Ossur hf

Consolidated Financial Statements
September 30th 2003

Ossur 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 Ossur hf. that these Interim Consolidated Financial Statements present the necessary information to evaluate the financial position of the Company at 30 September 2003, the operational results for the period 1 January to 30 September 2003, and financial developments during that period.

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

Reykjavik, 22 October 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

		30.9.2003	30.9.2002	2002	2001	2000	1999
Growth							
Net sales	USD '000	66,816	61,207	81,284	68,380	45,682	17,933
EBITDA	USD '000	9,506	11,127	14,310	12,973	8,904	3,361
Profit from operations	USD '000	7,461	9,222	11,501	10,889	7,560	2,891
Net income (1)	USD '000	5,578	7,270	10,056	8,632	5,188	1,925
Total assets	USD '000	101,731	57,606	71,425	58,201	56,851	24,307
Operational performance							
Cash provided by operating activities	USD '000	8,729	5,092	10,503	10,359	5,797	3,243
- as ratio to total debt (2)	%	33	24	36	36	30	67
- as ratio to net profit		1.6	0.7	1.0	1.2	1.1	1.7
Working capital from operating activities	USD '000	9,424	10,624	14,661	10,771	8,557	2,598
- as ratio to long-term debt and stockh. equity (2)	%	19	28	30	27	25	19
Liquidity and solvency							
Quick ratio		1.6	1.5	1.5	1.2	1.1	1.5
Current ratio		2.2	2.3	2.3	1.9	1.5	2.2
Equity ratio	%	46	53	56	52	45	79
Asset utilization and efficiency							
Total asset turnover (2)		1.0	1.4	1.3	1.3	1.1	1.1
Grace period granted (2)	Days	50	45	44	44	50	40
Profitability							
Return on capital (1,2)	%	15	21	20	19	8	23
Return on common equity (1,2)	%	20	31	29	32	9	45
Operating profit as ratio to net sales	%	11	15	14	16	16	16
Net income before taxes as ratio to net sales	%	10	15	15	15	13	17
Net income for the period as ratio to net sales (1)	%	8	12	12	12	11	11
Market							
Value of stock	USD '000	230,992	194,892	219,584	158,492	255,928	116,850
Price/earnings ratio, (P/E) (1)		27.6	19.4	21.8	19.4	53.0	60.8
Price/book ratio		4.9	5.3	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	2.59	3.11	3.12	2.64	1.48	0.91
Diluted Earnings per Share, (Diluted EPS) (1,2)	US Cent	2.58	3.09	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 Ossur hf.

We have reviewed the accompanying Consolidated Balance Sheets of Ossur hf. and it’s subsidiaries as of 30 September 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 Ossur hf. and it’s subsidiaries as of 30 September 2003, of the results of their operations and their cash flows for the period then ended in accordance with International Financial Reporting Standards. Financial Statements of foreign subsidiaries have been reviewed by Deloitte & Touche in the countries where they are located.

Reykjavík, 22 October 2003

Deloitte & Touche hf.

Heimir Thorsteinsson
State Authorized Public Accountant

Thorvarður Gunnarsson
State Authorized Public Accountant

Consolidated Income Statements for the periods 1.1-30.9.2003 and 1.1.-30.9.2002

		Consolidated Statements			
	Notes	**2003 YTD**	**2002 YTD**	**2003 Q3**	**2002 Q3**
Net sales	6	66,816	61,207	22,398	21,391
Cost of goods sold		(27,824)	(24,394)	(9,676)	(8,304)
Gross profit		38,992	36,813	12,722	13,087
Other income		144	495	40	166
Sales and marketing expenses		(13,965)	(12,837)	(4,080)	(3,748)
Research and development expenses		(6,842)	(5,251)	(1,990)	(1,676)
General and administrative expenses		(10,868)	(9,998)	(3,750)	(3,139)
Profit from operations		7,461	9,222	2,942	4,690
Interest income/(expenses)	9	(487)	(135)	(114)	(150)
Income from associates		0	40	0	2
Profit before tax		6,974	9,127	2,828	4,542
Income tax	27	(1,396)	(1,857)	(562)	(892)
Net profit for the period		5,578	7,270	2,266	3,650
Earnings per Share	10				
Basic Earnings per Share (US cent)		2.59	3.11	0.70	1.13
Diluted Earnings per Share (US cent)		2.58	3.09	0.70	1.13

