Össur hf

Consolidated Financial Statements
June 30th 2003

Össur hf.
Grjóthálsi 5
110 Reykjavík
Iceland

kt. 560271-0189

Contents

Signature by the Board of Directors and the President and CEO

It is the opinion of the Board of Directors and the President and CEO of Össur hf. that these Interim Consolidated Financial Statements present the necessary information to evaluate the financial position of the Company at 30 June 2003, the operational results for the period 1 January to 30 June 2003, and financial developments during that period.

The Board of Directors and President and CEO of Össur hf. hereby confirm the Interim Consolidated Financial Statements of Össur hf. for the period from 1 January to 30 June 2003 with their signatures.

Reykjavik, 23 July 2003

Board of Directors:

Pétur Guðmundarson
Chairman of the Board

Össur Kristinsson	Bengt Kjell
Gunnar Stefánsson	Heimir Haraldsson
Kristján T. Ragnarsson	Sigurbjörn Þorkelsson

President and CEO

Jón Sigurðsson

Financial Ratios

Consolidated statement

		30.6.2003	30.6.2002	2002	2001	2000	1999
Growth							
Net sales	USD '000	44,418	39,816	81,284	68,380	45,682	17,933
EBITDA	USD '000	5,848	5,732	14,310	12,973	8,904	3,361
Profit from operations	USD '000	4,519	4,532	11,501	10,889	7,560	2,891
Net income [1]	USD '000	3,312	3,620	10,056	8,632	5,188	1,925
Total assets	USD '000	85,825	67,199	71,425	58,201	56,851	24,307
Operational performance							
Cash provided by operating activities	USD '000	4,916	997	10,503	10,359	5,797	3,243
- as ratio to total debt [2]	%	39	24	36	36	30	67
- as ratio to net profit		1.5	0.3	1.0	1.2	1.1	1.7
Working capital from operating activities	USD '000	5,354	5,547	14,661	10,771	8,557	2,598
- as ratio to long-term debt and stockh. equity [2]	%	24	26	30	27	25	19
Liquidity and solvency							
Quick ratio		2.8	1.3	1.5	1.2	1.1	1.5
Current ratio		3.5	2.0	2.3	1.9	1.5	2.2
Equity ratio	%	51	50	56	52	45	79
Asset utilization and efficiency							
Total asset turnover [2]		1.1	1.2	1.3	1.3	1.1	1.1
Grace period granted [2]	Days	52	53	44	44	50	40
Profitability							
Return on capital [1,2]	%	17	19	20	19	8	23
Return on common equity [1,2]	%	25	29	29	32	9	45
Operating profit as ratio to net sales	%	10	12	14	16	16	16
Net income before taxes as ratio to net sales	%	9	12	15	15	13	17
Net income for the year as ratio to net sales [1]	%	7	9	12	12	11	11
Market							
Value of stock	USD '000	220,646	210,978	219,584	158,492	255,928	116,850
Price/earnings ratio, (P/E) [1]		22.6	23.7	21.8	19.4	53.0	60.8
Price/book ratio		5.0	6.3	5.5	5.2	10.1	6.1
Number of shares	Millions	328	328	328	328	328	212
Earnings per Share, (EPS) [1,2]	US Cent	3.02	2.74	3.12	2.64	1.48	0.91
Diluted Earnings per Share, (Diluted EPS) [1,2]	US Cent	3.01	2.73	3.10	2.63		

Notes

1. Financial ratios for the year 2000 have been calculated using net income before extraordinary expenses.
2. Financial ratios for YTD 2002 and YTD 2003 are based on operations for the preceding 12 months.
3. 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.

Auditor's Report

To the Board of Directors and Shareholders of Össur hf.

We have reviewed the accompanying Consolidated Balance Sheets of Össur hf. and it's subsidiaries as of 30 June 2003, and the related Consolidated Statements of Income and Cash Flows for the period then ended. These Consolidated Financial Statements contain Income Statements, Balance Sheets, Statement of Cash Flows, Statement of changes in Equity and Notes to the Financial Statements. These Financial Statements are the responsibility of the Company's management. Our responsibility is to issue a report on these Financial Statements based on our review.

