Ossur hf

Consolidated Financial Statements
2003

Ossur hf.
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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 Ossur 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 2003.

Ossur 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, Canada and Europe. The Company sells its products all over the world, but the principal market areas are the United States, Canada, Western Europe and Japan. In the year 2003, Ossur Consolidation consisted of Ossur hf. in Iceland, the Ossur Holdings, Inc., Consolidation in the United States, Generation II Orthotics, Inc. in Canada, Generation II USA, Inc. in the US, the Ossur Holding, A.B. Consolidation in Sweden, and Ossur 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 Ossur Consolidation amounted to USD 94.5 million, compared to USD 81.3 million in the preceding year. This represents an increase in sales of approximately 16%. Net profit amounted to USD 4.7 million compared to USD 10.1 million in 2002. Earnings per Share (EPS) amounted to US cents 1.45 compared to US cents 3.12 in 2002. Earnings before interests, taxes, depreciation and amortization (EBITDA) amounted to USD 9.4 million.

The total assets of the Ossur Consolidation amounted to USD 102.1 million at year-end, liabilities were 58.1 million, and equity was 44 million. The equity ratio at year-end was 43%, compared to 56% the preceding year.

In the course of the year the Company employed 480 employees, of which 184 were employed by the parent company in Iceland. Throughout 2002 an average of 431 employees were employed with the Company, of which 161 were employed by the parent company.

During the year, the Company acquired 5.2 million of treasury shares. The share price of the Company was 43.6 at year-end, compared to 52.5 at the beginning of the year. The market value of the Company at year-end was 201 million USD, which corresponds to a decrease of USD 18.3 million over the year. At year-end, shareholders in Ossur hf. numbered 4,429, compared to 4,866 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 2004. 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 Ossur hf. hereby confirm the Consolidated Financial Statements of Ossur for the year 2003 with their signatures.

Reykjavik, January 30, 2004

Board of Directors

Petur Gudmundarson
Chairman of the Board

Ossur Kristinsson

Gunnar Stefansson

Heimir Haraldsson

Kristjan T. Ragnarsson

Sigurbjorn Thorkelsson

Bengt Kjell

President and CEO

Jon Sigurdsson

Financial Ratios

Consolidated statement

		2003	2002	2001	2000	1999
Growth						
Net sales	USD '000	94,467	81,284	68,380	45,682	17,933
EBITDA	USD '000	9,428	14,310	12,973	8,904	3,361
Profit from operations	USD '000	6,112	11,501	10,889	7,560	2,891
Employees	Number	480	431	392	327	122
Net income (1)	USD '000	4,661	10,056	8,632	5,188	1,925
Total assets	USD '000	102,126	71,425	58,201	56,851	24,307
Operational performance						
Cash provided by operating activities	USD '000	10,383	10,503	10,359	5,797	3,243
- as ratio to total debt	%	23	36	36	30	67
- as ratio to net profit		2.2	1.0	1.2	1.1	1.7
Working capital from operating activities	USD '000	8,774	14,661	10,771	8,557	2,598
- as ratio to long-term debt and stockh. equity	%	13	30	27	25	19
- as ratio to investm., current maturities, divid.		0.2	1.7	1.2	0.1	2.7
Liquidity and solvency						
Quick ratio		1.2	1.5	1.2	1.1	1.5
Current ratio		1.8	2.3	1.9	1.5	2.2
Equity ratio	%	43	56	52	45	79
Asset utilization and efficiency						
Net sales pr. employee	USD '000	197	189	174	140	147
Total asset turnover		1.1	1.3	1.3	1.1	1.1
Grace period granted	Days	47	44	44	50	40
Profitability						
Return on capital (1)	%	9	20	19	8	23
Return on common equity (1)	%	11	29	32	9	45
Operating profit as ratio to net sales	%	6	14	16	16	16
Net income before taxes as ratio to net sales	%	6	15	15	13	17
Net income for the year as ratio to net sales (1)	%	5	12	12	11	11
Market						
Value of stock	USD '000	201,237	219,584	158,492	255,928	116,850
Price/earnings ratio, (P/E) (1)		43.2	21.8	19.4	53.0	60.8
Price/book ratio		4.6	5.5	5.2	10.1	6.1
Number of shares	Millions	328	328	328	328	212
Earnings per Share, (EPS) (1)	US Cent	1.45	3.12	2.64	1.48	0.91
Diluted Earnings per Share, (Diluted EPS) (1)	US Cent	1.44	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 Ossur hf.