All amounts in thousands of USD 5

Consolidated Balance Sheets

Assets

	Notes	Consolidated Statements 30.9.2003	31.12.2002
Fixed assets			
Buildings and sites	11	2,800	2,664
Other operating fixed assets	11	8,553	7,556
Acquisition of Generation II Group	31	32,087	0
Other intangible assets	12	1,057	751
Investments held to maturity	14	545	523
Available for sale investments	15	475	410
Deferred tax asset	27	20,195	20,932
		65,712	32,836
Current assets			
Inventories	16	10,593	12,358
Accounts receivable	17	14,014	12,403
Other receivables		2,915	1,562
Investments held for trading	18	726	1,190
Bank balances and cash		7,771	11,076
		36,019	38,589
Total assets		101,731	71,425

All amounts in thousands of USD 6

30 September 2003 and 31 December 2002

Equity and liabilities

	Notes	Consolidated Statements 30.9.2003	31.12.2002
Stockholders' equity			
Share capital	19	3,133	3,123
Capital reserves	20	27,424	26,903
Translation reserves	21	1,358	368
Accumulated profits	22	14,985	9,467
		46,900	39,861
Long-term liabilites			
Loans from credit institutions	24	36,827	11,528
Obligation under finance leases	25	761	1,016
Other long-term liabilities	26	526	1,341
Deferred tax liabilities	27	677	742
		38,791	14,627
Current liabilites			
Long-term liabilities - due within one year	28	2,903	5,132
Accounts payable		3,216	2,927
Tax liabilities		932	1,280
Other current liabilities		8,573	7,288
Provisions	29	416	310
		16,040	16,937
Total equity and liabilities		101,731	71,425

All amounts in thousands of USD 7

Consolidated Statements of Cash Flows
for the periods 1.1-30.9.2003 and 1.1.-30.9.2002

	Notes	Consolidated Statements YTD 2003	YTD 2002
Cash flows from operating activities			
Profit from operations		7,461	9,222
Depreciation and amortization	11,12	2,045	1,905
(Gain) loss on disposal of operating fixed assets		(5)	20
Changes in current assets and liabilities		1,092	(5,432)
Cash generated by operations		10,593	5,715
Interest received		145	73
Interest paid		(799)	(664)
Taxes paid		(1,210)	(32)
Net cash provided by operating activities		8,729	5,092
Cash flows from investing activities			
Purchase of fixed assets	11	(2,751)	(3,148)
Proceeds from sale of fixed assets		154	85
Acquisition of subsidiaries	30, 31	(32,027)	0
Purchases of investments held to maturity	14	(129)	(10)
Installments of bonds	14	167	268
Purchases of available for sale investments	15	(5)	0
Proceeds from sale of available for sale investments	15	11	0
Purchases of trading investments	18	(3,609)	(4,457)
Proceeds from sale of trading investments	18	4,153	4,114
Net cash used in investing activities		(34,036)	(3,148)
Cash flows from financing activities			
Borrowing of long-term liabilities		32,000	5,227
Repayments of long-term liabilities		(10,220)	(3,094)
Purchases of treasury stock		0	(2,961)
Sales of treasury stock		0	1,589
Exercised share options		61	52
Net cash provided by financing activities		21,841	813
Net change in cash and cash equivalents		(3,466)	2,757
Effects of foreign exchange adjustments		161	181
Cash and cash equivalents at beginning of year		11,076	5,544
Cash and cash equivalents at end of period		7,771	8,482
Other information			
Net cash provided by operating activities:			
Net income		5,578	7,270
Items not affecting cash		3,846	3,354
Working capital provided by operating activities		9,424	10,624
Changes in current assets and liabilities		(695)	(5,532)
Net cash provided by operating activities		8,729	5,092

All amounts in thousands of USD 8

Consolidated Statement of changes in Equity for the period ended 30 September 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			990		990
Net gains / losses not recognised in the income statement	0	0	990	0	990
Exercised share options	2	59			61
Allocation of treasury stock to sellers of subsidiaries	8	402			410
Net profit for the period				5,578	5,578
Transferred to statutory reserves		60		(60)	0
Balance at 30 September 2003	3,133	27,424	1,358	14,985	46,900

All amounts in thousands of USD

Notes to the Financial Statements

1. Operations

Ossur hf. designs, manufactures and markets prosthetic and orthotic solutions. The principal products manufactured by the Company include liners, sockets, prosthetic feet, prosthetic knees, various components used for the manufacture of artificial limbs and ankle braces. 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 Ossur North America, Inc., in Aliso Viejo, California, which assembles prosthetic feet; at Ossur 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 Ossur hf. in Iceland, which manufactures sockets, prosthetic feet and components. Orthotic devices are manufactured at Ossur hf. in Iceland and Ossur Nordic, AB in Uppsala, Sweden, and the parent company operates a prosthetic workshop in Iceland.

