

# **Pharmaco hf.**

**Consolidated Financial Statements**  
**Year ended December 31, 2002**  
**Icelandic kronur**

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# Endorsement by the board of directors and managing directors

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The consolidated financial statements of Pharmaco hf. for the year ended 31 December 2002 comprise the Company and its subsidiaries. Last July the Company acquired majority ownership in Delta Ltd. and the two companies were merged, effective from July 1. The operations of Delta hf. from that date are included in the financial statements of the Group. The accounting policies have been consistently applied by the Group, except for the abolishment of inflation accounting in accordance with changes in the Icelandic financial statements act at year-end 2001.

In February 2002 the Company sold its share in Bravo Holdings Ltd. for ISK 440 million. The gain on the sale amounted to ISK 254 million.

In April 2002 a new company, Pharmaco - Iceland ehf. was founded. The new company took over the domestic operations of Pharmaco hf. as of June 1. In May the Company sold 80% of its share in Pharmaco - Iceland ehf. for ISK 890 million after deduction of expenses. The gain on the sale amounted to ISK 355 million.

In September 2002 the construction of a new plant in Dupnitsa, Bulgaria, was finished. Total cost of the construction at year-end amounted to ISK 1,260 million.

Net earnings for the year 2002 amounted to ISK 3,166 million for the Group, according to the income statement. Stockholders' equity amounted to ISK 20,295 million at year-end according to the balance sheet. Changes in stockholder's equity and appropriation of net profits are further explained in the financial statements. Capital stock amounted to ISK 416 million at beginning of year. During the year the capital stock was increased by a nominal value of ISK 170 million due to the merger with Delta hf. Net repurchase of shares amounted to ISK 12 million at nominal value. Capital stock outstanding at year-end amounted to ISK 574 million. The number of stockholders at year-end was 2,420, increasing by 946 from 1,474 at the beginning of the year. One stockholder, Amber International Ltd., owned more than 10% share in the Company at year end, the ownership being 28.7%.

The board of directors proposes a payment of 10% dividend to stockholders in the year 2003.

The board of directors and managing directors of Pharmaco hf. hereby confirm the Company's consolidated financial statements for the year 2002 by means of their signatures.

Hafnarfjörður, March 17, 2003.

Board of Directors:

Friðrik Sophusson  
Kristinn R. Gunnarsson  
Björgólfur Guðmundsson

Managing Directors:

Róbert Wessman  
Sindri Sindrason

# Auditors' Report

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Board of directors and shareholders of Pharmaco hf.

We have audited the accompanying consolidated balance sheet of Pharmaco hf. as of December 31, 2002 and the related consolidated income statement and consolidated statement of 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 consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statements 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 Pharmaco hf. as of December 31, 2002, and the results of its operations and its cash flows for the year then ended, in accordance with law and generally accepted accounting principles in Iceland.

Hafnarfjörður, March 17, 2003.

Alexander G. Eðvardsson  
Sigríður Ármannsdóttir

***KPMG Endurskoðun hf.***

# Consolidated income statement

## for the year ended 31 December 2002

	Notes	2002	2001
<b>Operating revenue:</b>			
Sales .....		18,054,400	14,749,828
Other revenue .....		519,497	427,520
		<u>18,573,897</u>	<u>15,177,348</u>
<b>Operating expenses:</b>			
Direct production expense - cost of sales .....		11,416,218	9,539,871
Sales- and marketing expenses .....		1,282,028	1,336,624
General- and administrative expenses .....		1,425,376	884,684
Other operating expenses .....		529,077	183,693
Depreciation and amortization .....	25	1,272,002	512,522
		<u>15,924,701</u>	<u>12,457,394</u>
<b>Profit from operations</b> .....		2,649,196	2,719,954
Net financial income (expenses) .....	21	819,489	( 576,901)
Profit before income tax .....		3,468,685	2,143,053
Income tax .....		( 256,713)	( 466,213)
Profit before minority interest .....		3,211,972	1,676,840
Minority interest .....		( 46,233)	( 114,406)
<b>Net profit</b> .....		<u>3,165,739</u>	<u>1,562,434</u>
<b>Earnings per share:</b>			
Earnings pr. 1 ISK of capital stock .....	5	6.41	3.74