We have audited the accompanying Consolidated Balance Sheets of Ossur hf. and subsidiaries as of December 31, 2003, 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 Ossur hf. were audited by Deloitte 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 Ossur hf., the Consolidated Financial Statements give a true and fair view of the financial position of Ossur hf. and subsidiaries as of December 31, 2003 and of the results of their operations and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Reykjavik, 30 January 2004

Deloitte hf.

Heimir Thorsteinsson
State Authorized Public Accountant

Thorvardur Gunnarsson
State Authorized Public Accountant

Consolidated Income Statements for the Years 2003 and 2002

	Notes	2003	2002	2003 Q4	2002 Q4
Net sales	6	94,467	81,284	27,651	20,077
Cost of goods sold		(40,232)	(33,433)	(12,408)	(9,039)
Gross profit		54,235	47,851	15,243	11,038
Other income		266	1,030	122	535
Sales and marketing expenses		(21,238)	(16,927)	(7,273)	(4,090)
Research and development expenses		(9,592)	(7,103)	(2,750)	(1,852)
General and administrative expenses		(17,559)	(13,350)	(6,691)	(3,352)
Profit from operations		6,112	11,501	(1,349)	2,279
Interest income/(expenses)	12	(407)	182	80	318
Income from associates		0	154	0	114
Profit before tax		5,705	11,837	(1,269)	2,711
Income tax	31	(1,044)	(1,781)	352	76
Net profit (loss) for the year / period		4,661	10,056	(917)	2,787
Earnings per Share	13				
Basic Earnings per Share (US cent)		1.45	3.12	(0.29)	0.86
Diluted Earnings per Share (US cent)		1.44	3.10	(0.29)	0.86

All amounts in thousands of USD 6

Consolidated Balance Sheets

Assets

	Notes	31.12.2003	31.12.2002
Fixed assets			
Property, plant and equipment	14	14,950	10,220
Goodwill	15	23,599	0
Other intangible assets	16	5,569	751
Investments held to maturity	18	448	523
Available for sale investments	19	476	410
Deferred tax asset	31	20,529	20,932
		65,571	32,836
Current assets			
Inventories	20	12,415	12,358
Accounts receivable	21	14,965	12,403
Other receivables	21	4,586	1,562
Investments held for trading	22	262	1,190
Bank balances and cash	21	4,327	11,076
		36,555	38,589
Total assets		102,126	71,425

All amounts in thousands of USD 7

31 December 2003 and 2002

Equity and liabilities

	Notes	31.12.2003	31.12.2002
Stockholders' equity			
Share capital	23	3,083	3,123
Capital reserves	24	24,412	26,903
Translation reserves	25	2,448	368
Accumulated profits	26	14,068	9,467
		44,011	39,861
Long-term liabilites			
Loans from credit institutions	28	34,892	11,528
Obligation under finance leases	29	767	1,016
Other long-term liabilities	30	482	1,341
Deferred tax liabilities	31	2,206	742
		38,347	14,627
Current liabilites			
Long-term liabilities - due within one year	32	3,314	5,132
Accounts payable		4,263	2,927
Tax liabilities		606	1,280
Other current liabilities		9,872	7,288
Provisions	33	1,713	310
		19,768	16,937
Total equity and liabilities		102,126	71,425

All amounts in thousands of USD 8

Consolidated Statements of Cash Flows for the Years 2003 and 2002

	Notes	2003	2002
Cash flows from operating activities			
Profit from operations		6,112	11,501
Depreciation and amortization	14, 16	3,316	2,809
Loss on disposal of operating fixed assets		9	25
Changes in current assets and liabilities		4,839	(2,260)
Cash generated by operations		14,276	12,075
Interest received		195	138
Interest paid		(1,416)	(890)
Taxes paid		(2,672)	(820)
Net cash provided by operating activities		10,383	10,503
Cash flows from investing activities			
Purchase of fixed assets	14, 16	(4,686)	(3,572)
Proceeds from sale of fixed assets		196	86
Acquisition of subsidiaries	34, 35	(29,867)	0
Sale of associated companies		0	174
Purchases of investments held to maturity	18	(128)	0
Installments of bonds	18	261	340
Purchases of available for sale investments	19	(5)	0
Proceeds from sale of available for sale investments	19	11	0
Purchases of trading investments	22	(4,099)	(6,717)
Proceeds from sale of trading investments	22	5,152	6,070
Net cash used in investing activities		(33,165)	(3,619)
Cash flows from financing activities			
Borrowing of long-term liabilities		32,000	5,227
Repayments of long-term liabilities		(13,305)	(5,549)
Purchases of treasury stock		(3,061)	(2,961)
Sales of treasury stock		0	1,589
Exercised share options		61	52
Net cash provided by financing activities		15,695	(1,642)
Net change in cash and cash equivalents		(7,087)	5,242
Effects of foreign exchange adjustments		338	290
Cash and cash equivalents at beginning of year		11,076	5,544
Cash and cash equivalents at end of year		4,327	11,076
Other information			
Net cash provided by operating activities:			
Net income		4,661	10,056
Items not affecting cash		4,113	4,605
Working capital provided by operating activities		8,774	14,661
Changes in current assets and liabilities		1,609	(4,158)
Net cash provided by operating activities		10,383	10,503