Sales, distribution and services in North America were handled by Ossur North America, Inc., Western Europe by Ossur Europe B.V., the Nordic countries by Ossur Nordic, AB., while other markets were mostly serviced by Ossur Nordic AB in Sweden and Ossur North America, Inc.

According to organizational structure, the consolidation is divided into five divisions, i.e. Corporate Finance; responsible for overall financial management, Manufacturing & Operations; responsible for all production and inventory management, Sales and Marketing; responsible for overall marketing and sales units, Business Development; responsible for new business opportunities and new means of utilizing the companies expertise and R & D and Product Management; responsible for Quality Control, Product Development and New Product Management.

Localized marketing, sales distribution and services is handled by three independent sales companies, Ossur North America, Inc., California, Ossur Europe, B.V., Netherlands, and Ossur Nordic, AB, 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 Ossur hf. decided to report in US dollars, which is the consolidated companies' functional currency.

3. Adoption of International Financial Reporting Standards

The European Commission recently issued a regulation that, with few exceptions, requires all publicly listed companies domicilied within the European Union to prepare their consolidated financial statement in accordance with International Financial Reporting Standards (IFRS) from 1 January 2005.

To comply with this regulation the Ossur Consolidation has adopted the International Accounting Standards for the first time in these Interim Financial Statements. The adoption mainly affects the presentation of the Financial Statements, but not the Consolidation's accounting methods.

4. Summary of Significant Accounting Policies

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and with the Standing Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB.

The Financial Statements have been prepared on the historical cost basis, except for revaluation of certain financial instruments. In all material respects the statements are consistent with the statements of the preceding year. The principal accounting policies adopted are set out below.

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 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 Ossur 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.

5. Quarterly statements

	Q3 2003	Q2 2003	Q1 2003	Q4 2002	Q3 2002
Net sales	22,398	22,726	21,692	20,077	21,391
Cost of goods sold	(9,676)	(9,019)	(9,129)	(9,039)	(8,304)
Gross profit	12,722	13,707	12,563	11,038	13,087
Other income	40	22	82	536	166
Sales and marketing exp.	(4,080)	(5,013)	(4,872)	(4,091)	(3,748)
Research and develop. exp.	(1,990)	(2,595)	(2,257)	(1,852)	(1,676)
General and admin. exp.	(3,750)	(3,572)	(3,546)	(3,352)	(3,139)
Profit from operations	2,942	2,549	1,970	2,279	4,690
Interest income/(expenses)	(114)	(247)	(126)	318	(150)
Income from associates	0	0	0	114	2
Profit before tax	2,828	2,302	1,844	2,711	4,542
Income tax	(562)	(394)	(440)	76	(892)
Net profit for the period	2,266	1,908	1,404	2,787	3,650
EBITDA	3,658	3,206	2,642	3,183	5,395

6. Net sales

Net sales are specified as follows according to markets:

	YTD 2003	YTD 2002
North America	33,818	34,888
Europe	28,083	23,259
Other markets	4,915	3,060
	66,816	61,207

Net sales are specified as follows according to product lines:

	YTD 2003	YTD 2002
Prosthetics	60,276	57,535
Orthotics	3,940	3,060
Other products	2,600	612
	66,816	61,207

All amounts in thousands of USD 14

Net sales are specified as follows according to currency:

	YTD 2003	YTD 2002
Canadian dollar, CAD	2,008	1,619
Swiss Franc, CHF	501	243
Euro, EUR	13,620	10,019
British Pound, GBP	4,351	3,370
Icelandic Krona, ISK	1,121	936
Japanese Yen, JPY	0	221
Norwegian Krona, NOK	2,897	2,356
Swedish Krona, SEK	5,818	5,263
US Dollar, USD	36,500	37,180
	66,816	61,207

7. Business and geographical segments

Business segments

In accordance with IAS 14 (Segment Reporting), a breakdown of certain data in the financial statements is given by geographical region. Sales, distribution and services in North America were handled by Ossur North America, Inc., Western Europe by Ossur Europe B.V., the Scandinavian countries by Ossur Nordic, AB, and Iceland by Ossur hf. Sales to other international markets were handled by Ossur North America, Inc. and Ossur Nordic AB. These entities are the basis on which the Consolidation reports its primary segment information.