# Consolidated balance sheet

## Assets

	Notes	2002	2001
<b>Fixed assets:</b>			
Intangible assets:			
Development expenditure and pharmaceutical know-how .....	22	1,317,326	50,183
Goodwill .....	23	16,574,193	171,873
	7,8	17,891,519	222,056
Property and equipment:			
Property and plant .....		4,245,706	3,428,633
Machinery and equipment .....		4,367,286	2,308,568
	9,24	8,612,992	5,737,201
Investments:			
Investments in associated companies .....	29	731,095	313,940
Investments in other companies .....	10	194,574	353,494
Securities .....		155,121	14,152
Deferred tax asset .....	14,34	271,717	0
		1,352,507	681,586
<b>Total fixed assets</b>		<b>27,857,018</b>	<b>6,640,843</b>
<b>Current assets:</b>			
Inventories .....	11,31	4,724,552	3,479,558
Receivables:			
Trade receivables .....	12	4,747,457	3,824,253
Other receivables .....	12	1,043,589	207,173
Marketable securities .....		0	281,386
Cash .....		748,638	579,831
<b>Total current assets</b>		<b>11,264,236</b>	<b>8,372,201</b>
<b>Total assets</b>		<b>39,121,254</b>	<b>15,013,044</b>

# December 31, 2002

## Liabilities and stockholders' equity

	Notes	2002	2001
<b>Stockholders' equity:</b>			
Capital stock .....		574,191	415,636
Share premium .....		13,366,438	1,849,839
Accumulated currency adjustments .....	(	801,105)	1,356,660
Statutory reserve .....		76,481	76,481
Retained earnings .....		7,079,257	3,533,756
Total stockholders' equity	13,33	20,295,262	7,232,372
<b>Provisions:</b>			
Minority interest .....		271,796	532,663
Deferred tax liabilities .....	14,34	317,984	214,536
		589,780	747,199
<b>Long-term liabilities:</b>			
Bonds .....	35	6,330,682	2,208,559
<b>Current liabilities:</b>			
Bank loans .....		5,185,511	1,386,284
Accounts payable .....		2,255,474	2,264,944
Current maturities of long-term liabilities .....	36	2,680,412	879,627
Accrued liabilities and expenses .....		1,784,133	294,059
		11,905,530	4,824,914
Total liabilities and provisions		18,825,992	7,780,672
<b>Total liabilities and stockholders' equity</b>		<b>39,121,254</b>	<b>15,013,044</b>

# Consolidated statement of cash flows

## for the year ended 31 December 2002

	Notes	2002	2001
<b>Cash flows from operating activities:</b>			
Net profit .....		3,165,739	1,562,434
Adjustments to reconcile net profit to net cash provided by operating activities:			
Depreciation and amortization .....	25	1,272,002	486,171
Currency fluctuations and indexation .....		( 318,616)	679,997
Gain on sale of investment in other companies .....		( 685,998)	0
Changes in deferred taxes .....		( 316,688)	( 208,548)
Other changes .....		289,415	( 23,064)
Working capital provided by operating activities		3,405,854	2,496,990
Changes in operating assets and liabilities:			
Inventories, decrease (increase) .....		376,398	( 855,539)
Receivables, increase .....		( 199,982)	( 2,010,553)
Short-term liabilities, increase .....		240,022	897,517
Changes in operating assets and liabilities		416,438	( 1,968,575)
Net cash provided by operating activities		3,822,292	528,415
<b>Cash flows to investing activities:</b>			
Increase in intangible assets .....		( 661,262)	( 85,171)
Investment in property and equipment .....	24	( 2,329,644)	( 976,105)
Proceeds from sale of property and equipment .....		878,373	202,727
Investments in other companies net of cash acquired .....		( 2,385,603)	( 396,912)
Proceeds from sale of investments in other companies .....		1,513,376	0
Securities, change .....		( 142,596)	3,937
		( 3,127,356)	( 1,251,524)
<b>Cash flows from financing activities:</b>			
Purchase of treasury shares .....		( 4,654,839)	( 269,767)
Dividend paid .....		( 41,563)	( 42,296)
Changes in minority interest .....		( 86,710)	( 107,585)
Proceeds from long-term borrowings .....		1,940,369	1,914,289
Payments of long-term debt .....		( 1,871,178)	( 960,396)
Bank loans, increase (decrease) .....		4,187,382	( 610,437)
Short term liabilities, decrease .....		( 212,264)	( 134,833)
		( 738,803)	( 211,025)
<b>Decrease in cash</b> .....		( 43,867)	( 934,134)
<b>Cash and marketable securities at beginning of year</b> .....		861,217	1,795,351
<b>Effects of exchange rate changes on beginning balances</b> .....		( 68,713)	0
<b>Cash and marketable securities at year-end</b> .....		748,638	861,217
<b>Other information:</b>			
Paid interest on long-term debt .....		408,230	307,830
Paid income tax .....		721,836	764,593