We conducted our review in accordance with generally accepted auditing standards applicable to review engagements. Those standards require that we plan and perform the review to obtain moderate assurance as to whether the Financial Statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review nothing has come to our attention that causes us to believe that the accompanying Financial Statements do not give a true and fair view of the financial position of Össur hf. and it's subsidiaries as of 30 June 2003, of the results of their operations and their cash flows for the period then ended in accordance with generally accepted accounting principles applied on a consistent basis. Financial Statements of foreign subsidiaries have been reviewed by Deloitte & Touche in the countries where they are located.

Reykjavík, 23 July 2003

Deloitte & Touche

Heimir Thorsteinsson
State Authorized Public Accountant

Thorvarður Gunnarsson
State Authorized Public Accountant

Consolidated Income Statements
for the periods 1.1-30.6.2003 and 1.1.-30.6.2002

	Notes	Consolidated Statements 2003 YTD	2002 YTD	2003 Q2	2002 Q2
Net sales	4	44,418	39,816	22,726	21,223
Cost of goods sold		(18,148)	(16,090)	(9,019)	(8,595)
Gross profit		26,270	23,726	13,707	12,628
Other income		104	329	22	107
Sales and marketing expenses		(9,885)	(9,089)	(5,013)	(4,891)
Research and development expenses		(4,852)	(3,575)	(2,595)	(1,557)
General and administrative expenses		(7,118)	(6,859)	(3,572)	(3,298)
Profit from operations		4,519	4,532	2,549	2,989
Interest income/(expenses)	6	(373)	15	(247)	338
Income from associates		0	38	0	(18)
Profit before tax		4,146	4,585	2,302	3,309
Income tax	23	(834)	(965)	(394)	(720)
Net profit for the period		3,312	3,620	1,908	2,589
Earnings per Share	7				
Basic Earnings per Share (US cent)		3.02	2.74	0.59	0.80
Diluted Earnings per Share (US cent)		3.01	2.73	0.59	0.80

All amounts in thousands of USD 5

Consolidated Balance Sheets

Assets

	Notes	Consolidated Statements 30.6.2003	Consolidated Statements 31.12.2002
Fixed assets			
Buildings and sites	8	3,229	3,067
Other operating fixed assets	8	7,827	7,153
Other intangible assets	9	720	751
Investments held to maturity	11	520	523
Available for sale investments	12	447	410
Deferred tax asset	23	20,476	20,932
		33,219	32,836
Current assets			
Inventories	13	11,266	12,358
Accounts receivable	14	13,582	12,403
Other receivables		2,173	1,562
Investments held for trading	15	1,283	1,190
Bank balances and cash		24,302	11,076
		52,606	38,589
Total assets		85,825	71,425

All amounts in thousands of USD 6

30 June 2003 and 31 December 2002

Equity and liabilities

	Notes	Consolidated Statements 30.6.2003	31.12.2002
Stockholders' equity			
Share capital	16	3,130	3,123
Capital reserves	17	27,226	26,903
Translation reserves	18	1,096	368
Accumulated profits	19	12,719	9,467
		44,171	39,861
Long-term liabilites			
Loans from credit institutions	20	24,944	11,528
Obligation under finance leases	21	855	1,016
Other long-term liabilities	22	378	1,341
Deferred tax liabilities	23	651	742
		26,828	14,627
Current liabilites			
Long-term liabilities - due within one year	24	2,896	5,132
Accounts payable		2,778	2,927
Tax liabilities		989	1,280
Other current liabilities		7,854	7,288
Provisions	25	309	310
		14,826	16,937
Total equity and liabilities		85,825	71,425

All amounts in thousands of USD 7

Consolidated Statements of Cash Flows for the periods 1.1-30.6.2003 and 1.1.-30.6.2002