Segment information about the consolidation businesses is presented below, according to legal entities:

2003	US legal entities YTD 2003	W-Europe legal entities YTD 2003	Scandinavian legal entities YTD 2003	Iceland legal entities YTD 2003	Eliminations YTD 2003	Consolidated YTD 2003
Revenue						
External sales	37,829	17,726	10,140	1,121		66,816
Inter-segment sales	8,618	0	687	21,067	(30,372)	0
Total revenue	46,447	17,726	10,827	22,188	(30,372)	66,816
Net profit						
Segment result	3,725	(1,184)	(177)	3,771	(557)	5,578
Other information						
Capital additions	1,601	284	297	1,291	0	3,473
Depreciation and amortisation	976	191	161	717	0	2,045
Balance sheet	30.9.2003	30.9.2003	30.9.2003	30.9.2003	30.9.2003	30.9.2003
Assets						
Segment assets	46,823	11,926	7,473	107,881	(72,372)	101,731
Liabilities						
Segment liabilities	67,180	6,477	4,185	45,240	(68,251)	54,831

All amounts in thousands of USD 15

2002	US legal entities YTD 2002	W-Europe legal entities YTD 2002	Scandinavian legal entities YTD 2002	Iceland legal entities YTD 2002	Eliminations YTD 2002	Consolidated YTD 2002
Revenue						
External sales................	38,579	12,192	9,098	1,338	0	61,207
Inter-segment sales........	7,089	0	305	15,863	(23,257)	0
Total revenue.................	45,668	12,192	9,403	17,201	(23,257)	61,207
Net profit						
Segment result...............	3,674	(725)	810	4,943	(1,432)	7,270
Other information						
Capital additions...........	1,357	265	640	1,930	0	4,192
Depreciation and amortisation..................	1,169	145	34	557	0	1,905
Balance sheet	31.12.2002	31.12.2002	31.12.2002	31.12.2002	31.12.2002	31.12.2002
Assets						
Segment assets...............	44,133	10,932	6,595	80,151	(70,386)	71,425
Liabilities						
Segment liabilities.........	68,215	4,922	3,538	21,710	(66,821)	31,564

8. Salaries

	YTD 2003	YTD 2002
Salaries	19,645	14,721
Salary-related expenses	6,015	5,809
	25,660	20,530
Average number of positions	452	432

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

	YTD 2003	YTD 2002
Cost of goods sold	8,241	6,648
Sales and marketing	9,444	7,065
Research and development	3,134	2,794
General and administrative	4,841	4,023
	25,660	20,530

All amounts in thousands of USD 16

9. Interest income / (expenses)

	YTD 2003	YTD 2002
Income from investments:		
Interest on bank deposits	114	72
Profit from investments held to maturity	60	57
Profit (loss) from available for sale investments	71	(95)
Profit from trading investments	80	61
Other interest income	30	11
	355	106
Finance costs:		
Interest on bank loans	(790)	(649)
Interest on obligations under finance leases	(47)	(66)
Other interest expenses	(49)	(118)
	(886)	(833)
Exchange rate differences	44	592
	(487)	(135)

10. 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	8,364	10,040
Total average number of shares outstanding (in thousands)	322,696	323,160
Total average number of shares including potential shares (in thousands)	323,962	324,433
Basic Earnings per Share (US cent)	2.59	3.11
Diluted Earnings per Share (US cent)	2.58	3.09

	Q3 2003	Q3 2002
Net profit for Q3	2,266	3,650
Total average number of shares outstanding during Q3 (in thousands)	323,305	322,576
Total average number of shares including potential shares (in thousands)	324,555	323,856
Basic Earnings per Share (US cent)	0.70	1.13
Diluted Earnings per Share (US cent)	0.70	1.13

