 | 4 057 | 601 |
| Depreciation on disposals | 26 | 0 | 0 | 0 |
| **Acc. depreciation at 31.12.2002** | **2 702** | **912** | **17 834** | **1 193** |
| **Book value at 31.12.2002** | **14 670** | **6 396** | **2 447** | **6 167** |
| Depreciation rate | 10-30% | 5% | 20% | 10% |

Annual lease payments for off-balance sheet fixed assets amounted to NOK 570,000.T

The lease agreements are for between 2 and 3 years.

*Goodwill*

Goodwill in the consolidated accounts originates from the following acquisitions

| | | |
|---|---|---|
| Conlinco Inc. | kr | 2 095 000 |
| Herbal Marketing Group AS | kr | 352 000 |
| **Total** | **kr** | **2 447 000** |

*R&D:*

Research and development costs incurred in 2002 amounted to NOK 29.6 million. In addition NOK 10.6 million of royalty expense was paid to the owner of patents on which production is based, giving total expenditure of NOK 40.2 million. In addition patent expenses totalling NOK 2.4 million have been capitalised. It is expected that total income generated by ongoing R&D will at least offset the total cost incurred.

Research and development costs relate to research and development on bio-active lipids.

## Note 8

### Provisions

In addition to the provisions of NOK 430,000 specified in note 18, other provisions relate to termination packages and bonus payments.

## Note 9

### Liabilities and collateral pledged

NOK 3,425,000 of the group's long-term liabilities falls due for final repayment later than five years after the balance sheet date. The scheduled repayment instalments are NOK 1,350,000 in 2003, NOK 1,150,000 in 2004, NOK 950,000 from 2005 to 2007, NOK 875,000 in 2008 and NOK 800,000 annually from 2009. The average interest rate in 2002 was 8.5%.

NOK 1,760,000 of Natural ASA's long-term liabilities falls due for final repayment later than five years after the balance sheet date. The scheduled repayment instalments are NOK 840,000 in 2003 NOK 640,000 in 2004 and NOK 440,000 annually from 2005. The average interest rate in 2002 was 8.5%.

Natural ASA has given a negative pledge to Den norske Bank, its main bank connection. Den norske Bank provides an overdraft facility with a limit of NOK 10 million. The overdraft facility is granted on normal commercial terms, including a clause requiring that equity shall at all times be equal to or greater than liabilities. This clause was satisfied at 31 December 2002.

In addition Natural ASA has given a charge over its beneficial lease interest for two loans from Statens Nærings og Distriktsutviklingsfond (SND). The outstanding amounts on these loans are NOK 600,000 and NOK 3,960,000. SND has granted two further loans to the subsidiary Natural Nutrition Development Ltd. AS in amounts NOK 975,000 and NOK 3,240,000. The two loans to Natural Nutrition Development Ltd. AS and the loan of NOK 600,000 granted to Natural ASA are secured against a charge over properties owned by the subsidiary with a book value of NOK 6,396,000.

## Note 10

### Outstanding receivables

Losses on receivables are included under other operating expenses.

## Note 11

### Outstanding accounts between the parent company and other companies in the group

Outstanding accounts with other companies in the group are disclosed on separate lines in the parent company accounts. All outstanding accounts with foreign subsidiaries are in USD. An exchange rate of 6.97 NOK/USD has been applied.

## Note 12

### Taxation

**(NOK 1000)**

| Tax expense for the year arises as follows: | Parent company | Group |
|---|---|---|
| Tax payable, Norway | 0 | 0 |
| Tax payable, foreign | 0 | 219 |
| Change in capitalised deferred tax/deferred tax assets, Norway | 0 | 0 |
| Change in capitalised deferred tax/deferred tax assets, foreign | 0 | 0 |
| **Total tax expense** | **0** | **219** |

The tax expense of 219 relates entirely to activities in the USA.

| Calculation of the tax base for the year: | | |
|---|---|---|
| Pre-tax profit | -15 645 | 2 163 |
| Permanent differences | -4 280 | -4 487 |
| Change in temporary differences | -685 | -11 284 |
| Tax base for the year | -20 610 | -13 608 |

| Summary of the effect of temporary differences and losses carried forward on tax payable: | Parent company | | Group | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Current receivables | -76 | -315 | -119 | -417 |
| Inventories | -425 | -463 | -558 | -2 569 |
| Machinery, fixtures and fittings etc. | -222 | -272 | -2 143 | -3 920 |
| Profit and loss account | 60 | 76 | 60 | 76 |
| Other timing differences | -120 | 0 | -125 | -99 |
| **Losses carried forward** | **-20 784** | **-15 013** | **-22 441** | **-22 646** |
| Total | -21 566 | -15 987 | -25 324 | -29 574 |
| **Deferred tax assets in the balance sheet** | **0** | **0** | **0** | **0** |

The group has chosen not to record deferred tax assets in the balance sheet since it is uncertain whether it will prove possible to utilise them in the future.

