Össur hf.

Consolidated financial statements

March 31st 2001

Össur hf.
Grjóthálsi 5
110 Reykjavík

kt. 560271-0189

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Report by the Board of Directors and Managing director

It is the opinion of the Board of Directors and the President and CEO of Össur hf. that these Financial Statements present all the information necessary to show the position of the Company at March 31st 2001, the operational results for the period January 1st to March 31st 2001, and financial developments during that period.

The Board of Directors and President and CEO of Össur hf. hereby confirm the Consolidated Financial Statements of the Össur Group for the period January 1st to March 31st 2001 with their signatures.

Reykjavik, April 26th 2001

Board of Directors:

Pétur Guðmundarson
Chairman of the Board

Össur Kristinsson

Gunnar Stefánsson

Heimir Haraldsson

Kristján T. Ragnarsson

Sigurbjörn Þorkelsson

President and CEO

Jón Sigurðsson

Key figures

Consolidated statement

		31.3.2001	2000	1999	1998	1997
Growth						
Net sales in terms of 2001 prices	ISK millions	1.420,7	3.691,6	1.400,0	1.144,5	882,8
Net income before extraordinary exp. (2001 prices)	ISK millions	55,6	417,9	149,8	87,6	12,8
Total assets in terms of March 31st prices	ISK millions	4.954,6	4.860,6	1.854,4	571,4	500,1
EBITDA	ISK millions	191,2	717,3	261,6		
Operational performance						
Cash provided by operating activities (2001 prices)	ISK millions	117,5	446,5	252,4	89,2	36,6
- as ratio to total debt	%	17,3	29,3	67,0	24,5	10,0
- as ratio to income		2,1	1,1	1,7	1,0	2,9
Working capital from operating activit. (2001 prices)	ISK millions	148,5	689,3	202,2	126,8	44,3
- as ratio to long-term debt and stockholders´equity	%	14,5	24,4	19,2	30,9	11,9
- as ratio to investment, current maturities, dividends		3,4	0,1	2,7	2,4	0,7
Liquidity and solvency						
Acid-test ratio		0,8	1,1	1,5	1,7	1,3
Current ratio		1,2	1,5	2,2	2,7	2,3
Equity ratio	%	46,1	44,6	78,6	35,7	23,2
Asset utilization and efficiency						
Total assets turnover		0,3	1,1	1,1	2,2	1,8
Grace period granted	Days	47	50	40	39	41
Profitability						
Return on total assets	%	9,0	8,2	22,9	22,2	4,6
Return on common equity	%	10,4	9,0	44,7	77,3	12,8
Operating profit as ratio to net sales	%	10,2	16,5	16,1	14,7	5,0
Net income before taxes as ratio to net sales	%	8,1	12,9	16,6	12,5	4,0
Net income for the year as ratio to net sales	%	3,9	11,3	10,7	7,7	1,4
Market						
Year-end market value	ISK millions	16.420,6	21.677,1	8.477,5		
Price/earnings ratio		72,8	51,9	60,8		
Price/book ratio		7,2	10,1	6,1		
Number of shares	Millions	328,4	328,4	211,9		
Profit per share	ISK	0,7	1,3	0,7		

* Key figures for the year 2000 have been calculated using net income before extraordinary expenses.
** Key figures have been calculated as for a 12 month period.

Auditor's Report

To the Board of Directors and Shareholders of Össur hf.

We have reviewed the accompanying Consolidated Balance Sheet of Össur hf. and subsidiaries as of March 31st 2001, and the related Consolidated Statement of Income and Cash Flows for the period then ended. These interim Consolidated Financial Statements contain Income statement, Balance sheet, Statement of Cash Flows 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 belive that the accompanying Financial Statements do not give a true and fair view of the financial position of Össur hf and subsidiaries as of March 31, 2001, of the results of their operations and their cash flows for the period than ended in accordance with generally accepted accounting principles applied on a consistent basis. Financial statements of foreign subsidiaries have been reviewed by Deloitte & Touche in the countries where they are located.