11. 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
Correction	(605)			605	0
Adjusted opening balance	3,029	166	8,881	5,407	17,483
Additions	196		2,109	446	2,751
Acquired on acquisition of subsidiary		44	300	7	351
Exchange differences		2	131	46	179
Eliminated on disposal		(26)	(239)	(5)	(270)
At 30 September 2003	3,225	186	11,182	5,901	20,494
Accumulated depreciation					
At 1 January 2003	567	53	4,099	2,544	7,263
Correction	(202)			202	0
Adjusted opening balance	365	53	4,099	2,746	7,263
Charge for the period	60	19	1,049	785	1,913
Acquired on acquisition of subsidiary		5	12	3	20
Exchange differences			52	14	66
Eliminated on disposal		(4)	(112)	(5)	(121)
At 30 September 2003	425	73	5,100	3,543	9,141
Carrying Amount					
At 30 September 2003	2,800	113	6,082	2,358	11,353
At 31 December 2002	2,664	113	4,782	2,661	10,220

At 1 January 2003 leasehold improvements in the United States and the Netherlands where wrongly classified among buildings and sites. The amount has been reclassified among fixtures & office equipment as shown in the table above. The comparative figures in the balance sheet have been adjusted accordingly.

The management estimates the fair value of buildings and sites at USD 4,500 thousand and other operating fixed asset at their book value.

The carrying amount of the Consolidation's fixtures and equipment includes an amount of USD 1,280 thousand (2002: USD 1,464 thousand) in respect of assets held under finance leases.

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

	YTD 2003	YTD 2002
Cost of goods sold	901	771
Sales and marketing expenses	59	60
Research and development expenses	202	237
General and administrative expenses	751	782
	1,913	1,850

All amounts in thousands of USD 18

12. Other intangible assets

	YTD 2003	31.12.2002
Cost		
At 1 January 2003	1,255	707
Arising on acquisition of a subsidiary	371	511
Exchange differences	78	37
At 30 September 2003	1,704	1,255
Amortization		
At 1 January 2003	504	406
Charge for the period	132	98
Exchange differences	11	0
At 30 September 2003	647	504
Carrying Amount		
At 30 September 2003 / 31 December 2002	1,057	751

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

	YTD 2003	YTD 2002
Research and development expenses	105	23
General and administrative expenses	27	32
	132	55

13. The Consolidation

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

	Ownership
Ossur Holding, AB	100%
Ossur Nordic, AB	100%
Ossur Nordic, AS	100%
Ossur Engineering, AB	100%
PI Medical, ApS	100%
Empower Health Care Solution, AB	100%
Mega Hali Med, AB	100%
PI Medical, AB	100%
Ossur Holdings, Inc.	100%
Ossur Engineering, Inc	100%
Ossur North America, Inc	100%
Mauch, Inc	100%
Linea Orthopedics, AB	100%
Generation II Orthotics, Inc.,	100%
Generation II USA, Inc	100%
GII Orthotics Europe, NV/SA	100%
OR Capital, Inc	100%
Ossur stoðtæki hf	90%
Ossur UK, Ltd	100%
Ossur Europe, BV	100%

All amounts in thousands of USD 19

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

Ossur hf. has acquired the prosthetics producer Linea Orthopedics, AB of Sweden. Linea Orthopedics, AB is a start up company developing and manufacturing high-quality cosmetic covers designed for artificial hands. Linea Orthopedics, AB' activities will be relocated to Iceland in the beginning of 2004.

Ossur hf. has also acquired the Generation II Group, a leading North American developer and manufacturer of orthotic knee braces. Generation II manufactures and markets a diverse product line of customized and off-the-shelf braces and specializes in braces for ligament injuries, osteoarthritis, and post operative conditions.

14. Investments held to maturity

	YTD 2003
At 1 January 2003	523
Investments during the period	129
Installments of bonds	(167)
Exchange differences	60
At 30 September 2003	545

15. 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	71
At 30 September 2003	475

16. Inventories

	30.9.2003	31.12.2002
Raw material	5,028	5,764
Work in progress	368	292
Finished goods	5,197	6,302
	10,593	12,358

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to USD 5,569 thousand were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of USD 1,448 thousand is made in the Consolidated Financial Statements to reduce income tax expense to account for this.