Tax losses carried forward expire between 2007 and 2012.

# Notes to the accounts

## Note 13

### Share capital, shareholder information , earnings per share etc.

The following table shows the basis for the calculation of the Group's earnings per share and diluted earnings per share:

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Net profit ( NOK 1,000 ) | 1 944 | -16 560 | -14 566 |
| Average number of shares outstanding (1,000) | 9 982 | 8 846 | 8 328 |
| Potential additional shares if options are exercised | | | |
| Share options (1000) | 68 | 322 | 413 |
| Average number of ordinary shares after taking into account potential dilution of existing shares (1000) | 10 050 | 9 168 | 8 741 |
| Earnings per share | 0.19 | -1.87 | -1.75 |
| Earnings per share (fully diluted) | 0.19 | -1.81 | -1.67 |

| Shareholders with more than 1% of the shares | Number of shares: | Interest in % |
|---|---|---|
| Jan Brevig Remmereit* | 3 540 816 | 34.91 |
| Marlin Verdi AS | 531 200 | 5.24 |
| Firstnordic Norge VE | 437 831 | 4.32 |
| Delphi Norge Verdipapirfondet | 318 933 | 3.14 |
| Delphi Vekst Verdipapirfondet | 170 667 | 1.68 |
| Bergen Kommunale Pensjonskasse | 165 000 | 1.63 |
| Borgstein AS (Morten Ulstein, Board member) | 150 224 | 1.48 |
| Tine Pensjonskasse | 125 337 | 1.24 |
| Mimar AS (Morten Ulstein, Board member) | 121 186 | 1.19 |
| Deutsche Bank AG | 103 000 | 1.02 |

| In addition the following board members and leading employees have shares in the company: | | |
|---|---|---|
| Tore Heldrup Rasmussen, Working chairman | 43 166 | 0.43 |
| Aasmund Rygnestad, Acting Managing Director/Board member | 9 000 | 0.09 |
| Asgeir Sæbø, Head of Research | 25 000 | 0.25 |

| Shares held by close associates of board members and leading employees of the company: | | |
|---|---|---|
| Oscar Ulstein Rygnestad (Aasmund Rygnestad) | 425 | 0.00 |
| Fredrik Ulstein Rygnestad (Aasmund Rygnestad) | 425 | 0.00 |
| Karl Magnus Ulstein Rygnestad (Aasmund Rygnestad) | 425 | 0.00 |
| Aurumar (Aasmund Rygnestad) | 23 400 | 0.23 |
| Margentum (Aasmund Rygnestad) | 59 167 | 0.58 |
| Borgstein Verdi AS (Morten Ulstein) | 73 200 | 0.72 |
| Borgstein Invest AS (Morten Ulstein) | 22 500 | 0.22 |

**Greyston Holding AS, controlled by Jan Brevig Remmereit, sold a total of 399,525 shares in October and November 2002, and simultaneously repurchased the same number of shares with settlement in April and May 2003.*

The company's share capital is made up of 10,143,718 shares each of nominal value NOK 1.

## Note 14

### Stock option programs

The Board has been granted a mandate by the General Meeting to increase the company's share capital (without rights of pre-emption for existing shareholders) by issuing options over up to 1,000,000 shares to the group's employees, officers and advisers (hereinafter the "stock option programs").

The company currently operates stock option programs pursuant to the following Board mandates. Each program is for a two year period:

• Mandate approved 26 April 2001 for the Board to increase share capital by up to 350,000 shares each of nominal value NOK 1. As at 31 December 2002 a total of 190,000 options had been granted pursuant to this mandate.

• Mandate approved 10 April 2002 for the Board to increase share capital by up to 650,000 shares each of nominal value NOK 1. As at 31 December 2002 a total of 281,000 options granted pursuant to this mandate remained un-exercised. The company's share capital has been increased by 148,337 shares through the exercise of this mandate. The other shares issued pursuant to the company's stock option programs were issued by exercising other Board mandates that have now expired.