	Notes	Consolidated Statements YTD 2003	YTD 2002
Cash flows from operating activities			
Net profit for the period		3,312	3,620
Adjustments for:			
Depreciation and amortization	8,9	1,329	1,200
Fair value and exchange rate adjustments		187	60
(Gain) loss on sale of assets		(4)	12
Deferred income tax		530	693
Income (loss) from associates		0	(38)
Working capital from operating activities		5,354	5,547
Changes in operating assets and liabilities			
Inventories, decrease (increase)		1,638	(1,651)
Accounts receivable, (increase)		(1,336)	(4,090)
Current liabilities, (decrease) increase		(740)	1,191
Net cash provided by operating activities		4,916	997
Cash flows from investing activities			
Purchase of fixed assets		(2,101)	(2,377)
Proceeds from sale of fixed assets		95	71
Investments held to maturity		(115)	(6)
Installments of bonds		167	5
Purchases of available for sale investments		(5)	0
Proceeds from sale of available for sale investments		11	0
Purchases of trading investments		(2,972)	(2,591)
Proceeds from sale of trading investments		2,876	2,764
Net cash used in investing activities		(2,044)	(2,134)
Cash flows from financing activities			
Borrowing of long-term liabilities		20,000	5,227
Repayments of long-term liabilities		(9,861)	(2,635)
Payments on short-term debt		0	(901)
Purchases of treasury stock		0	(1,968)
Sales of treasury stock		0	1,589
Exercised share options		61	52
Net cash used in financing activities		10,200	1,364
Net change in cash and cash equivalents		13,072	227
Effects of foreign exchange adjustments		154	198
Cash and cash equivalents at beginning of year		11,076	5,544
Cash and cash equivalents at end of period		24,302	5,969
Notes: Statement of cash flows	26		

All amounts in thousands of USD

Consolidated Statement of changes in Equity for the period ended 30 June 2003

	Share capital	Capital reserves	Translation reserves	Accumulated profits	Total
Balance at 1 January 2002....................	3,142	27,406	0	0	30,548
Translation difference of shares in foreign companies................			368		368
Net gains / losses not recognised in the income statement.......................	0	0	368	0	368
Purchases of treasury stock..................	(55)	(2,905)			(2,960)
Sales of treasury stock..........................	29	1,559			1,588
Exercised share options........................	2	50			52
Allocation of treasury stock to sellers of subsidiaries.......................	5	204			209
Net profit for the year...........................				10,056	10,056
Transferred to statutory reserves...		589		(589)	0
Balance at 1 January 2003....................	3,123	26,903	368	9,467	39,861
Translation difference of shares in foreign companies................			728		728
Net gains / losses not recognised in the income statement.......................	0	0	728	0	728
Exercised share options........................	2	59			61
Allocation of treasury stock to sellers of subsidiaries......................	5	204			209
Net profit for the period.......................				3,312	3,312
Transferred to statutory reserves...		60		(60)	0
Balance at 30 June 2003.......................	3,130	27,226	1,096	12,719	44,171

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. Reporting currency

By legislation of 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 from 1 January 2002. Accordingly, the board of Össur hf. 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.

Basis of consolidation

The Consolidated Financial Statements incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries). 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 of the 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 translation reserves among equity.

Taxation

The income tax currently payable is based on taxable profit for the period. 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 periods 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.

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.

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.

Investments

Bonds and long-term receivables which the company has the expressed intention and ability to hold to maturity (Investments held to maturity) are valued at cost, less an allowance for estimated irrecoverable amounts.

Investments other than held to maturity are classified as either held for trading or available for sale, and are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are included in net profit or loss for the period.

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.

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.

Provisions

Provisions for warranty costs are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditue required to settle the Consolidation's liability.

Provisions for restructuring costs are recognised when the consolidated companies has a detailed formal plan for the restructuring which has been notified to affected parties.

4. Net sales

Net sales are specified as follows according to markets:

	YTD 2003	YTD 2002
North America	22,611	23,093
Europe	18,915	14,334
Other markets	2,892	2,389
	44,418	39,816

Net sales are specified as follows according to product lines:

	YTD 2003	YTD 2002
Prosthetics	39,485	35,834
Orthotics	3,401	1,995
Other products	1,532	1,987
	44,418	39,816

5. Salaries

	YTD 2003	YTD 2002
Salaries	11,690	8,832
Salary-related expenses	3,962	3,530
	15,652	12,362
Average number of positions	457	399

All amounts in thousands of USD 13

Notes to the Financial Statements

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

	YTD 2003	YTD 2002
Cost of goods sold	5,413	4,281
Sales and marketing	5,218	3,722
Research and development	2,117	2,084
General and administrative	2,904	2,275
	15,652	12,362

6. Interest income / (expenses)

Income from investments:	YTD 2003	YTD 2002
Interest on bank deposits	46	18
Profit from investments held to maturity	49	33
Profit (loss) from available for sale investments	43	(78)
(Loss) profit from trading investments	(3)	40
Other interest income	28	3
	163	16
Finance costs:		
Interest on bank loans	(455)	(443)
Interest on obligations under finance leases	(31)	(44)
Other interest expenses	(33)	(70)
	(519)	(557)
Exchange rate differences	(17)	556
	(373)	15