All amounts in thousands of USD 20

17. Accounts receivable

	30.9.2003	31.12.2002
Nominal value	15,238	14,132
Allowances for doubtful accounts	(705)	(1,210)
Allowances for sales return	(519)	(519)
	14,014	12,403

18. Investments held for trading

	YTD 2003
At 1 January 2003	1,190
Purchased during the period	3,609
Disposed of during the period	(4,153)
Fair value and exchange rate adjustments	80
At 30 September 2003	726

19. Share capital

	Shares	Ratio	Nominal value
Total share capital at period-end	323.3	98.4%	3,133
Treasury stock at period-end	5.1	1.6%	50
	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 6 June 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 share capital are as follows:	Common stock
Share capital as of 1 January 2002	3,142
Purchases of treasury stock	(55)
Sales of treasury stock	29
Exercised share options	2
Allocation of treasury stock to sellers of subsidiaries	5
Share capital as of 1 January 2003	3,123
Exercised share options	2
Allocation of treasury stock to sellers of subsidiaries	8
Balance at 30 September 2003	3,133

All amounts in thousands of USD 21

20. 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	402		402
Transferred from accumulated profits		60	60
Balance at 30 September 2003	26,628	796	27,424

21. 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	990
Balance at 30 September 2003	1,358

22. 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	5,578
Balance at 30 September 2003	14,985

23. 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	429	0	0	1,287
24.0 / conditional	0	190	190	0	380
46.0 / conditional	0	0	0	1,000	1,000
58.5 / conditional	400	400	400	0	1,200
73.7 / conditional	0	0	3,550	0	3,550
	1,258	1,019	4,140	1,000	7,417

At 30 September 2003, the total outstanding number of shares in Ossur 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 24 March 2005. The listed market price per share at period-end 2003 was 53.5.

Ossur hf. has contractual obligations from the purchase of Swedish subsidiaries in the year 2000 to issue 549,608 shares in the year 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.

24. Loans from credit institutions

	Remaining balances	
	30.9.2003	31.12.2002
Loans in USD	28,000	9,249
Loans in EUR	9,648	5,654
Loans in ISK	35	43
	37,683	14,946
Current maturities	(856)	(3,418)
Loans from credit institutions	36,827	11,528

Aggregated annual maturities are as follows:

In 1.10.2003-30.9.2004 / 2003	856	3,418
In 1.10.2004-30.9.2005 / 2004	856	7,382
In 1.10.2005-30.9.2006 / 2005	839	754
In 1.10.2006-30.9.2007 / 2006	839	754
In 1.10.2007-30.9.2008 / 2007	32,824	754
Later	1,469	1,884
	37,683	14,946

The terms of a USD 28 million and EUR 9,6 million loan facilities include various provisions that limits certain actions by the company without prior consulting with the lender. In addition the loan facilities include certain financial covenants.

25. Obligation under finance leases

	Minimum lease payments		Remaining balances	
	30.9.2003	31.12.2002	30.9.2003	31.12.2002
Finance leases in USD	661	860	610	784
Finance leases in EUR	542	592	506	545
Finance leases in ISK	59	112	56	99
	1,262	1,564	1,172	1,428
Current maturities	(463)	(475)	(411)	(412)
Obligation under finance leases	799	1,089	761	1,016

All amounts in thousands of USD 23

Aggregated annual maturities are as follows:

	Minimum lease payments		Remaining balances	
	30.9.2003	31.12.2002	30.9.2003	31.12.2002
In 1.10.2003-30.9.2004 / 2003	463	475	411	412
In 1.10.2004-30.9.2005 / 2004	391	419	370	390
In 1.10.2005-30.9.2006 / 2005	294	367	276	344
In 1.10.2006-30.9.2007 / 2006	114	258	115	253
In 1.10.2007-30.9.2008 / 2007	0	45	0	29
	1,262	1,564	1,172	1,428
Less: future finance charges	90	136		
Remaining balances	1,172	1,428		

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

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

26. Other long-term liabilities

	Remaining balances	
	30.9.2003	31.12.2002
Other liabilities in USD	2,162	2,643
Current maturities	(1,636)	(1,302)
Other long-term liabilities	526	1,341

Aggregated annual maturities are as follows:

In 1.10.2003-30.9.2004 / 2003	1,636	1,302
In 1.10.2004-30.9.2005 / 2004	331	969
In 1.10.2005-30.9.2006 / 2005	52	372
In 1.10.2006-30.9.2007 / 2006	50	0
In 1.10.2008-30.9.2008 / 2007	48	0
Later	45	0
	2,162	2,643

27. Deferred tax

	Deferred tax asset	Deferred tax liabilities	Total
At 1 January 2003	20,932	(742)	20,190
Arising on acquisition of a subsidiary	0	(1)	(1)
Calculated tax for the period	(1,168)	(228)	(1,396)
Income tax payable for the period	343	329	672
Exchange differences	88	(35)	53
At 30 September 2003	20,195	(677)	19,518