Options granted to employees include terms requiring a continuing relationship with the Company as a condition for the exercise of the options. Options granted to members of the Board of Directors permit exercise of the options for up to 12 months after ceasing to be a member of the Board of Natural ASA.

The exercise price is determined by the market share price at the date the options are granted.

As at 31 December 2002 a total of 471,000 options were outstanding in favour of members of the Board, employees, advisers and former members of the Board. The maturity dates and exercise prices for options granted to employees and members of the Board are shown in the table below. The remaining 210,000 options expire in the period 10 March 2003 - 1 July 2003 with an average exercise price of NOK 74.38.

The following table provides details of options granted by Natural to employees and members of the Board as at 31 December 2002:

| Name: | Options granted | Date-Granted | Exercise price (NOK) | Expiry | Options exercised | Options outstanding |
|---|---|---|---|---|---|---|
| Tore H. Rasmussen | 45 000 | 02.05.2002 | 52.00 | **** | 0 | 45 000 |
| Bengt Belfrage | 30 000 | 02.05.2002 | 52.00 | **** | 0 | 30 000 |
| Aasmund Rygnestad | 30 000 | 02.05.2002 | 52.00 | **** | 0 | 30 000 |
| Morten Ulstein | 20 000 | 02.05.2002 | 52.00 | **** | 0 | 20 000 |
| Asgeir Sæbø | 10 000 | 20.09.2000 | 75.50 | 01.01.2004 | 0 | 10 000 |
| Jan Bjørnsrud | 40 000 | 18.07.2000 | 61.50 | 15.11.2003 | 0 | 40 000 |
| Per Chr. Sæbø | 5 000 | 20.09.2000 | 75.50 | 01.01.2004 | 0 | 5 000 |
| Stein Westby | 20 000 | 31.10.2001 | 47.00 | 01.07.2005 | 0 | 20 000 |
| Stein Westby | 20 000 | 31.10.2001 | 56.40 | 01.07.2005 | 0 | 20 000 |
| Stein Westby | 20 000 | 31.10.2001 | 65.80 | 01.07.2005 | 0 | 20 000 |
| Egil Nilsen | 10 000 | 06.12.2001 | 50.00 | 01.07.2004 | 0 | 10 000 |
| Nina Likins | 5 000 | 06.12.2001 | 50.00 | 01.07.2004 | 0 | 5 000 |
| Jason Larson | 3 000 | 06.12.2001 | 50.00 | 01.07.2004 | 0 | 3 000 |
| Duane Fimreite | 3 000 | 06.12.2001 | 50,00 | 01.07.2004 | 0 | 3 000 |
| **Total** | **261 000** | | | | **0** | **261 000** |

# Notes to the accounts

## Note 15

Changes in equity

**Parent company**

| NOK 1000 | Share capital | Share premium | Other paid-in equity | Acc. loss | Total equity |
|---|---|---|---|---|---|
| Equity at 01.01 | 8 863 | 116 916 | 387 | -17 629 | 108 537 |
| Options exercised | 155 | 3 439 | | | 3 594 |
| Raised by share issue | 1 126 | 45 090 | | | 46 216 |
| Currency hedging | | | | 6 113 | 6 113 |
| Net profit for the year | | | | -15 645 | -15 645 |
| **Equity at 31.12** | **10 144** | **165 445** | **387** | **-27 161** | **148 815** |

**Group**

| NOK 1000 | Share Capital | Share premium | Other paid-in equity | Acc. loss | Total equity |
|---|---|---|---|---|---|
| Equity at 01.01 | 8 863 | 116 916 | 387 | -66 442 | 59 724 |
| Options exercised | 155 | 3 439 | | | 3 594 |
| Raised by share issue | 1 126 | 45 090 | | | 46 216 |
| Currency hedging | | | | 6 113 | 6 113 |
| Net profit for the year | | | | 1 944 | 1 944 |
| Translation differences | | | | -1 935 | -1 935 |
| **Egenkapital 31.12** | **10 144** | **165 445** | **387** | **-60 320** | **115 656** |

## Note 16

### Restricted bank deposits.

The company's bank, Den norske Bank, had a NOK 30 million charge over the company's inventories and a NOK 40 million charge over accounts receivable at the close of 2002 in support of an overdraft limit of NOK 10 million. The company does not have any restricted bank deposits.

