Össur hf

Consolidated Financial Statements
2002

Össur hf.
Grjóthálsi 5
110 Reykjavík
Iceland

kt. 560271-0189

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Report by the Board of Directors and President and CEO

It is the opinion of the Board of Directors and the President and CEO of Össur hf., that these Financial Statements present the necessary information to evaluate the financial position of the Company at year-end, the operating results for the year and financial developments during the year 2002.

Össur hf. designs, manufactures and sells prosthetic and orthotic solutions. The Company's headquarters are located in Iceland, but the Company owns and operates subsidiaries in the United States and Europe. The Company sells its products all over the world, but the principal market areas are the United States, Western Europe and Japan. In the year 2002, Össur Consolidation consisted of Össur hf. in Iceland, the Össur Holdings, Inc., Consolidation in the United States, the Össur Holding, A.B., Consolidation in Sweden, and Össur Europe B.V. From January 1st. 2002 the company has reported in USD, which is the functional currency of the Company.

The total sales of the Össur Consolidation amounted to USD 81.3 million, compared to USD 68.4 million in the preceding year. This represents an increase in sales of approximately 19%. Net profit amounted to USD 10.1 million compared to USD 8.6 million in 2001. Basic Earnings per Share (EPS) amounted to US cents 3.12 compared to US cents 2.64 in 2001. Earnings before interests, taxes, depreciation and amortization (EBITDA) amounted to USD 14.3 million. The operating budget of the Company for 2002 projected sales of USD 78-86 million over the year, and net profit of USD 9.5-11.5 million. Earnings before interests, taxes, depreciation and amortization were projected at 20% of sales, or approximately USD 15.6-17.2 million.

The total assets of Össur Consolidation amounted to USD 70.7 million at year-end, liabilities were 30.8 million, and equity was 39.9 million. The equity ratio at year-end was 56.4%, compared to 52.5% the preceding year.

In the course of the year the Company employed 431 employees, of which 161 were employed by the parent company in Iceland. Throughout 2001 an average of 392 employees were employed with the Company, of which 129 were employed by the parent company.

During the year, the Company acquired 5.7 million of its own shares. The shares will be used, among other things, to meet future stock option obligations to former owners and current executives of the Company. The share price of the Company was 54.0 at year-end, compared to 49.8 at the beginning of the year. The market value of the Company at year-end was ISK 17.7 billion, which corresponds to an increase of ISK 1.3 billion over the year. At year-end, shareholders in Össur hf. numbered 4,866, compared to 4,918 at the beginning of the year. Two shareholders owned more than 10% of the shares in the Company at year-end: Mallard Holding SA, with 24.21%, and AB Industrivärden, with 15.83%.

The Board of Directors does not recommend payment of dividends to shareholders in 2003. As regards changes in the equity of the Company, the Board refers to the Notes attached to the Financial Statements.

Report by the Board of Directors and President and CEO

The Board of Directors and President and CEO of Össur hf. hereby confirm the Consolidated Financial Statements of Össur for the year 2002 with their signatures.