Reykjavík, April 26th 2001

Deloitte & Touche

Hjörleifur Pálsson
State Authorized Public Accountant

Sif Einarsdóttir
State Authorized Public Accountant

Income Statement for January 1st to March 31st 2001

	Notes	Consolidated statement 3 m 2001	2000
Operating revenues			
Net sales and other income		1.420,7	3.614,5
		1.420,7	3.614,5
Operating expenses			
Cost of goods sold		542,3	1.407,0
Sales and marketing expenses		287,6	555,1
Research and development expenses		99,9	276,6
General and administrative expenses		345,3	779,5
		1.275,1	3.018,3
Operating profit		145,6	596,3
Net interest			
Interest income (expenses)	15	(31,1)	(130,9)
Income before taxes		114,5	465,3
Taxes			
Income tax	14	(58,9)	(56,2)
Net income before share of income in affiliated companies		55,6	409,2
Affiliated companies			
Share of income in affiliated companies		0,8	0,0
Net income before extraordinary expenses		56,4	409,2
Extraordinary expenses			
Goodwill charged to cost		0,0	(7.171,9)
Net income/(loss) for the period		56,4	(6.762,8)

Balance Sheet

Assets

	Notes	Consolidated statement 31. 3. 2001	31. 12. 2000
Fixed assets			
Intangible assets			
Goodwill/deferred tax asset	4	1.883,3	1.751,8
Other intangible assets	5	33,0	32,9
		1.916,3	1.784,7
Operating fixed assets	6		
Buildings and sites		255,7	233,1
Other operating fixed assets		479,6	437,7
		735,2	670,9
Investments			
Share of equity in affiliated companies		10,9	0,0
Long-term securities	7	139,7	158,5
		150,7	158,5
Total fixed assets		2.802,2	2.614,1
Current assets			
Inventories	8		
Raw materials and work in process		300,1	258,6
Finished products		353,8	354,3
		653,8	612,9
Short-term receivables			
Accounts receivable	9	835,7	875,5
Other receivables	10	80,4	109,4
		916,2	984,9
Cash and cash equivalents			
Marketable securities	11	146,3	265,2
Cash		436,0	338,1
		582,3	603,4
Total current assets		2.152,3	2.201,2
Total assets		4.954,6	4.815,3

March 31st 2001

Liabilities and equity

	Notes	Consolidated statement 31. 3. 2001	31. 12. 2000
Stockholders' Equity	12		
Common stock		328,4	328,4
Additional paid-in capital		7.660,6	7.660,6
Statutory reserve		15,2	15,2
Other equity (negative)		(5.717,8)	(5.942,9)
Total stockholders´equity		2.286,4	2.061,3
Liabilities			
Long-term liabilities	13		
Credit institutions		1.311,5	1.293,7
Long-term notes		92,1	91,2
Other long-term liabilities		492,7	557,4
		1.896,2	1.942,3
Current maturities of long-term debt		(1.019,6)	(770,3)
Total long-term liabilities		876,7	1.172,0
Current liabilities			
Accounts payable		213,9	290,1
Current maturities, as above		1.019,6	770,3
Accrued taxes payable	14	21,2	11,2
Other current liabilities		291,1	266,2
Accrued salaries, and other expenses payable		245,8	244,3
Total current liabilities		1.791,6	1.582,0
Total liabilities		2.668,2	2.754,0
Total liabilities and stockholders´equity		4.954,6	4.815,3

Statement of Cash Flows January 1st to March 31st 2001

	Notes	Consolidated statement 3 m 2001	2000
Cash flows from operating activities			
Net income/(loss) for the period		56,4	(6.762,8)
Adjustments to reconcile net income (loss) to net cash provided by operating activities			
Depreciation and amortization	5,6	45,6	106,1
Other non-cash items		8,5	103,5
Deferred income tax		38,8	56,2
Goodwill charged to cost		0,0	7.171,9
Share of income in affiliated companies		(0,8)	0,0
Working capital from operating activities		148,5	674,9
Changes in operating assets and liabilities			
Inventories, increase		(4,6)	(33,5)
Accounts receivable, increase		(354,1)	(200,1)
Current liabilities, (decrease) increase		327,7	(4,0)
Net cash provided by operating activities		117,5	437,3
Cash flows from investing activities			
Purchase price of fixed assets		(67,9)	(136,5)
Sales price of fixed assets		3,9	25,0
Share investments		(41,4)	(5.795,5)
Long-term securities and other receivables		15,6	953,6
Net cash used in investing activities		(89,8)	(4.953,4)
Cash flows from financing activities			
Borrowings of long-term debt		0,0	1.162,0
Maturities on long-term debt		(69,0)	(20,5)
Paid-in capital		0,0	3.779,8
Net cash provided by financing activities		(69,0)	4.921,3
Net increase in cash and cash equivalents		(41,3)	405,1
Cash - from purchased subsidiaries		0,0	53,5
Effects of foreign exchange adjustments		20,3	20,0
Cash and cash equivalents at beginning of year		603,4	124,8
Cash and cash equivalents at end of period		582,3	603,4

Notes: Statement of cash flows 16