# Notes to consolidated financial statements

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## Summary of accounting principles

### *Basis of preparation*

1. The consolidated financial statements are prepared in accordance with the Icelandic financial statements act and regulation on the presentation and contents of financial statements and consolidated financial statements. The financial statements presented in thousands of ISK. They are prepared on historical cost basis and are, in all main respects, based on the same accounting principles as in the previous year, except as explained in note 15.

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

### *Foreign currencies*

2. Transactions in foreign currencies are translated to ISK at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to ISK at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to ISK at foreign exchange rates ruling at the dates the values were determined.

### *Financial statements of foreign subsidiaries*

3. The Group's foreign operations are not considered an integral part of the Company's operations. Accordingly, the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to ISK at foreign exchange rates ruling at the balance sheet date. The revenue and expenses of foreign operations are translated to ISK at the average conversion rates for the period. Foreign exchange differences arising on translation are recognised directly in equity.

### *Derivative financial instruments*

4. The Group uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with its treasury policy, the Group does not hold or issue derivative financial instruments for trading purposes. Derivative financial instruments are recognised initially at cost. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Recognition of any resultant gain or loss depends on the nature of the item being hedged.

## Notes - continued

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### *Earnings per share*

5. Earnings per share is calculated by dividing the year's net income by the weighted average of capital stock, showing net earnings per 1 ISK of capital stock. The year's net income was ISK 3,166 million and the weighted average of capital stock was ISK 494 million, taking into account the issuance of new stock and the Company's repurchase of treasury shares. Therefore the year's earnings per share is ISK 6.41.

### *Discontinued operations*

6. In May 2002 the domestic part of Pharmaco hf. was sold to Pharmaco - Iceland ehf., effective June 1, 2002. Revenue from the discontinued operations, for the first five months of the year, amounted to ISK 1,673 million, but its contribution to net income was insignificant.

### *Intangible assets*

7. Research and development expenditure is capitalized in the balance sheet as development expenditure and pharmaceutical know-how. If the research leads to a marketable drug being produced, capitalized costs are amortized over a period of five years. Research and development expenditure, that turns out to be unfruitful, is recognized in the income statement when that becomes clear.
8. Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less accumulated amortization and impairment losses. Goodwill is amortized over a period of 5 to 20 years.

### *Property, plant and equipment*

9. Property and equipment are valued at cost less depreciation. Depreciation is calculated as a fixed annual percentage based on the asset's expected economic life and its salvage value. Expected economic life is specified as follows:

Property and plant .....	12 - 50 years
Equipment.....	3 - 10 years

### *Investments*

10. Investment in associated companies and other companies are posted to book at cost, revalued to year-end 2001. Investments thereafter are posted at cost.

### *Inventories*

11. Manufactured products are valued at their average production cost, consisting of both direct and indirect production expenses. Inventories of purchased goods and materials are valued at the latest purchase price.

### *Accounts receivable and other receivables*

12. Accounts receivable and marketable securities are reduced by an allowance for doubtful accounts. This allowance is not a final write-off, but a reserve to meet possible future losses. The allowance is deducted from accounts receivable and marketable securities in the balance sheet. Receivables amounting to ISK 5,791 million at year-end, have been written down by ISK 212 million.

## Notes - continued

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### *Repurchase of share capital*

13. When treasury shares are repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Treasury shares are classified as a deduction from total equity. Possible gains or losses on buying or selling treasury shares are not reported in the income statement.

### *Deferred tax liability*

14. Deferred tax liability amounted to ISK 318 million at year-end, while deferred tax asset amounted to ISK 272 million. Its calculation is based on the difference between balance sheet items as reported in the Company's financial statements on one hand and its tax returns on the other. This difference is caused by tax assessment being based on different prerequisites than the Company's financial statements. Expenses, especially depreciation and amortization, are generally posted over a shorter period of time according to tax laws, than in the accounting methods used by the Company.

Income tax presented in the income statement is comprised of taxes payable and deferred tax liability.