All amounts in thousands of USD 9

Consolidated Statement of changes in Equity for the period ended 31 December 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			2,080		2,080
Net gains / losses not recognised in the income statement	0	0	2,080	0	2,080
Purchases of treasury stock	(50)	(3,011)			(3,061)
Exercised share options	2	59			61
Allocation of treasury stock to sellers of subsidiaries	8	401			409
Net profit for the period				4,661	4,661
Transferred to statutory reserves		60		(60)	0
Balance at 31 December 2003	3,083	24,412	2,448	14,068	44,011

All amounts in thousands of USD 10

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 and knee braces. The principal market areas of the Company are North America, Western Europe and Japan, which are served by companies in the United States, Canada, 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 spinal implants, and at Ossur hf. in Iceland, which manufactures sockets, prosthetic feet and components. Orthotic devices are manufactured at Ossur hf. in Iceland, Generation II in Vancouver, Canada, Generation II in Seattle in the US and Ossur Nordic, AB in Uppsala, Sweden. The parent company operates a prosthetic workshop in Iceland.

According to organizational structure, the consolidation is divided into four 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 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 five independent sales companies, Ossur North America, Inc. in California, the Generation II Operations in Canada and Seattle in the US, 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

Ossur Consolidation has adopted the International Financial Reporting Standards (IFRS) in accordance with IFRS 1, First time adoption of International Financial Reporting Standards. The adoption does not materially impact individual balances in the opening balance sheet. The adoption mainly impacts the presentation and note disclosures of the Consolidated Financial Statements.

4. Summary of Significant Accounting Policies

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and are prepared under the historical cost convention except for revaluation of certain financial instruments.

The preparation of the Consolidated Financial Statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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.

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

The results of subsidiaries acquired or disposed of during the year are included in the Consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Consolidation.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Consolidation´s interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at each balance sheet date. The amount of impairment is calculated using discounted expected future cash flows. The discount rate applied to these cash flows is based on weighted average cost of capital, which represents the cost of debt and equity after taxation. Impairment charges are measured on the basis of comparison of estimated fair values (discounted expected future cash flows) with corresponding book values.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Risk management

Ossur overall philosophy towards foreign exchange risk is to manage risk by applying natural hedging to as much extent as possible and that way keep risk within acceptable level. The company does not apply forward contracts, derivatives or other form of financial hedging tools.

Long term financing is managed from Corporate Finance and individual subsidiaries do not engage in substantial external financing contracts with banks or credit institutions. Approximately 50% of the companies long term debt contracts have fixed interests which limits the exposure towards fluctuation in long term interest.

More than 80% of the company’s long term debt are bullet loans that will become due 2008. Interests are paid periodically. This limits considerably the cash flow and the liquidity risk for the company for the next 4-5 years. The loans are however subject to financial covenants the major ones being debt to EBITDA ratio and equity ratio.

The company is outset for normal business risk in collecting accounts receivable. Adequate allowance is made for bad debt expenses.

Revenue recognition

Revenue from product sales are recognized when earned as required by generally accepted accounting principles. Product sales are recognised when goods are delivered and title has passed and are shown in the Income Statement net of value added tax, discount and internal sales.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

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 an obligation under finance leases.

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 on exchange 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. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Borrowing costs

All borrowing costs are recognised in net profit in the period in which they are incurred.

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 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. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the tax profit nor the accounting profit. 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.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Deferred tax is charged or credited in the income statement, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

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.

Property, plant and equipment

Property, plant and equipment are recognised as an asset when it is probable that future economic benefits associated with the asset will flow to the consolidation and the cost of the asset can be measured in a reliable manner.

Property, plant and equipment which qualifies for recognition as an asset is initially measured at cost.

The cost of a property, plant and equipment comprises its purchase price and any directly attributable cost of bringing the asset to working condition for its intended use.