Reykjavik, February 11, 2003

Board of Directors

Pétur Guðmundarson
Chairman of the Board

Össur Kristinsson

Gunnar Stefánsson

Heimir Haraldsson

Kristján T. Ragnarsson

Sigurbjörn Þorkelsson

President and CEO

Jón Sigurðsson

Financial Ratios

Consolidated statement

		2002	2001	2000	1999	1998
Growth						
Net sales	USD '000	81,283.6	68,380.4	45,681.6	17,932.6	14,037.1
EBITDA	USD '000	14,310.1	12,972.9	8,904.3	3,361.0	2,528.2
Profit from operations	USD '000	11,501.0	10,889.3	7,559.8	2,890.8	2,135.9
Employees	Number	431.0	392.0	327.0	122.0	101.0
Net income (1)	USD '000	10,056.0	8,632.1	5,187.5	1,925.2	1,112.4
Total assets	USD '000	70,682.1	58,201.3	56,851.1	24,307.0	7,361.6
Operational performance						
Cash provided by operating activities	USD '000	10,502.5	10,359.4	5,796.7	3,242.9	1,132.8
- as ratio to total debt	%	35.9	36.1	30.0	67.0	24.5
- as ratio to income		1.0	1.2	1.1	1.7	1.0
Working capital from operating activities	USD '000	14,661.2	10,770.6	8,556.9	2,598.3	1,610.5
- as ratio to long-term debt and stockh. equity	%	30.2	27.3	24.6	19.2	30.9
- as ratio to investm., current maturities, divid.		1.7	1.2	0.1	2.7	2.4
Liquidity and solvency						
Quick ratio		1.5	1.2	1.1	1.5	1.7
Current ratio		2.3	1.9	1.5	2.2	2.7
Equity ratio	%	56.4	52.5	44.6	78.6	35.7
Asset utilization and efficiency						
Net sales pr. employee	USD '000	188.6	174.4	139.7	147.0	139.0
Total asset turnover		1.3	1.3	1.1	1.1	2.2
Inventory turnover, finished products		5.3	4.9	8.4	7.0	6.2
Grace period granted	Days	44	44	50	40	39
Profitability						
Return on capital (1)	%	20.2	19.0	8.2	22.9	22.2
Return on common equity (1)	%	28.6	32.4	9.0	44.7	77.3
Operating profit as ratio to net sales	%	14.3	15.8	16.5	16.1	14.7
Net income before taxes as ratio to net sales	%	14.6	15.1	12.9	16.6	12.5
Net income for the year as ratio to net sales (1)	%	12.4	12.5	11.3	10.7	7.7
Market						
Market cap.	USD '000	219,584.2	158,491.9	255,928.1	116,850.4	
Price/earnings ratio, (P/E) (1)		21.8	19.4	53.0	60.8	
Price/book ratio		5.5	5.2	10.1	6.1	
Number of shares	Millions	328.4	328.4	328.4	211.9	
Earnings per Share, (EPS) (1)	US Cent	3.12	2.64	1.48	0.91	
Diluted Earnings per Share, (Diluted EPS) (1)	US Cent	3.10	2.63			

Notes

1. Financial ratios for the year 2000 have been calculated using net income before extraordinary expenses
2. Financial ratios based on financial statements prepared in Icelandic currency prior to 2002 have been translated to US dollars. Income statement items have been translated at the average exchange rate for each period and balance sheet items have been translated at the exchange rate at the end of each period.

Auditors' Report

To the Board of Directors and Shareholders of Össur hf.

We have audited the accompanying Consolidated Balance Sheets of Össur hf. and subsidiaries as of December 31, 2002, and the related Consolidated Statements of Income and Cash Flows for the year then ended. These Financial Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these Financial Statements based on our audit. The Financial Statements of the foreign subsidiaries of Össur hf. were audited by Deloitte & Touche member firms.

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

In our opinion, based on our own audit and the audit reports on the Financial Statements of the foreign subsidiaries of Össur hf., the Consolidated Financial Statements give a true and fair view of the financial position of Össur hf. and subsidiaries as of December 31, 2002 and of the results of their operations and their cash flows for the year then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Reykjavík, February 11, 2003

Deloitte & Touche hf.

Heimir Þorsteinsson
State Authorized Public Accountant

Þorvarður Gunnarsson
State Authorized Public Accountant

Consolidated Income Statements for the Years 2002 and 2001

	Notes	Consolidated Statements 2002 YTD	2001 YTD
Net sales	6	81,283.6	68,380.4
Cost of goods sold		(33,433.3)	(25,376.3)
Gross profit		47,850.3	43,004.1
Other income		1,030.5	799.6
Sales and marketing expenses		(16,927.4)	(12,773.0)
Research and development expenses		(7,102.9)	(5,101.5)
General and administrative expenses		(13,349.5)	(15,039.9)
Profit from operations		11,501.0	10,889.3
Interest income/(expenses)	8	181.7	(487.5)
Income from associates	15	154.0	22.4
Profit before tax		11,836.7	10,424.2
Income tax	9	(1,780.7)	(1,792.1)
Net profit for the year		10,056.0	8,632.1
Earnings per Share	10		
Basic Earnings per Share (US cent)		3.12	2.64
Diluted Earnings per Share (US cent)		3.10	2.63

All amounts in thousands of USD 6

Consolidated Balance Sheets

Assets

	Notes	Consolidated Statements 31.12.2002	31.12.2001
Fixed assets			
Intangible assets			
Deferred tax asset	11	20,189.5	20,562.1
Other intangible assets	12	750.7	301.5
		20,940.2	20,863.6
Operating fixed assets	13		
Buildings and sites		3,066.5	2,943.3
Other operating fixed assets		7,152.9	5,865.7
		10,219.4	8,809.0
Investments			
Investments in associates	15	0.0	127.3
Long-term investments	16	933.7	1,148.2
		933.7	1,275.5
Total fixed assets		32,093.3	30,948.1
Current assets			
Inventories	17		
Raw materials		5,764.6	3,335.1
Work in process		291.7	244.6
Finished products		6,301.7	6,293.0
		12,358.0	9,872.7
Short-term receivables			
Accounts receivable	18	12,403.2	9,854.0
Prepaid expenses		456.3	336.9
Other receivables		1,105.3	1,192.9
		13,964.8	11,383.8
Cash and cash equivalents			
Marketable securities		1,190.2	452.8
Cash		11,075.8	5,543.9
		12,266.0	5,996.7
Total current assets		38,588.8	27,253.2
Total assets		70,682.1	58,201.3