## Changes in accounting methods

### *The abolishment of inflation adjusted accounting*

15. In accordance with changes made to the Icelandic financial statements act in December 2001, the Company has ceased to report the effects of general price-level changes in the Company's financial statements. The financial statements are prepared on historical cost basis, revalued to December 31, 2001. As a result of these changes amounts in the balance sheet are no longer presented at year-end price levels and the income statement is not presented at the average price level for the year. Had the Company applied the same accounting methods as in previous years, net earnings would have been approximately ISK 60 million higher and stockholders' equity ISK 140 million higher. The revaluation reserve balance, as of year-end 2001, was divided between revaluation of fixed assets, less calculated inflation adjustment on one hand and outstanding accrued currency adjustment of foreign subsidiaries on the other. The domestic revaluation balance, amounting to ISK 421 million, was transferred to retained earnings, in accordance with rules set forth in the amendment to the financial statements act.

## Notes - continued

### Changes in the Group

16. During the year the Group gained majority ownership of Delta hf. and the two companies subsequently merged, effective from July 1. The total purchase price of the investment was ISK 17,044 million, mainly paid with shares in Pharmaco hf. All costs incurred were capitalized as goodwill. The merger of the two companies has the following effects on the balance sheet of the Group:

Intangible assets .....	1,188,716
Property, plant and equipment .....	2,625,365
Shares in subsidiaries .....	4,173,507
Shares in other companies .....	7,475
Current assets .....	2,234,019
Provisions .....	( 174,841)
Long-term debt .....	( 5,775,194)
Short-term debt .....	( 986,056)
Net assets .....	3,292,991
Goodwill posted at purchase .....	13,751,278
Price of shares bought .....	17,044,269
Paid with issuance of new stock .....	( 16,296,151)
Paid in cash .....	( 748,118)

### Quarterly overview

17. The operation of the Company is specified as follows by quarters:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Sales.....	3,763,532	3,210,787	4,593,897	6,486,184	18,054,400
Cost of goods sold.....	( 2,356,515)	( 2,083,389)	( 2,761,821)	( 4,214,493)	( 11,416,218)
Gross profit .....	1,407,017	1,127,398	1,832,076	2,271,691	6,638,182
Operating expenses less other income .....	( 646,064)	( 610,513)	( 1,233,330)	( 1,499,079)	( 3,988,986)
Net financial income (expenses).....	263,517	532,546	( 77,099)	100,525	819,489
Income tax .....	( 223,070)	( 129,903)	( 31,168)	127,428	( 256,713)
Minority interest.....	( 14,463)	( 23,119)	( 391)	( 8,260)	( 46,233)
Net profit.....	786,937	896,409	490,088	992,305	3,165,739

## Notes - continued

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### Personnel

18. Salaries and related expenses are specified as follows:

	2002	2001
Salaries .....	2,957,957	1,863,411
Related expenses .....	538,650	522,356
Total salaries and related expenses .....	<u>3,496,607</u>	<u>2,385,767</u>
Average number of employees, adjusted for full-time employment .....	5,575	4,713

19. The board of directors of Delta hf. approved at beginning of year 2002 a stock option program for the company's employees. On one hand a general stock options program was established for all employees of Delta hf., with options exercisable in the years 2002, 2003 and 2004. On the other hand a special stock options program was established for selected employees. When the two companies merged, Pharmaco hf. took over the commitments of those agreements. At year-end the commitment amounted to ISK 3 million at nominal value. At year-end 2002 some of the Company's key employees exercised their options, buying stock amounting to ISK 460 thousand at nominal value. The difference between their purchase price and market price on the date of purchase amounted to ISK 25 million, which was posted as expenses in the Group's income statement.

20. Salary payments to the board of directors and two managing directors of the Group amounted to ISK 38 million in the year 2002. Salaries to other key directors of the Group amounted to ISK 166 million during the year.