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

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets.

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 are recognised in an acquisition of subsidiaries only if an asset can be identified (such as patents and new technical solutions), it is probable that the asset will generate future economic benefits and the cost of the asset can be measured reliably.

Other intangible assets consist of capitalized development expenses from previous years and the cost of obtaining patents and technical solutions. These assets are amortized by 10-20% annually. Intangible assets where identified on acquisition of subsidiaries during the year. These include non-compete agreements, non-disclosure agreements, patented and unpatented technology. These intangible assets will be amortized on a straight-line basis over their useful life. The amortization charge for each year is recognised as an expense.

All research and development costs and costs relating to internally-generated patents incurred during the year are expensed.

Investments

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

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.

Impairment

At each balance sheet date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

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. Cost is calculated using the standard costing method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

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 receivable 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

Provision is recognised when an enterprise has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

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 company has a detailed formal plan for the restructuring which has been notified to affected parties.

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	21,692	22,726	22,398	27,651	94,467
Cost of goods sold	(9,129)	(9,019)	(9,676)	(12,408)	(40,232)
Gross profit	12,563	13,707	12,722	15,243	54,235
Other income	82	22	40	122	266
Sales and marketing exp.	(4,872)	(5,013)	(4,080)	(7,273)	(21,238)
Research and develop. exp.	(2,257)	(2,595)	(1,990)	(2,750)	(9,592)
General and admin. exp.	(3,546)	(3,572)	(3,750)	(6,691)	(17,559)
Profit/loss from operations	1,970	2,549	2,942	(1,349)	6,112
Interest income/(expenses)	(126)	(247)	(114)	80	(407)
Profit/loss before tax	1,844	2,302	2,828	(1,269)	5,705
Income tax	(440)	(394)	(562)	352	(1,044)
Net profit/loss for the period ...	1,404	1,908	2,266	(917)	4,661
EBITDA	2,642	3,206	3,658	(78)	9,428

6. Net sales

Net sales are specified as follows according to markets:

	2003	2002
North America	49,488	46,118
Europe, other...	24,387	16,995
Northern Europe..	14,089	11,783
International markets..	6,503	6,388
	94,467	81,284

All amounts in thousands of USD 16

Net sales are specified as follows according to product lines:

	2003	2002
Prosthetics	79,482	72,899
Orthotics	11,814	4,529
Other products	3,171	3,856
	94,467	81,284

Net sales are specified as follows according to currency:

	2003	2002
Canadian dollar, CAD	4,046	2,149
Swiss Franc, CHF	656	315
Euro, EUR	18,999	14,334
British Pound, GBP	5,760	4,016
Icelandic Krona, ISK	1,629	1,241
Japanese Yen, JPY	0	221
Norwegian Krona, NOK	3,873	3,132
Swedish Krona, SEK	8,404	9,806
US Dollar, USD	51,100	46,070
	94,467	81,284

7. Business and geographical segments

Segment information about the consolidation businesses is presented below, according to location of customers:

2003	North America 2003	Europe, other 2003	Northern Europe 2003	International markets 2003	Eliminations 2003	Consolidated 2003
Revenue						
External sales	49,488	24,387	14,089	6,503		94,467
Inter-segment sales	11,256	0	30,089	0	(41,345)	0
Total revenue	60,744	24,387	44,178	6,503	(41,345)	94,467
Net profit						
Segment result	3,055	(1,900)	5,354	(531)	(1,317)	4,661
Other information						
Capital additions	8,363	801	3,780	3	(507)	12,440
Depreciation and amortisation	1,744	300	1,264	8	0	3,316

All amounts in thousands of USD 17

Balance sheet	31.12.2003	31.12.2003	31.12.2003	31.12.2003	31.12.2003	31.12.2003
Assets						
Segment assets.............	92,613	16,065	103,720	1,020	(111,292)	102,126
Liabilities						
Segment liabilities.........	96,517	10,076	48,073	0	(96,551)	58,115

2002	North America 2002	Europe, other 2002	Northern Europe 2002	International markets 2002	Eliminations 2002	Consolidated 2002
Revenue						
External sales................	46,118	16,995	11,783	6,388	0	81,284
Inter-segment sales........	9,577	0	21,493	0	(31,070)	0
Total revenue................	55,695	16,995	33,276	6,388	(31,070)	81,284
Net profit						
Segment result...............	3,536	(1,445)	9,942	(351)	(1,626)	10,056
Other information						
Capital additions...........	1,430	391	2,790	4	0	4,615
Depreciation and amortisation..................	1,731	214	859	5	0	2,809