All amounts in thousands of USD 7

Equity and liabilities

	Notes	Consolidated Statements 31.12.2002	31.12.2001
Stockholders' equity	19		
Common stock		3,122.8	3,141.7
Additional paid-in capital		26,167.6	27,258.9
Statutory reserve		735.4	146.9
Other equity		9,835.2	0.0
Total stockholders´equity		39,861.0	30,547.5
Liabilities			
Long-term liabilities	21		
Credit institutions		12,184.5	9,998.4
Long-term notes		21.8	34.8
Other long-term liabilities		1,678.0	2,897.6
Total long-term liabilities		13,884.3	12,930.8
Current liabilities			
Current maturities		5,132.1	4,907.9
Accounts payable		2,926.6	3,448.0
Accrued taxes payable		1,280.0	789.3
Other current liabilities		7,598.1	5,577.8
Total current liabilities		16,936.8	14,723.0
Total liabilities		30,821.1	27,653.8
Total equity and liabilities		70,682.1	58,201.3

All amounts in thousands of USD 8

Consolidated Statements of Cash Flows for the Years 2002 and 2001

	Notes	Consolidated Statements 2002 YTD	2001 YTD
Cash flows from operating activities			
Net profit for the year		10,056.0	8,632.1
Adjustments for:			
Depreciation and amortization	12, 13	2,809.1	2,061.7
Indexation and foreign exchange rate differences		(63.6)	663.6
Calculated inflation adjustment		0.0	(874.0)
Deferred income tax		1,988.8	1,252.6
Income from associates	15	(154.0)	(22.4)
Other non-cash items		24.9	(943.0)
Working capital from operating activities		14,661.2	10,770.6
Changes in operating assets and liabilities			
Inventories, increase		(1,582.2)	(2,746.0)
Accounts receivable, increase		(1,831.6)	(4,959.8)
Current liabilities, (decrease) increase		(744.9)	7,294.6
Net cash provided by operating activities		10,502.5	10,359.4
Cash flows from investing activities			
Purchase of fixed assets		(3,571.9)	(2,694.5)
Proceeds from sale of fixed assets		85.8	157.8
Share investments		0.0	(961.9)
Long-term securities and other receivables, changes		430.5	482.2
Sale of shares in other companies		174.3	0.0
Net cash used in investing activities		(2,881.3)	(3,016.4)
Cash flows from financing activities			
Borrowing of long-term liabilities		5,226.9	0.0
Repayments of long-term liabilities		(5,549.3)	(5,824.6)
Purchases of treasury stock		(2,960.6)	(2,711.4)
Sales of treasury stock		1,589.4	0.0
Exercised share options		51.7	486.9
Net cash used in financing activities		(1,641.9)	(8,049.1)
Net change in cash and cash equivalents		5,979.3	(706.1)
Cash from purchased subsidiaries		0.0	253.8
Effects of foreign exchange adjustments		290.0	(674.6)
Cash and cash equivalents at beginning of year		5,996.7	7,123.6
Cash and cash equivalents at end of year		12,266.0	5,996.7

Notes: Statement of cash flows 22

All amounts in thousands of USD 9

Notes to the Financial Statements

1. Operations

Össur hf. designs, manufactures and markets prosthetic and orthotic solutions. The principal products manufactured by the Company include liners, sockets, prosthetic feet, prosthetic knees and various components used for the manufacture of artificial limbs. The principal market areas of the Company are North America, Western Europe and Japan, which are served by companies in the United States, Sweden and the Netherlands, in addition to the Iceland-based parent company.

The production and assembly of the Company's products was conducted in four places during the period: at Össur North America, Inc., in Aliso Viejo, California, which assembles prosthetic feet; at Össur Engineering, Inc. in Albion, Michigan, which manufactures prosthetic knees, at Mauch, Inc. in Dayton, Ohio, which manufactures components for prosthetic knees and implants, and at Össur hf. in Iceland, which manufactures sockets, prosthetic feet and components. Orthotic devices are manufactured at Össur Nordic, A.B. in Uppsala, Sweden, and the parent company operates a prosthetic workshop in Iceland.