### Net financial income

21. Net financial income is specified as follows:

	2002	2001
Interest earned .....	260,290	131,133
Interest expenses and indexation .....	( 874,826)	( 397,895)
Currency fluctuations .....	739,312	( 351,938)
Gain on sale of investments.....	694,542	0
Changes in market value of marketable securities and dividend received .....	171	( 32,878)
Calculated inflation adjustment .....	0	74,677
	<u>819,489</u>	<u>( 576,901)</u>

## Notes - continued

### Intangible assets

22. Development cost for new products is capitalized in the balance sheet among intangible assets. Those assets are amortized over a period of five years. Changes during the period are specified as follows:

Total value 1.1.2002 .....	197,299
Additions due to merger .....	773,297
Additions during the year .....	661,261
Currency adjustments during the year .....	( 33,743)
Amortized during the year .....	( 241,794)
Sold during the year .....	( 38,994)
Total value 31.12. 2002 .....	<u>1,317,326</u>

23. Capitalized goodwill in the balance sheet is derived from the purchase of other companies. The goodwill is amortized over a period of up to 20 years. Changes in goodwill during the period are specified as follows:

Total value 1.1.2002 .....	24,757
Additions due to merger .....	3,269,238
Additions during the year .....	13,669,254
Currency adjustments during the year .....	( 6,797)
Amortized during the year .....	( 382,259)
Total value 31.12. 2002 .....	<u>16,574,193</u>

### Fixed assets

24. Fixed assets and depreciation, which is calculated on a straight line basis, are specified as follows:

	Property and plant	Machinery and equipment	Total
Total value 1.1. 2002 .....	5,026,849	8,132,445	13,159,294
Additions due to merger .....	2,402,729	3,332,044	5,734,773
Additions during the year .....	214,026	2,115,618	2,329,644
Currency adjustments during the year .....	( 930,740)	( 1,886,275)	( 2,817,015)
Sales and disposals during the year .....	( 908,305)	( 1,000,244)	( 1,908,549)
Total value 31.12. 2002 .....	<u>5,804,559</u>	<u>10,693,588</u>	<u>16,498,147</u>
Accumulated depreciation 1.1. 2002 .....	1,598,320	5,823,670	7,421,990
Additions due to merger .....	379,572	1,921,077	2,300,649
Depreciated during the year .....	167,537	480,412	647,949
Currency adjustments during the year .....	( 317,754)	( 1,269,457)	( 1,587,211)
Depreciation of asset disposals .....	( 268,822)	( 629,400)	( 898,222)
Accumulated depreciation 31.12.2002 .....	<u>1,558,853</u>	<u>6,326,302</u>	<u>7,885,155</u>
Net book value 31.12. 2002 .....	<u>4,245,706</u>	<u>4,367,286</u>	<u>8,612,992</u>
Depreciation ratios .....	0 - 8%	10 - 33%	

## Notes - continued

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25. Depreciation and amortization according to the statement of earnings is specified as follows:

Amortization of intangible assets according to note 22.....	241,794
Amortization of goodwill according to note 23.....	382,259
Depreciation of fixed assets according to note 24.....	647,949
	<u>1,272,002</u>

### *Purchase lease agreements*

26. Buildings, machinery and equipment, for which the Group has entered into purchase lease agreements, are capitalized, despite ownership of lessor according to the contract. Book value of these properties at year-end amounts to ISK 459 million, while the remainder of the contracts amount to ISK 525 million.

### *Official real estate valuation and insurance value*

27. Buildings and properties with a book value of ISK 1,995 million, had an official real estate valuation of ISK 1,427 million at year-end 2002. Their insurance value amounted to ISK 1,955 million at the same time.

Domestic inventories amounting to ISK 2,138 million at year-end, were insured for ISK 1,583 million.

Fixed assets and inventories abroad with a book value of 7,774 million, had an insurance value of ISK 9,588 million.

## Investments

28. At year-end the Company owned nine subsidiaries, an increase of seven from the beginning of the year, due to the merger with Delta hf. All the subsidiaries are wholly owned. The subsidiaries owned thirteen subsidiaries at year-end. The main subsidiaries operate in Iceland, Bulgaria and Malta. There are also a number of sales- and marketing subsidiaries in Europe. In November the wholly owned holding company Icon fund ehf. was merged with the Company. In October a new production company in Iceland, Delta ehf., was founded to take over the production previously run by Delta hf. The companies, that are all included in the consolidation, are as follows:

#### Balkanpharma Holdings, Cyprus:

Balkanpharma Healthcare International, Cyprus

MM LLC, USA

Verben S.A.,

#### Balkanpharma AD, Bulgaria:

Balkanpharma Dubnitsa AD, Bulgaria

Balkanpharma Troyan AD, Bulgaria

Balkanpharma Razgrad AD, Bulgaria

Balkanpharma Security AD, Bulgaria

Balkanpharma Macedonia, Macedonia

Dansk Lægemedel Forsyning AS, Denmark

Delta ehf., Iceland

Medis Ltd., Isle of Man

Medís ehf., Iceland:

Medis Danmark AS, Denmark

Medis Holland BV, Netherland

Pharmamed Ltd., Malta:

Pharmamed Parenterals Ltd., Malta

Delta R&D Ltd., Malta

NM Pharma ehf., Iceland

Omega Farma hf., Iceland

United Nordic Pharma AS, Denmark

## Notes - continued

29. During the year the Company founded the subsidiary Pharmaco - Iceland ehf. which took over the domestic operations as of June 1. In May the Company sold 80% of its shares in Pharmaco - Iceland ehf. for approximately ISK 890 million after deduction of sales commissions. According to the sales agreement the Company has the option to sell the remaining 20% ownership. The sales price of the shares sold can increase or decrease according to the sales agreement, depending on the operating result of the new company in the commencing twelve months after the sale. The Company owned shares in four associates at year-end. The investment is carried in the balance sheet at cost, revalued to December 31, 2001, and is specified as follows:

	Ownership	Book value
Colotech AS .....	33.8%	146,299
Icelandic Genomics Corporation .....	20.6%	272,928
PharmaNor hf. (ex. Pharmaco - Iceland ehf.) .....	20.0%	134,228
Genis hf. ....	20.0%	177,640
		<u>731,095</u>

30. In February the Company sold its investment in Bravo Holdings Ltd. for ISK 440 million. The gain on the sale amounted to ISK 254 million and is included among financial income.

## Inventories

31. Inventories are specified as follows:

	2002	2001
Raw materials .....	2,345,640	1,156,231
Work in progress .....	1,093,470	439,288
Finished goods and goods for resale .....	1,285,442	1,884,039
	<u>4,724,552</u>	<u>3,479,558</u>

## Stockholders' equity

32. Capital stock according to the Company's articles of association amounts to ISK 597 million. During the year the capital stock was increased by a nominal value of ISK 173 million, 170 million being issued on account of the merger with Delta hf. The Company purchased treasury shares with a nominal value of 64 million during the year of which 53 million were used in connection with the merger with Delta hf. and the rest to fulfill other agreements on sale of capital stock. One vote is attached to each krona of nominal value of the capital shares. The Company's capital stock is specified as follows at year-end:

Capital stock according to articles of association .....	597,074
Treasury shares at the end of period .....	( 22,883)
	<u>574,191</u>

## Notes - continued

### 33. Summary of changes in stockholders' equity:

	Capital stock	Share premium	Accumulated currency adj.	Statutory reserve	Retained earnings	Total
Stockholders' equity 1.1.2002 ...	415,636	1,849,839	1,356,660	76,481	3,533,756	7,232,372
Purchased treasury shares .....	( 68,140)	( 4,691,697)				( 4,759,837)
Sold treasury shares .....	53,695	3,866,304				3,919,999
New shares issued .....	173,000	12,341,992				12,514,992
Dividend to shareholders .....					( 41,563)	( 41,563)
Net earnings .....					3,165,739	3,165,739
Acc. currency adjustment .....			( 1,736,440)			( 1,736,440)
Revaluation transferred .....			( 421,325)		421,325	0
Stockholders' equity 31.12.2002	<u>574,191</u>	<u>13,366,438</u>	<u>( 801,105)</u>	<u>76,481</u>	<u>7,079,257</u>	<u>20,295,262</u>

### Deferred income-tax liability

#### 34. The Groups' deferred tax liability and deferred tax asset are specified as follows:

	Assets	Liabilities
Deferred income tax liability at beginning of year .....	0	214,536
Additions due to merger .....	36,602	185,021
Income tax posted to income statement .....	244,095	500,713
Income tax payable 2003 .....	0	( 552,362)
Other changes .....	( 8,980)	( 29,924)
	<u>271,717</u>	<u>317,984</u>

The Group's deferred tax liability and deferred tax asset are specified as follows, by item:

Intangible assets .....	18,485	102,143
Property, plant and equipment .....	4,439	355,167
Investment in other companies .....	( 13,755)	( 4,396)
Current assets .....	<u>232,820</u>	<u>( 61,981)</u>
Total deferred income-tax of balance sheet items .....	241,989	390,933
Carry forward tax loss .....	29,728	( 72,949)
Total deferred income-tax .....	<u>271,717</u>	<u>317,984</u>