Balance sheet	31.12.2002	31.12.2002	31.12.2002	31.12.2002	31.12.2002	31.12.2002
Assets						
Segment assets.............	43,133	10,932	86,734	1,012	(70,386)	71,425
Liabilities						
Segment liabilities.........	68,215	4,922	25,248	0	(66,821)	31,564

8. Salaries

	2003	2002
Salaries	26,568	18,853
Salary-related expenses	7,678	6,591
	34,246	25,444
Average number of positions	480	431

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

	2003	2002
Cost of goods sold	12,233	9,155
Sales and marketing	11,071	7,932
Research and development..	4,340	3,460
General and administrative...	6,602	4,897
	34,246	25,444

All amounts in thousands of USD 18

9. Management salaries and benefits

	Salaries	Share Options	Shares owned
Petur Gudmundarson Chairman of the Board	38	300,000	1,238,641
Ossur Krisinsson Vice Chairman	59	150,000	79,531,846
Four other members of the Board	64	450,000	1,887,500
Jon Sigurdson President and CEO	457	2,000,000	7,882,368
Four other Executives	616	1,500,000	2,733,243
	1,234	4,400,000	93,273,598

Share options of board members, president and other executives were made during the years 2000 - 2001 and are exercisable in the years 2005 - 2006 with the condition that the relevant executive is still a member of the management. Share options of board members, president and three other executives were made at a share price of ISK 73,7 and one executive at a share price of ISK 46. No dividends, loans or commitments have been extended to these persons.

10. Fees to Auditors

	2003
Audit of financial statements	215
Review of interim financial statements	92
Other services	136
	443

The amount includes payments to elected auditors of all companies within the consolidation.

11. Restructuring costs

Restructuring costs, classified by operational category, are specified as follows:

	2003
Cost of goods sold	162
Sales and marketing	480
Research and development	556
General and administrative	333
	1,531

The restructuring costs represent severance costs associated with changes in the management team. Also are included costs relating to the elimination of R&D functions in Aliso Viejo, California, various positions in Iceland and reorganisation relating to the acquisition of the Generation II companies.

All amounts in thousands of USD 19

12. Interest income / (expenses)

	2003	2002
Income from investments:		
Interest on bank deposits	150	75
Profit from investments held to maturity	58	22
Profit / (loss) from available for sale investments	72	(155)
Profit from trading investments	125	90
Other interest income	43	17
	448	49
Finance costs:		
Interest on bank loans	(1,138)	(792)
Interest on obligations under finance leases	(63)	(53)
Other interest expenses	(141)	(75)
	(1,342)	(920)
Exchange rate differences	487	1,053
	(407)	182

13. Earnings per share

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

	2003	2002
Net profit for the year	4,661	10,056
Total average number of shares outstanding (in thousands)	322,186	322,669
Total average number of shares including potential shares (in thousands)	323,431	323,875
Basic Earnings per Share (US cent)	1.45	3.12
Diluted Earnings per Share (US cent)	1.44	3.10

	Q4 2003	Q4 2002
Net loss / profit for Q4	(917)	2,787
Total average number of shares outstanding during Q4 (in thousands)	320,215	322,273
Total average number of shares including potential shares (in thousands)	321,431	323,573
Basic Loss / Earnings per Share (US cent)	(0.29)	0.86
Diluted Loss / Earnings per Share (US cent)	(0.29)	0.86

14. Property, plant and equipment

	Buildings and sites	Machinery & equipment	Fixtures & office equip.	Total
Cost				
At 1 January 2003	3,634	9,047	4,802	17,483
Correction	(605)		605	0
Adjusted opening balance	3,029	9,047	5,407	17,483
Additions	197	3,366	1,118	4,681
Acquired on acquisition of subsidiary	373	4,909	2,018	7,300
Exchange differences	(1)	481	127	607
Eliminated on disposal		(455)	(121)	(576)
At 31 December 2003	3,598	17,348	8,549	29,495
Accumulated depreciation				
At 1 January 2003	567	4,152	2,544	7,263
Correction	(202)		202	0
Adjusted opening balance	365	4,152	2,746	7,263
Charge for the year	98	1,615	1,221	2,934
Acquired on acquisition of subsidiary		3,125	1,323	4,448
Exchange differences		222	49	271
Eliminated on disposal	(60)	(197)	(114)	(371)
At 31 December 2003	403	8,917	5,225	14,545
Carrying Amount				
At 31 December 2003	3,195	8,431	3,324	14,950
At 31 December 2002	2,664	4,895	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 1,319 thousand (2002: USD 1,464 thousand) in respect of assets held under finance leases. No other assets are pledged.