Sales, distribution and services in North America were handled by Össur North America, Inc., Western Europe by Össur Europe B.V., the Nordic countries by Össur Nordic, A.B., while other markets were mostly serviced by Össur hf. in Iceland and Össur North America, Inc. In 2001, the company's sales strategy was changed both in Europe and the United States, and products are now sold directly to customers rather than through distributors.

A new structure for operating the consolidated companies took effect in 2002. The Technical division controls all R&D and manufacturing. The Prosthetic division handles international marketing, product management and sales to international markets other than North America and Europe. Localized marketing, sales distribution and services is handled by three independent sales companies, Össur North America, Inc., California, Össur Europe, B.V., Netherlands, and Össur Nordic, A.B., Sweden.

2. Changes in Accounting Policies

By legislation of a change in Icelandic Act no. 144/1994 on Financial Statements, the effects of general price level changes on the operation and financial position of the Icelandic reporting entities will cease to be reported, effective January 1, 2002. Accordingly the Consolidated Financial Statements do not report the effects of general price level changes since January 1, 2002. Comparative figures for the previous period have not been changed. If the effects of general price level changes had not been reported for the previous year, net income would have been USD 7,771 thousand.

In periods prior to 2002 the effects of general price level changes on the operation and financial position were calculated in preparation of the Consolidated Financial Statements. Accordingly the income statement in prior period's Consolidated Financial Statements indicated figures stated at the average price level of the year, but figures in the balance sheet were stated at year-end price level. Price level changes were measured in accordance with changes in the consumer price index. Fixed assets were revalued by adjusting their total value and depreciation to year-end. Those fixed assets, which were bought or sold during the period, were revalued according to the period of ownership. The effects of changes in general price level on monetary assets and liabilities as they were at beginning of the year and changes in that position during the year were calculated and created revenue (expense) entry called "Purchasing power loss on net monetary items" (calculated inflation adjustment). Revaluation of fixed assets and Purchasing power loss on net monetary items were posted to the revaluation equity account in the balance sheet.

By legislation of a change in Icelandic Act no. 144/1994 on Financial Statements, Icelandic legal entities were permitted to report the results of their operations and financial position in foreign currencies. Accordingly, the board of Össur hf. has decided to report in US dollars, which is the consolidated companies´ functional currency.

3. Summary of Significant Accounting Policies

The Consolidated Financial Statements are based on historical cost in accordance with Icelandic law and generally accepted accounting principles. In all material respects the statements are consistent with the statements of the preceding year except for the abovementioned changes.

Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries) December 31, each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

The Consolidated Financial Statements have been prepared using the purchase method of consolidation accounting. When ownership in subsidiaries is less than 100%, the minority interest in the subsidiaries' income or loss and stockholders equity is accounted for in the calculation of the consolidated income or loss and the consolidated stockholders equity. Immaterial minority interest is not accounted for in the Consolidated Financial Statements.

One purposes of Consolidated Financial Statements is to show only the net external sales, expenses, assets and liabilities of the consolidated entities as a whole. Hence, intercompany transactions have been eliminated within the consolidated businesses in the presentation of the Consolidated Financial Statements. Unrealised gain in inventories resulting from intercompany transactions has been eliminated and calculated income tax in the Consolidated Financial Statements adjusted accordingly.

Investments in associates

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

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are accounted for as the consolidation's share in the associated company's equity.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Assets held under finance leases are recognised as assets at their cost value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

Foreign currencies

Transactions in currencies other than USD are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising from exchange rate changes are included in net profit or loss for the period.

For consolidation purposes, the assets and liabilities of the consolidation's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for each quarter. Translation differences from foreign companies are posted to other equity.

Taxation

The income tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The consolidated company's current tax liability is calculated using the tax rates for each country.

Deferred tax asset is due to, on the one hand, tax benefits from the purchase of shares in other companies for a price in excess of the recorded book value of stockholders' equity and, on the other hand, by income tax loss carryforward due to operating losses.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions are eliminated. This has an effect on the income tax expenses of the consolidated companies and an adjustment is included in the deferred tax asset. Income tax expense is calculated in accordance with tax rates in the countries where the inventories originate.

Other intangible assets

Other intangible assets consist of capitalized research and development expenses from previous years and the cost of obtaining patents. These assets are amortized by 10-20% annually. Purchased production know-how and technical solutions have been capitalized as intangible assets. All research and development costs and costs relating to patents incurred during the period are expensed.