7. Earnings per share

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

	YTD 2003	YTD 2002
Net profit for the last 12 month period	9,748	8,891
Total average number of shares outstanding (in thousands)	322,513	324,490
Total average number of shares including potential shares (in thousands)	323,719	325,691
Basic Earnings per Share (US cent)	3.02	2.74
Diluted Earnings per Share (US cent)	3.01	2.73

	Q2 2003	Q2 2002
Net profit for Q2	1,908	2,589
Total average number of shares outstanding during Q2 (in thousands)	322,931	322,517
Total average number of shares including potential shares (in thousands)	324,134	323,724
Basic Earnings per Share (US cent)	0.59	0.80
Diluted Earnings per Share (US cent)	0.59	0.80

8. Operating fixed assets and depreciation

	Buildings and sites	Automobiles	Machinery & equipment	Fixtures & office equip.	Total
Cost					
At 1 January 2003	3,634	166	8,881	4,802	17,483
Additions	242		1,651	208	2,101
Exchange differences	18		90	18	126
Disposals		(26)	(168)		(194)
At 30 June 2003	3,894	140	10,454	5,028	19,516
Accumulated depreciation					
At 1 January 2003	567	53	4,099	2,544	7,263
Charge for the period	92	11	686	464	1,253
Exchange differences	6		35	6	47
Eliminated on disposal		(4)	(99)		(103)
At 30 June 2003	665	60	4,721	3,014	8,460
Carrying Amount					
At 30 June 2003	3,229	80	5,733	2,014	11,056
At 31 December 2002	3,067	113	4,782	2,258	10,220

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

	YTD 2003	YTD 2002
Cost of goods sold	599	448
Sales and marketing expenses	27	39
Research and development expenses	136	153
General and administrative expenses	491	522
	1,253	1,162

9. Other intangible assets

	YTD 2003
Cost	
At 1 January 2003	1,255
Exchange differences	49
At 30 June 2003	1,304
Amortization	
At 1 January 2003	504
Exchange differences	4
Charge for the period	76
At 30 June 2003	584
Carrying Amount	
At 30 June 2003	720
At 31 December 2002	751

All amounts in thousands of USD 15

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

	YTD 2003	YTD 2002
Research and development expenses	58	15
General and administrative expenses	18	23
	76	38

10. 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%
Empower Health Care Solution, AB	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%

Össur hf. also operates a finance branch in Switzerland to govern intercompany long-term liabilities and investments.

Össur has acquired the prosthetics producer Linea Orthopedics of Sweden. Linea Orthopedics is a start-up company developing and manufacturing high-quality cosmetic covers designed for artificial hands. Linea Orthopedics' activities will be relocated to Iceland in the beginning of 2004. No transactions due to the acquisition are included in the Consolidated Financial Statements excluding direct costs amounting to USD 19 thousand which are booked as prepayments among other receivables.

11. Investments held to maturity

	YTD 2003
At 1 January 2003	523
Investments during the period	115
Installments of bonds	(167)
Exchange differences	49
At 30 June 2003	520

All amounts in thousands of USD 16

12. Available for sale investments

	YTD 2003
At 1 January 2003	410
Purchased during the period	5
Disposed of during the period	(11)
Fair value and exchange rate adjustments	43
At 30 June 2003	447

13. Inventories

	30.6.2003	31.12.2002
Raw material	5,103	5,764
Work in progress	373	292
Finished goods	5,790	6,302
	11,266	12,358

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to USD 4,935 thousand were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of USD 1,298 thousand is made in the Consolidated Financial Statements to reduce income tax expense to account for this.

14. Accounts receivable

	30.6.2003	31.12.2002
Nominal value	14,918	14,132
Allowances for doubtful accounts	(818)	(1,210)
Allowances for sales return	(518)	(519)
	13,582	12,403

15. Investments held for trading

	YTD 2003
At 1 January 2003	1,190
Purchased during the period	2,972
Disposed of during the period	(2,876)
Fair value and exchange rate adjustments	(3)
At 30 June 2003	1,283

All amounts in thousands of USD 17

16. Share capital

	Shares	Ratio	Nominal value
Total common stock at period-end	323.0	98.4%	3,130
Treasury stock at period-end	5.4	1.6%	53
	328.4	100.0%	3,183

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.