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

	2003	2002
Cost of goods sold	1,372	1,012
Sales and marketing expenses	127	91
Research and development expenses	313	327
General and administrative expenses	1,122	1,281
	2,934	2,711

All amounts in thousands of USD 21

15. Goodwill

	2003
Cost	
At 1 January 2003	0
Arising on a acquisition of a subsidiary	22,801
Exchange differences	798
At 31 December 2003	23,599
Carrying amount	
At 31 December 2003	23,599

16. Other intangible assets

	2003	2002
Cost		
At 1 January 2003 / 2002	1,255	707
Additions	5	0
Arising on acquisition of a subsidiary	5,060	511
Exchange differences	325	37
At 31 December 2003 / 2002	6,645	1,255
Amortization		
At 1 January 2003 / 2002	504	406
Charge for the year	382	98
Acquired on acquisition of subsidiary	158	0
Exchange differences	32	0
At 31 December 2003 / 2002	1,076	504
Carrying Amount		
At 31 December 2003 / 31 December 2002	5,569	751

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

	2003	2002
Research and development expenses	256	82
General and administrative expenses	126	16
	382	98

All amounts in thousands of USD 22

17. The Consolidation

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

Name of subsidiary	Place of registration and operation	Ownership %	Principal activity
Ossur Holding, AB.......................	Sweden	100%	Holding
Ossur Nordic, AB.....................	Sweden	100%	Sales, distribution and services
Ossur Nordic, AS......................	Norway	100%	Sales, distribution and services
Ossur Engineering, AB............	Sweden	100%	Manufacturer
Empower H. C. Solution, AB...	Sweden	100%	Healthcare consulting
Mega Hali Med, AB......................	Sweden	100%	No operation
Ossur Holdings, Inc......................	USA	100%	Holding
Ossur Engineering, Inc.............	USA	100%	Manufacturer
Ossur North America, Inc.........	USA	100%	Sales, distribution and services
Mauch, Inc................................	USA	100%	Manufacturer, sales, distribution and services
Generation II USA, Inc............	USA	100%	Manufacturer, sales,
Linea Orthopedics, AB................	Sweden	100%	Manufacturer
Generation II Orthotics, Inc.,........	Canada	100%	Manufacturer, sales, distribution and services
GII Orth. Europe, Holding SA......	Belgium	100%	Holding
GII Orthotics Europe, NV.........	Belgium	100%	Sales, distribution and services
Ossur UK, Ltd..............................	Great Britain	100%	No operation
Ossur Europe, BV.........................	Netherlands	100%	Sales, distribution and services

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

Ossur hf. acquired at 1 July 2003 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 was relocated to Iceland in the beginning of 2004.

Ossur hf. acquired the Generation II Group at 3 October 2003, 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.

All amounts in thousands of USD 23

18. Investments held to maturity

	2003	2002
At 1 January 2003 / 2002	523	583
Investments during the year	128	258
Installments of bonds	(261)	(340)
Exchange differences	58	22
At 31 December 2003 / 2002	448	523

The investments included above represent investments in bonds and other long-term receivables which present the Consolidation with opportunity for return through interest income and trading gains. The investments are valued at cost, less an allowance based on impairment by the management.

19. Available for sale investments

	2003	2002
At 1 January 2003 / 2002	410	565
Purchased during the year	5	0
Disposed of during the year	(11)	0
Fair value and exchange rate adjustments	72	(155)
At 31 December 2003 / 2002	476	410

The investments included above represent investments in listed equity securities which present the Consolidation with opportunity for return through dividend income and trading gains. The fair values of these securities are based on quoted market prices.

20. Inventories

	31.12.2003	31.12.2002
Raw material	6,585	5,764
Work in progress	248	292
Finished goods	5,582	6,302
	12,415	12,358

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to USD 6,648 thousand were eliminated. This has an effect on the income tax expense of the consolidated companies, and an adjustment of USD 1,765 thousand is made in the Consolidated Financial Statements to reduce income tax expense to account for this.

The Consolidation recognises obsolete and defective inventory among cost of good sold in the Income statement. A general allowance amounting to USD 511 thousand (2002: USD 246 thousand) is deducted from inventories in the balance sheet and does not represent a final write-off. The allowance is based on management's best estimate and past experience.

Inventories have not been pledged.