Other operating fixed assets

An operating fixed asset is recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the enterprise and the cost of the asset to the enterprise can be measured in a reliable manner.

An operating fixed asset which qualifies for recognition as an asset is initially measured at cost.

The cost of an operating fixed asset comprises its purchase price and any directly attributable cost of bringing the asset to working condition for its intended use.

The depreciable amount of an operating fixed asset is allocated on a straight-line basis over its useful life. The depreciation charge for each period is recognised as an expense, on the following bases:

Buildings	5%
Fixtures and furniture	10-34%
Automobiles	10-32%
Machinery and equipment	12-20%

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

Long-term investments

Long-term investments consist of receivables and securities which are intended to be held for the foreseeable future. Long-term investments are valued at cost, less an allowance for estimated irrecoverable amounts. If market value is known then the difference between market value and cost value is provided for when market value is lower.

Inventories

Inventories are stated at the lower of cost or net realisable value, after taking obsolete and defective goods into consideration. Cost comprises direct materials and, where applicable, direct labor costs and those overhead expenses that have been incurred in bringing the inventories to their present location and condition.

Accounts receivable

Accounts receivables are valued at nominal value less an allowance for doubtful accounts. The allowance is deducted from accounts receivable in the balance sheet and does not represent a final write-off. Accounts receivables in other currencies than USD, have been entered at the exchange rates prevailing on the balance sheet date.

Marketable securities

Marketable securities consist of mutual fund shares and liquidable securities and are valued at the year-end market price. No restrictions apply to the securities' liquidation. Unrealised and realised gains and losses are included in the income statement as interest income / expenses.

Stock option contracts and obligations to increase share capital

The consolidated companies have made stock option agreements with directors, employees and other parties relating to operations. Furthermore, a portion of the purchase price of companies purchased by the consolidation is contingent upon the achievement of specified operating results. These agreements represent an obligation to increase share capital in the future.

The difference between market price and exercise price on the contract date is entered as an increase in the acquisition price of the companies acquired by Össur hf., or charged proportionally to expense over the remaining term until the first exercise date of the contract. Where the market price on the contract date is equal to or lower than the exercise price, no entry has been made.

Long-term liabilities

Long-term liabilities are valued at nominal value less payments made and the remaining nominal balance is adjusted by exchange rate or index, if applicable. Long-term liabilities in other currency than USD, are recorded at the exchange rates prevailing on the balance sheet date. Interest expense is accrued on a periodical basis, based on the principal outstanding and at the interest rate applicable. Borrowing fees are expensed in the period they are incurred.

Accounts payable

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

4. Comparison to the previous year

In order to disclose comparison between periods, comparative figures for periods prior to 2002, which were originally stated in Icelandic krona, have been translated from Icelandic krona to US dollars. Income statement items have been translated at the average exchange rate for the year 2001 and balance sheet items have been translated at the year-end exchange rate 2001.

5. Quarterly statements

	Q1 1.1.-31.3.	Q2 1.4.-30.6.	Q3 1.7.-30.9.	Q4 1.10.-31.12.	Total 1.1.-31.12.
Net sales	18,593.0	21,223.1	21,390.6	20,076.9	81,283.6
Cost of goods sold	(7,494.9)	(8,594.7)	(8,304.7)	(9,039.0)	(33,433.3)
Gross profit	11,098.1	12,628.4	13,085.9	11,037.9	47,850.3
Other income	222.4	107.0	165.5	535.6	1,030.5
Sales and marketing exp.	(4,197.4)	(4,891.3)	(3,748.2)	(4,090.5)	(16,927.4)
Research and develop. exp.	(2,018.6)	(1,556.6)	(1,675.8)	(1,851.9)	(7,102.9)
General and admin. exp.	(3,562.1)	(3,298.3)	(3,137.0)	(3,352.1)	(13,349.5)
Profit from operations	1,542.4	2,989.2	4,690.4	2,279.0	11,501.0
Interest income/(expenses)	(323.3)	338.6	(151.1)	317.5	181.7
Income from associates	56.0	(17.9)	1.7	114.2	154.0
Profit before tax	1,275.1	3,309.9	4,541.0	2,710.7	11,836.7
Income tax	(244.4)	(720.3)	(891.9)	75.9	(1,780.7)
Net profit for the year	1,030.7	2,589.6	3,649.1	2,786.6	10,056.0
EBITDA	2,127.3	3,604.3	5,395.1	3,183.4	14,310.1

6. Net sales

Net sales are specified as follows according to markets in thousands of USD:

	2002	2001
North America	46,166.0	38,230.9
Europe	30,328.3	23,723.9
Other markets	4,789.3	6,425.6
	81,283.6	68,380.4

Net sales are specified as follows according to product lines in thousands of USD:

	2002	2001
Prosthetics	72,899.4	62,145.6
Orthotics	4,529.2	3,315.9
Other products	3,855.0	2,918.9
	81,283.6	68,380.4

7. Salaries

Salaries and salary-related expenses paid by the consolidation are specified as follows in thousands of USD:

	2002	2001
Salaries	18,479.4	18,291.7
Salary-related expenses	6,372.2	6,095.5
	24,851.6	24,387.2
Average number of positions	431	392

Salaries and salary-related expenses, classified by operational category, are specified as follows:

	2002	2001
Cost of goods sold	9,364.1	7,622.7
Sales and marketing	7,582.5	6,846.4
Research and development	3,139.4	2,421.2
General and administrative	4,765.6	7,496.9
	24,851.6	24,387.2

The total fees and salaries to the Board of Directors and the President and CEO of the consolidated companies amounted to 437.2 thousand USD in 2002. These persons have entered into stock option contracts granting them the right to purchase 3,050,000 shares at ISK 73.70 per share. The stock options are exercisable in 2005 if specified conditions are met. No dividends, loans or commitments have been extended to these persons.

8. Interest income / (expenses)

Interest income and (expenses) are specified as follows in USD thousands:

Income from investments	2002	2001
Interest on bank deposits	75.1	72.1
Loss from long-term investments	(133.5)	0.0
Profit from marketable securities	90.1	291.0
Other interest income	17.3	30.7
	49.0	393.8
Finance costs		
Interest on loans from financial institutions	(791.8)	(1,110.5)
Interest on obligations under finance leases	(52.8)	(6.8)
Other interest expenses	(76.6)	(267.8)
	(921.2)	(1,385.1)
Calculated inflation adjustments	0.0	874.0
Exchange rate differences	1,053.9	(370.2)
	181.7	(487.5)

9. Taxation

Income tax expense in the income statement is shown in the following schedule in USD thousands:

	2002	2001
Income tax payable for the period	1,540.2	860.4
Amortized tax benefits due to purchase of goodwill	1,325.5	1,327.9
Income tax adjustments due to elimination of unrealized profit in inventory	(869.5)	(389.7)
Changes in calculated tax benefits / tax liabilities during the period	(215.5)	(6.5)
	1,780.7	1,792.1

10. Earnings per share

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

	2002	2001
Net profit for the year	10,056.0	8,632.1
Total average number of shares outstanding (in thousands)	322,668.5	327,229.5
Total average number of shares including potential shares (in thousands)	323,875.4	328,432.2
Basic Earnings per Share (US cent)	3.12	2.64
Diluted Earnings per Share (US cent)	3.10	2.63

11. Deferred tax asset

Deferred tax asset is shown in the following schedule in thousands of USD:

	31.12.2002	31.12.2001
Tax benefits due to purchase of goodwill	16,237.2	17,562.7
Tax benefits due to loss carry-forward	3,399.5	3,368.2
Tax adjustments due to unrealized intercompany gain in inventories	1,295.1	425.6
Tax liabilities	(742.3)	(794.4)
	20,189.5	20,562.1

In the year 2000 Össur bought all shares in an Californian based Company called Flex-foot Inc. The purchasing price of the shares was considerable higher than book value of equity, identified as goodwill. The goodwill was expensed in the income statement in the year 2000 but 3/4 of the tax benefits related to the buying of the goodwill was capitalized.

According to US tax laws applying to the deal the goodwill is deductible from tax over a period of 15 years. Thus the subsidiary Össur Holdings Inc. will have a tax deduction over the next 13 years on profits amounting to USD 52,374.6 thousand. The Company estimates sufficient annual profits to utilize the tax benefits. The amount will be charged to income tax expense in the income statement over the next 13 years. Accordingly, USD 1,325.5 thousand was charged to income tax expense in the income statement during the period. The remaining balance amounts to USD 16,237.2 thousand.