All amounts in thousands of USD 24

28. Long-term liabilities - due within one year

	30.9.2003	31.12.2002
Loans from credit institutions	856	3,418
Obligations under finance leases	411	412
Other long-term liabilities	1,636	1,302
	2,903	5,132

29. Provisions

	Warranty Provisions	Restructuring Provisions	Total
At 1 January 2003	304	6	310
Additional provision in the period	273	110	383
Utilisation of provison	(271)	(6)	(277)
At 30 September 2003	306	110	416

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

The restructuring provision was established in 2003 and relates to Ossur North America R&D employees.

30. Acquisition of Linea Orthopedics, AB

On 1 July Ossur acquired 100 per cent of the issued share capital of the prosthetics producer Linea Orthopedics, AB of Sweden for USD 682.651. This transaction has been accounted for by the purchase method of accounting.

	Acquisition 01.07.2003
Net assets acquired:	
Operating fixed assets	331
Other intangible assets	371
Current assets	65
Long-term liabilites	(33)
Current liabilites	(51)
Total consideration	683
Satisfied by cash	232
Satisfied by treasury stock	201
NPV of future payments	250
	683
Net cash outflow arising on acquisition:	
Cash consideration	232
Bank balances and cash acquired	(2)
	230

According to the share purchase agreement Ossur hf. shall pay up to a maximum of USD 300,000 in cash according to a 5 year deferred purchase price plan under which the annual payment shall be calculated as 20% of sales. The amount has been discounted with the assumption of equal payments and 5% interest.

All amounts in thousands of USD 25

31. Acquisition of Generation II Group

On 30 September 2003 Ossur hf acquired 100 per cent of the issued share capital of the Generation II Group for USD 31 million. According to the sales purchase agreement the balance sheets as of 30 September 2003 of the Generation II companies shall be finalized within two months from the acquisition date. Since the balance sheets have not yet been finalized the purchase price cannot be allocated to individual assets and liabilities in the consolidated Financial Statements of Ossur hf. Therefore the purchase price, including accrued acquisition cost, is entered among fixed assets in the consolidated balance sheet of Ossur hf.

	Acquisition 30/09/2003
Acquisition:	
Purchase price	31,000
Accumulated cost of acquisition	1,087
Total consideration	32,087
Satisfied by cash	31,797
Accounts payable	290
	32,087

32. Operating lease arrangements

	YTD 2003	YTD 2002
Minimum lease payments under operating leases recognised in Income Statement for the period	1,431	1,094

At the balance sheet date, the Consolidation had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	30.9.2003	31.12.2002
In 1.10.2003-30.9.2004 / 2003	2,673	1,401
In 1.10.2004-30.9.2005 / 2004	2,556	1,336
In 1.10.2005-30.9.2006 / 2005	1,427	1,014
In 1.10.2006-30.9.2007 / 2006	976	819
In 1.10.2007-30.9.2008 / 2007	555	699
Later	1,467	804
	9,654	6,073

Operating lease payments represent rentals payable by the Consolidation for certain of its office properties and cars. Eleven rental agreements are in place for premises in Reykjavik, the Netherlands, Sweden, United Kingdom and the United States. The leases expire in the years 2003-2020.

All amounts in thousands of USD 26

33. Insurances

At period-end the official insurance value of the consolidation's assets is specified as follows:

	Insurance value	Book value
Fixed assets and inventories	30,928	21,946

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 11,878 thousand USD.

34. Litigation

On March 11, 2003 Ossur North America, Inc announced it has filed suit in US against Freedom Innovations Inc. for infringement of four patents to which Ossur holds rights. The suit is directed to Freedom's recently introduced Freedom Series of prosthetic feet. The suit seeks a permanent injunction against Freedom's manufacture, use and sale of such products, as well as monetary damages.

Ossur North America, Inc has also sued Freedom Innovations, its officer Roland Christensen and Applied Composite Technology, also owned by Christensen under California Business and Profession Code Section 17200 et seq., which is directed to unlawful, unfair or fraudulent business acts or practices, and is seeking injunctive relief under that statute.

35. Approval of financial statements

The Consolidated Financial statements were approved by the board of directors and authorised for issue on 22 October 2003.

All amounts in thousands of USD 27