All amounts in thousands of USD 24

21. Other financial assets

Accounts receivable:

	31.12.2003	31.12.2002
Nominal value	16,372	14,132
Allowances for doubtful accounts	(843)	(1,210)
Allowances for sales return	(564)	(519)
	14,965	12,403

The average credit period taken on sale of goods is 47 days. An allowance has been made for doubtful accounts and sales returns, this allowance has been determined by management in reference to past default experience.

The directors consider that the carrying amount of trade receivables approximates their fair value.

Other receivables:

	31.12.2003	31.12.2002
VAT refundable	862	718
Prepaid expenses	2,280	457
Receivable from previous Generation II shareholders	550	0
Lawsuit settlements generated from Generation II	440	0
Other	454	387
	4,586	1,562

The directors consider that the carrying amount of other receivables approximates their fair value.

Bank balances and cash:

Bank balances and cash comprise cash and short-term deposits held by the Consolidation treasury function. The carrying amount of these assets approximates their fair value.

22. Investments held for trading

	2003	2002
At 1 January 2003 / 2002	1,190	453
Purchased during the year	4,099	6,717
Disposed of during the year	(5,152)	(6,070)
Fair value and exchange rate adjustments	125	90
At 31 December 2003 / 2002	262	1,190

All amounts in thousands of USD 25

23. Share capital

	Shares	Ratio	Nominal value
Total share capital at year-end	318.1	96.9%	3,083
Treasury stock at year-end	10.3	3.1%	100
	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.

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
Purchases of treasury stock	(50)
Exercised share options	2
Allocation of treasury stock to sellers of subsidiaries	8
Balance at 31 December 2003	3,083

24. 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
Purchases of treasury stock	(3,011)		(3,011)
Exercised share options	59		59
Allocation of treasury stock to sellers of subsidiaries	401		401
Transferred from accumulated profits		60	60
Balance at 31 December 2003	23,616	796	24,412

25. 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	2,080
Balance at 31 December 2003	2,448

All amounts in thousands of USD 26

26. 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 year	4,661
Balance at 31 December 2003	14,068

27. 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	2004	2005	2006	Total
3.125 / conditional	1,287	0	0	1,287
24.0 / conditional	84	84	0	168
46.0 / conditional	0	0	1,000	1,000
58.5 / conditional	400	400	0	800
73.7 / conditional	0	3,400	0	3,400
	1,771	3,884	1,000	6,655

At 31 December 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 year-end 2003 was 43.6.

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.

28. Loans from credit institutions

	Remaining balances	
	31.12.2003	31.12.2002
Loans in USD	25,600	9,249
Loans in EUR	10,199	5,654
Loans in ISK	25	43
	35,824	14,946
Current maturities	(932)	(3,418)
Loans from credit institutions	34,892	11,528

Aggregated annual maturities are as follows:

In 2004 / 2003	932	3,418
In 2005 / 2004	906	7,382
In 2006 / 2005	906	754
In 2007 / 2006	906	754
In 2008 / 2007	30,813	754
Later	1,361	1,884
	35,824	14,946

The terms of a USD 28 million and EUR 9.2 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.

29. Obligation under finance leases

	Minimum lease payments		Remaining balances	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
Finance leases in USD	704	860	650	784
Finance leases in EUR	547	592	512	545
Finance leases in ISK	49	112	48	99
	1,300	1,564	1,210	1,428
Current maturities	(494)	(475)	(443)	(412)
Obligation under finance leases	806	1,089	767	1,016

Aggregated annual maturities are as follows:

	Minimum lease payments		Remaining balances	
	31.12.2003	31.12.2002	31.12.2003	31.12.2002
In 2004 / 2003	494	475	444	412
In 2005 / 2004	439	419	411	390
In 2006 / 2005	316	367	305	344
In 2007 / 2006	51	258	50	253
In 2008 / 2007	0	45	0	29
	1,300	1,564	1,210	1,428
Less: future finance charges	(90)	(136)		
Remaining balances	1,210	1,428		

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

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

All amounts in thousands of USD 28

30. Other long-term liabilities

	Remaining balances 31.12.2003	31.12.2002
Other liabilities in USD	2,420	2,643
Current maturities	(1,938)	(1,302)
Other long-term liabilities	482	1,341

Aggregated annual maturities are as follows:

In 2004 / 2003	1,938	1,302
In 2005 / 2004	287	969
In 2006 / 2005	52	372
In 2007 / 2006	50	0
In 2008 / 2007	48	0
Later	45	0
	2,420	2,643