12. Other intangible assets

Other intangible assets are specified as follows in thousands of USD:

	2002	2001
Cost at January 1.	707.3	747.7
Previously amortized	(405.8)	(359.2)
Book value at January 1.	301.5	388.5
Exchange rate difference	35.9	(13.6)
Additions	511.0	9.6
Amortization	(97.7)	(83.0)
Book value at year-end	750.7	301.5

The amortization of other intangible assets, classified by operational category, is specified as follows in thousands of USD:

	2002	2001
Research and development expenses	82.4	31.4
General and administrative expenses	15.3	51.6
	97.7	83.0

13. Operating fixed assets and depreciation

Operating fixed assets are specified as follows in thousands of USD:

	Buildings and sites	Automobiles	Machinery & equipment	Fixtures & office equip.	Total
Total value January 1.	3,364.2	273.8	7,332.4	4,167.9	15,138.3
Previously depreciated	(420.9)	(56.0)	(3,807.9)	(2,044.5)	(6,329.3)
Book value January 1.	2,943.3	217.8	3,524.5	2,123.4	8,809.0
Exchange rate difference	22.4	0.7	81.1	24.2	128.4
Additions	297.3	0.0	2,491.0	1,315.8	4,104.1
Disposals	0.0	(69.3)	(34.9)	(6.5)	(110.7)
Depriciation	(196.5)	(36.3)	(1,279.4)	(1,199.2)	(2,711.4)
Book value at year-end	3,066.5	112.9	4,782.3	2,257.7	10,219.4

Depreciation, classified by operational category, is shown in the following schedule in thousands of USD:

	2002	2001
Cost of goods sold	1,011.8	743.4
Sales and marketing expenses	91.2	75.9
Research and development expenses	327.1	257.9
General and administrative expenses	1,281.3	901.5
	2,711.4	1,978.7

14. The Consolidation

The Consolidated Financial Statements of Össur hf. pertain to the following subsidiaries:

	Ownership
Össur Holding, AB	100%
Össur Nordic, AB	100%
Össur Nordic, AS	100%
Össur Engineering, AB	100%
PI Protesindustri, AB	100%
PI Medical, ApS	100%
Mega Hali Med, AB	100%
PI Medical, AB	100%
Protese Industri Medical, AS	100%
Össur Holdings, Inc	100%
Össur Engineering, Inc	100%
Century XXII Engineering, Inc	100%
Össur North America, Inc	100%
Mauch, Inc	100%
Össur USA, Inc	100%
OR Capital, Inc	100%
Össur stoðtæki hf	90%
Össur UK, Ltd	100%
Össur Europe, BV	100%

During the year Össur hf. establised a finance branch in Switzerland to govern intercompany long-term liabilities and investments.

15. Investments in associates

Investments in associates are specified as follows in thousands of USD:

	2002	2001
Cost of investment, January 1	94.5	96.9
Disposals	(94.5)	(2.4)
	0.0	94.5
Value adjustments, January 1	32.8	0.0
Share of net profit	39.8	22.4
Exchange differences	27.1	11.2
Disposals	(99.7)	(0.8)
Value adjustments year-end	0.0	32.8
Book value at year-end	0.0	127.3

Income from associates is specified as follows in thousands of USD:

	2002	2001
Share of net profit	39.8	22.4
Profit from sales of associates	114.2	0.0
	154.0	22.4

16. Long-term investments

Long-term investments are specified as follows in thousands of USD:

	31.12.2002	31.12.2001
Unlisted securities	380.6	108.4
Listed securities	607.4	699.3
Other long-term investments	242.3	423.6
Allowances	(296.6)	(83.1)
	933.7	1,148.2

17. Inventories

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to USD 4,859.9 thousand were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of USD 1,295.1 thousand is made in the Consolidated Financial Statements to reduce income tax expense to account for this.

18. Accounts receivable

Accounts receivable are specified as follows in thousands of USD:

	31.12.2002	31.12.2001
Nominal value	14,132.2	11,074.0
Allowances for doubtful accounts	(1,210.4)	(701.4)
Allowances for sales return	(518.6)	(518.6)
	12,403.2	9,854.0

19. Stockholders' equity

Common stock is as follows in millions of shares and USD thousands:

	Shares	Ratio	Nominal value
Total common stock at year-end	322.2	98.1%	3,122.8
Treasury stock at year-end	6.2	1.9%	59.8
	328.4	100.0%	3,182.6

Shares issued and outstanding at year-end numbered a total of 328,441,000. The nominal value of each share is one Icelandic krona. A shareholders meeting has passed a resolution, effective June 6, 2002 changing The articles of Association which changes the par value of shares from Icelandic currency to being denominated in USD. The process is ongoing and will be completed when technical problems have been solved in the bank clearing system.