## Note 17

### Loans to employees or close associates

There are no loans granted or guarantees issued for officers, employees or close associates thereof.

## Note 18

### Guarantees, contingent liabilities, legal proceedings, claims against the company etc.

*Dispute on product rights*

Natural ASA has entered into an agreement with the holder of product rights for Natto vitamin K2, Nattokin Power Japan, to distribute Natto vitamin K2 in the USA and Europe. Validus Engros Helsekostgrossisten AS has issued proceedings against Natural ASA alleging that Natural ASA has acquired the rights to Natto vitamin K2 in Norway and Sweden in an improper manner. Validus Engros Helsekostgrossisten AS is seeking damages of NOK 6.4 million. Natural ASA has not made any provision for this claim.

*Dispute on production patents*

The Dutch company Loders Croklaan has issued proceedings against Natural's subsidiary Natural USA Inc for an alleged breach of Loder's CLA production patents in the USA.

Natural has a good understanding of the various production patents for CLA, and has developed and is now using a protected production technology for Tonalin CLA that produces a purer product of higher quality than is otherwise available in the market. The production technology the company uses for Tonalin CLA is not in breach of any patents owned by other parties. Natural has not made any provision in this respect.

*Research project in Sweden*

Natural is currently involved in discussions on the allocation of costs in respect of a research project in Sweden. A provision of NOK 430,000 has been made in respect of this claim.

## Note 19

### Rights issue

Natural ASA carried out a Rights Issue of shares in January 2002 pursuant to the decision of an Extraordinary General Meeting held on 12 December 2001. The proceeds of the issue were received on 5 February 2002. The Rights Issue involved the issue of 1 million shares at a price of NOK 45, raising gross proceeds for Natural ASA of NOK 45 million. The Rights Issue was fully underwritten by a 12 member guarantee consortium, most of which were major existing shareholders. As part of the consideration for this underwriting up to 150,000 shares were privately placed with the underwriters at a price of NOK 45 per share immediately following the Rights Issue. A total of 126,167 shares were subscribed for through this private placement, raising gross proceeds for Natural ASA of NOK 5,677,515.

After deducting transaction expenses, the Rights Issue and the private placement of shares raised net proceeds for Natural ASA of NOK 46.2 million. The transaction costs incurred in respect of the two issues are recognised as an equity transaction and therefore do not appear in Natural's income statement.

## Note 20

### Transactions with Greyston Holding AS

Natural ASA's current liabilities include an amount of NOK 4,340,000 due to Greyston Holding AS. Greyston Holding AS is 100% owned by Jan B. Remmereit, who is the main shareholder in Natural ASA. This liability has arisen since Greyston Holding AS has carried out upgrading work on some areas of Natural's premises at Hovdebygda. In addition Greyston Holding AS leases some areas of this building.

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To the Annual Shareholders' Meeting of Natural ASA

## Auditor's report for 2002

We have audited the annual financial statements of Natural ASA as of 31 December 2002, showing a loss of NOK 15 645 000 for the parent company and a profit of NOK 1 944 000 for the group. We have also audited the information in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss. The financial statements comprise the balance sheet, the statements of income and cash flows, the accompanying notes and the group accounts. These financial statements are the responsibility of the Company's Board of Directors and Managing Director. Our responsibility is to express an opinion on these financial statements and on other information according to the requirements of the Norwegian Act on Auditing and Auditors.

We conducted our audit in accordance with the Norwegian Act on Auditing and Auditors and auditing standards and practices generally accepted in Norway. Those standards and practices 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. To the extent required by law and auditing standards an audit also comprises a review of the management of the Company's financial affairs and its accounting and internal control systems. We believe that our audit provides a reasonable basis for our opinion.

In our opinion,

- the financial statements have been prepared in accordance with the law and regulations and present the financial position of the Company and of the Group as of December 31, 2002, and the results of its operations and its cash flows for the year then ended, in accordance with accounting standards, principles and practices generally accepted in Norway
- the company's management has fulfilled its duty to produce a proper and clearly set out registration and documentation of accounting information as required by law and accounting standards, principles and practices generally accepted in Norway
- the information given in the directors' report concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss are consistent with the financial statements and comply with the law and regulations.

Oslo, February 19, 2003
**PricewaterhouseCoopers DA**

Fredrik Melle
State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only.

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