## Notes - continued

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### Long-term liabilities

35. Long-term liabilities are specified as follows, by indexation and currency denominations:

Liabilities denominated in foreign currencies:	
Loans in EUR .....	4,026,844
Loans in USD.....	1,834,113
Loans in GBP .....	851,504
Loans in JPY .....	504,288
Loans in CHF .....	433,768
Loans in NOK .....	24,242
Loans in SEK.....	220,288
Loans in CAD.....	16,852
Loans in LM.....	583,052
Loans denominated in other currencies .....	10,832
	<u>8,505,783</u>
Liabilities in Icelandic kronur:	
Long-term debt, not indexed.....	47,000
Long-term debt, following the official consumer-price index .....	458,311
	<u>505,311</u>
Total long-term liabilities, including current maturities .....	9,011,094
Current maturities of long-term liabilities .....	( 2,680,412 )
Total long-term liabilities .....	<u>6,330,682</u>

36. Annual maturities of long-term liabilities are specified as follows:

In the year 2003.....	2,680,412
In the year 2004.....	1,275,413
In the year 2005.....	1,959,286
In the year 2006.....	1,781,938
In the year 2007.....	1,072,628
Subsequent payments .....	241,417
Total .....	<u>9,011,094</u>

The division between current and long-term liabilities and the information given above concerning the maturities is based on current loan agreements at the balance sheet date. Since then management has been working on refinancing of the Company. This refinancing will have significant effect on the above specification and the current ratio of the Company.

### Mortgages and guarantees

37. The Group has agreed not to mortgage real estate, inventories or accounts receivable of its subsidiaries in Iceland without the consent of its commercial bank.

38. The long-term liabilities of subsidiary Balkanpharma Holdings Ltd. amounting to ISK 1,566 million at year-end are guaranteed by a collateral in the investment in its subsidiaries in Bulgaria.

## Notes - continued

39. The long-term liabilities of a subsidiary of the Company's subsidiary, Pharmamed Ltd. in Malta, amounting to ISK 1,307 million at year-end are guaranteed by a mortgage/collateral in its real estate, inventories and accounts receivable.

### Other matters

40. Companies within the Group are involved in law-suits filed by Lundbeck A/S of Denmark, claiming infringement of patent rights.

41. In November 2002 the Group entered into an agreement to purchase a 69% share in the Serbian pharmaceutical factory Zdravlje. The Group is committed to purchase a further 15% share over the next three years. The agreement was not finalized at year-end and the Group did not formally take over operations until beginning of year 2003. As a result there are no effects posted in the Group's financial statements for the year 2002.

### Financial ratios

42. An overview of the operations of the Group for the last four years at each year's price-level:

	2002	2001	2000	1999
<b>Income statement:</b>				
Sales .....	18,054	14,750	10,817	3,383
Cost of goods sold .....	(11,416)	( 9,905)	( 7,517)	( 2,763)
Gross profit .....	6,638	4,845	3,300	620
Operating expenses less other revenue .....	(3,988)	( 2,126)	( 1,567)	( 473)
Net financial income (expenses) .....	819	( 577)	( 236)	348
Income tax .....	(257)	( 466)	( 381)	( 164)
Minority interest .....	(46)	( 114)	( 223)	0
Net profit .....	3,166	1,562	893	331
<b>Balance sheet:</b>				
Fixed assets .....	27,857	6,641	4,953	1,259
Current assets .....	11,264	8,372	6,313	1,405
Total assets	39,121	15,013	11,266	2,664
Stockholders' equity .....	20,295	7,232	4,823	1,395
Provisions .....	590	747	819	188
Long-term liabilities .....	6,331	2,209	1,408	515
Current liabilities .....	11,905	4,825	4,216	566
Total liabilities and stockholders' equity	39,121	15,013	11,266	2,664

## Notes - continued

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43. The main financial ratios for the Group are as follows:

	2002	2001	2000	1999
Equity ratio.....	0.52	0.48	0.43	0.52
Current ratio.....	0.95	1.74	1.50	2.48
Gross margin from sales.....	36.8%	32.8%	30.5%	18.3%
Return on equity.....	26.0%	31.0%	42.9%	32.6%
EBITDA (ISK million) .....	3,921	3,232	2,096	225
EBITDA as a percentage of sales .....	21.7%	21.9%	19.4%	6.7%
Working capital provided by operating activities (ISK million).....	3,406	2,497	1,262	179