Changes in stockholders' equity are as follows:

	Common stock	Additional paid-in capital	Statutory reserve	Other Equity	Total
Stockholders' equity as of January 1, 2002	3,141.7	27,258.9	146.9	0.0	30,547.5
Purchases of treasury stock	(55.2)	(2,905.4)			(2,960.6)
Sales of treasury stock	29.1	1,560.3			1,589.4
Exercised share options	1.9	49.8			51.7
Allocation of treasury stock to sellers of subsidiaries	5.3	204.0			209.3
Translation difference of shares in foreign companies.......				367.7	367.7
Net income for the period...........				10,056.0	10,056.0
Transferred to statutory reserve.......................................			588.5	(588.5)	0.0
	3,122.8	26,167.6	735.4	9,835.2	39,861.0

20. Stock Option Contracts and Obligations to Increase Share Capital

Following is a schedule of stock option agreements and obligations to increase share capital assuming all conditions will be fully met:

	Number of shares (in Thousands)				
Contract rate / conditions	2003	2004	2005	2006	Total
3.125 / conditional.....................	858.0	429.0	0.0	0.0	1,287.0
24.0 / conditional......................	189.6	189.6	189.6	0.0	568.8
46.0 / conditional......................	0.0	0.0	0.0	1,000.0	1,000.0
58.5 / conditional......................	400.0	400.0	400.0	0.0	1,200.0
73.7 / conditional......................	0.0	0.0	3,550.0	0.0	3,550.0
	1,447.6	1,018.6	4,139.6	1,000.0	7,605.8

At year-end 2002, the total outstanding number of shares in Össur hf. amounted to 328,441,000. The Articles of Association of the Company authorizes the Board of Directors to issue up to 10,000,000 shares for the purposes of the above contracts. This authorization is valid until March 24, 2005. The listed market price per share at year-end 2002 was 54.0.

Össur hf. has contractual obligations from the purchase of Swedish subsidiaries in the year 2000 to issue 1,099,216 shares in the years 2003-2004 to the sellers subject to certain conditions. The Company will utilize treasury shares to fulfill these agreements. The debt is entered in the accounts of the parent company.

21. Long-term liabilities

Long-term liabilities are specified as follows in thousands of USD:

	Remaining balances 31.12.2002	31.12.2001
Long-term liabilities in foreign currencies:		
Loans in USD	12,675.2	17,030.3
Loans in EUR	6,198.8	0.0
Loans in ISK	142.4	808.4
	19,016.4	17,838.7
Current maturities	(5,132.1)	(4,907.9)
Long-term liabilities at year-end	13,884.3	12,930.8

Aggregated annual maturities are as follows:

In 2003	5,132.1	4,907.9
In 2004	9,218.8	4,812.3
In 2005	1,105.1	7,733.2
In 2006	898.1	385.3
Later	2,662.3	0.0
	19,016.4	17,838.7

22. Cash flow

The Consolidated Statements of Cash Flows shows the effects of foreign exchange adjustment of the cash flows statements of foreign subsidiaries, reporting in other currencies than US dollars, as a separate reconciliation item.

Taxes paid during the year amounted to USD 820.4 thousand. Interest expenses in excess of interest income amounted to USD 751.9 thousand during the year.

Fixed assets in the amount of USD 1,043.2 thousand were purchased during the period, financed in full by lease agreements. These purchases do not affect cash, and are therefore not included in the Consolidated Statements of Cash Flows.

23. Insurances

At year-end the official insurance value of the consolidation's assets is specified as follows in thousands of USD:

	Insurance value	Book value
Fixed assets and inventories	30,062.7	22,577.4

The consolidation owns buildings situated in California, USA.

The consolidation has purchased business interruption insurance intended to compensate for temporary breakdown of operations. The insurance amount is 14,455.9 thousand USD.

24. Commitments and Mortgages

The terms of loans amounting to 9,248.7 thousand USD include provisions to the effect that the Company shall not, without consulting the lender, divest itself of a substantial proportion of its fixed assets or substantially alter its operations. In addition, the loan agreements contain terms on gearing limits.

25. Leases

The remaining balance of the finance leases on the balance sheet date amount to 1,427.3 thousand USD, which is included in long-term liabilities.

The remaining balance of the operating lease contracts at the balance sheet date amounts to 56.1 thousand USD. The amount is not included in liabilities, but the lease payments are expensed as the fall due.

Eleven rental agreements are in place for premises in Reykjavik, the Netherlands, Sweden and the United States. The leases expire in the years 2003-2020. The total amount of rent for the consolidated companies in the year 2002 is 1,431.2 thousand USD.

The Company has pre-emptive purchasing rights to the property at Grjótháls 5 in Reykjavík for the duration of the lease term.

26. Approval of financial statements

The Financial statements were approved by the board of directors and authorised for issue on February 11, 2003.