17. Capital reserves

	Share premium	Statutory reserves	Total
Balance at 1 January 2002	27,259	147	27,406
Purchases of treasury stock	(2,905)		(2,905)
Sales of treasury stock	1,559		1,559
Exercised share options	50		50
Allocation of treasury stock to sellers of subsidiaries	204		204
Transferred from accumulated profits		589	589
Balance at 1 January 2003	26,167	736	26,903
Exercised share options	59		59
Allocation of treasury stock to sellers of subsidiaries	204		204
Transferred from accumulated profits		60	60
Balance at 30 June 2003	26,430	796	27,226

18. Translation reserves

	Translation reserves
Balance at 1 January 2002	0
Exchange differences arising on translation of subsidiaries	341
Exchange differences arising on translation of associates	27
Balance at 1 January 2003	368
Exchange differences arising on translation of subsidiaries	728
Balance at 30 June 2003	1,096

19. Accumulated profits

	Accumulated profits
Balance at 1 January 2002	0
Transferred to statutory reserves	(589)
Net profit for the year	10,056
Balance at 1 January 2003	9,467
Transferred to statutory reserves	(60)
Net profit for the period	3,312
Balance at 30 June 2003	12,719

All amounts in thousands of USD 18

20. Loans from credit institutions

	Remaining balances 30.6.2003	31.12.2002
Loans in USD	16,000	9,249
Loans in EUR	9,748	5,654
Loans in ISK	35	43
	25,783	14,946
Current maturities	(839)	(3,418)
Loans from credit institutions	24,944	11,528

Aggregated annual maturities are as follows:

In 1.7.2003-30.6.2004 / 2003	839	3,418
In 1.7.2004-30.6.2005 / 2004	839	7,382
In 1.7.2005-30.6.2006 / 2005	821	754
In 1.7.2006-30.6.2007 / 2006	821	754
Later	22,463	2,638
	25,783	14,946

21. Obligation under finance leases

	Remaining balances 30.6.2003	31.12.2002
Finance leases in USD	672	784
Finance leases in EUR	528	545
Finance leases in ISK	76	99
	1,276	1,428
Current maturities	(421)	(412)
Obligation under finance leases	855	1,016

Aggregated annual maturities are as follows:

In 1.7.2003-30.6.2004 / 2003	421	412
In 1.7.2004-30.6.2005 / 2004	375	390
In 1.7.2005-30.6.2006 / 2005	304	344
In 1.7.2006-30.6.2007 / 2006	176	253
In 1.7.2007-30.6.2008 / 2007	0	29
	1,276	1,428

All amounts in thousands of USD 19

22. Other long-term liabilities

	Remaining balances 30.6.2003	31.12.2002
Other liabilities in USD	2,014	2,643
Current maturities	(1,636)	(1,302)
Other long-term liabilities	378	1,341

Aggregated annual maturities are as follows:

In 1.7.2003-30.6.2004 / 2003	1,636	1,302
In 1.7.2004-30.6.2005 / 2004	378	969
In 1.7.2005-30.6.2006 / 2005	0	372
	2,014	2,643

23. Deferred tax

	Deferred tax asset	Deferred tax liabilities	Total
At 1 January 2003	20,932	(742)	20,190
Calculated tax for the period	(827)	(7)	(834)
Income tax payable for the period	309	120	429
Exchange differences	62	(22)	40
At 30 June 2003	20,476	(651)	19,825

24. Long-term liabilities - due within one year

	30.6.2003	31.12.2002
Loans from credit institutions	839	3,418
Obligations under finance leases	421	412
Other long-term liabilities	1,636	1,302
	2,896	5,132

25. Provisions

	Warranty Provisions	Restructuring Provisions	Total
At 1 January 2003	304	6	310
Additional provision in the period	175	0	175
Utilisation of provison	(171)	(5)	(176)
At 30 June 2003	308	1	309

The warranty provision represents management's best estimate of the Group's liability under warranties granted on prosthetics products, based on past experience and industry averages for defective products.

The restructuring provision was originally established early 2002 and relates to Ossur Engineering R&D employees.

All amounts in thousands of USD 20

26. 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 period amounted to USD 834 thousand. Interest expenses in excess of interest income amounted to USD 418 thousand during the period.

27. Approval of financial statements

The Consolidated Financial statements were approved by the board of directors and authorised for issue on 23 July 2003.