31. 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	(1,688)	(1,688)
Calculated tax for the year	(1,086)	42	(1,044)
Income tax payable for the year	497	313	810
Exchange differences	186	(131)	55
At 31 December 2003	20,529	(2,206)	18,323

The following are the major deferred tax liabilities and assets recognised:

	31.12.2003
Intangible assets	(1,566)
Fixed tangible assets	(329)
Goodwill	14,635
Inventories	1,971
Accrued expenses	510
Reserves and credits	426
Other	150
Loss carry-forward	2,526
	18,323

All amounts in thousands of USD 29

At balance sheet date the consolidation has unused tax losses available for offset against future profits as follows:

	Tax loss	Deferred tax
Available for 10 years	2,299	414
Available for 15 years	1,869	455
Available indefinitely	4,802	1,657
	8,970	2,526

32. Long-term liabilities - due within one year

	31.12.2003	31.12.2002
Loans from credit institutions	932	3,418
Obligations under finance leases	444	412
Other long-term liabilities	1,938	1,302
	3,314	5,132

33. Provisions

	Warranty Provisions	Restructuring Provisions	Total
At 1 January 2003	304	6	310
Acquired on acquisition of subsidiary	49	0	49
Additional provision in the year	335	1,387	1,722
Utilisation of provision	(296)	(72)	(368)
At 31 December 2003	392	1,321	1,713

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.

A restructuring provision was established in 2003, relating to planned changes in connection with the acquisition of the Generation II Group and other reorganisation of the company.

All amounts in thousands of USD 30

34. Acquisition of Linea Orthopedics, AB

On 1 July 2003 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	458
Current assets	65
Long-term liabilites	(33)
Deferred tax liability	(87)
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.

Linea Orthopedics, AB contributed USD 70 thousand of revenue and generated loss of USD 111 thousand for the period between the date of acquisition and the balance sheet date.

All amounts in thousands of USD 31

35. Acquisition of Generation II Group

On 3 October 2003 Ossur hf acquired 100 per cent of the issued share capital of the Generation II Group including Generation II Orthotics, Inc. in Canada, Generation II USA, Inc in Seattle, Generation II Orthotics Europe Holding SA, in Belgium and Generation II Orthotics Europe NV in Belgium, for cash consideration of USD 32.6 million. This transaction has been accounted for by the purchase method of accounting.

	Acquisition 3.10.2003
Net assets acquired:	
Operating fixed assets	2,521
Other intangible assets	4,444
Current assets	7,865
Bank and cash balances	2,096
Long-term liabilites	(570)
Deferred tax liability	(1,601)
Current liabilites	(4,961)
	9,794
Goodwill	22,801
Total consideration	32,595
Satisfied by cash	31,733
Accounts payable	862
	32,595
Net cash outflow arising on acquisition:	
Cash consideration	31,733
Bank balances and cash acquired	(2,096)
	29,637

According to the share purchase agreement the cash consideration included a working capital adjustment which was subject to change after the purchasers review of the opening balance of the companies. The companies have been subject to a review which concluded that the sellers should reimburse USD 550 thousand of the working capital adjustment. The amount has been booked among the purchase entries and is included with other receivables.

Generation II Group contributed USD 5.9 million of net sales and USD 513 thousand loss before tax for the period between the date of acquisition and the balance sheet date.

All amounts in thousands of USD 32

36. Operating lease arrangements

	2003	2002
Minimum lease payments under operating leases recognised in Income Statement for the year	2,172	1,431

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

	31.12.2003	31.12.2002
In 2004 / 2003	2,949	1,421
In 2005 / 2004	2,646	1,430
In 2006 / 2005	1,876	1,162
In 2007 / 2006	1,034	1,031
In 2008 / 2007	525	745
Later	1,006	804
	10,036	6,593

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 2004-2020.

37. Insurances

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

	Insurance value	Book value
Fixed assets and inventories	43,150	27,365

The consolidation owns buildings situated in California, USA and in Belgium.

The consolidation has purchased business interruption insurance intended to compensate for temporary breakdown of operations. The insurance amount is 17,616 thousand USD.

38. 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.

In a court ordered mediation on 8 December 2003, Ossur North America Inc. and Freedom Innovations Inc. agreed to settle all litigation associated with the Federal and State court cases. Both parties expressed satisfaction with the settlement, the terms of which are confidential, but involve product licensing.

The legal fees recognised in the Income statement due to these litigation amount to USD 2.2 million.

39. Approval of financial statements

The Consolidated Financial statements were approved by the board of directors and authorised for issue on 30 January 2004.

All amounts in thousands of USD 33