Contents

Events during the Operational Year and Key Figures for 2001 and 2000

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January
Formal launch of an international research project headed by Ossur. The project to develop a 'sensor socket' was awarded a grant from the Fifth Framework program of the European Community. The 'sensor socket' will electronically detect information from a residual limb and transmit it directly to a hospital or rehabilitation center.

February
Publication of Ossur's Consolidated Financial Statement for 2000. Profit after taxes and excluding financial items reported at ISK 409 million, tripling between years.

March
Ossur Annual General Meeting held 9 March.

April
Ossur's Scandinavian operation makes its first appearance under the name Ossur Nordic A.B. to a good reception at key Swedish trade fair.

May
ICEROSS® TRANSFEMORAL liner launched. Specifically designed for above-knee amputees, it is the first liner of its kind on the market. Sales quickly surpass all expectations.

June
ICEROSS® UPPER-X liner launched. Specifically designed for upper limb amputees, the new liner is extremely well received.

July
Changes in the European sales network. The Company now sells directly to customers in Europe, as opposed to via distributors.

August
Launch of TALUX™, a new foot from the FLEX-FOOT® range, with good results. The foot is based on new technology and signals the renewal of this product line, which is essential in maintaining market advantage.

September

A new division within the Company is established. Business Development is primarily intended to support the Company’s growth strategy and explore new business opportunities.

October

A new Quality Department is formed to maintain and improve consistently high quality standards throughout the Company. (Ossur is certified to ISO 9001 Quality Standard.)

November

Ossur voted the best company in Iceland by 250 senior business managers, as part of a business survey conducted by Vidskiptabladid (Iceland’s equivalent of the Wall Street Journal or the Financial Times).

Ossur prosthetics win gold award at RehaProtex, a prestigious industry trade fair and conference, held this year in the Czech Republic.

December

The Company announces its decision to transfer the design of its Foot product line to Iceland. Ossur leases new premises in Iceland to house increased production generally.

Ossur Europe B.V. moves its activities to larger and more suitable premises.

Key figures 2001 and 2000

Income Statement	**2001**	**2000**	**Change**
Operating revenues	6.765	3.614	87%
Operating expenses	5.698	3.018	89%
Operating profit	1.067	596	79%
Interest income (expenses)	-48	-131	-65%
Income before taxes	1.019	465	119%
Taxes	-175	-56	213%
Net income before extraordinary items	844	409	106%
Extraordinary income (expenses)	0	-7.172	
Net income	844	-6.763	
EBITDA	1.268	702	81%

Balance Sheet	**2001**	**2000**	**Change**
Fixed assets	3.194	2.614	22%
Current assets	2.812	2.201	28%
Total assets	6.006	4.815	25%
Total stockholders' equity	3.152	2.061	53%
Long-term liabilities	1.335	1.172	14%
Current liabilities	1.519	1.582	-4%
Liabilities and stockholders' equity	6.006	4.815	25%

Key figures (in terms of 2001 prices)	**2001**	**2000***	**Change**
Revenues in terms of 2001 prices	6.765	3.839	76%
Employees	392	327	20%
Current ratio	1,9	1,5	
Equity ratio	52%	45%	
Cash from operation in terms of 2001 prices	1.013	486	108%
- as a ratio to total liabilities	36%	30%	
- as a ratio to net income	1,2	1,1	
Inventory turnover, finished products	4,9	8,4	
Days' sales in receivables	44	50	
Return on total assets	19%	8%	
Return on common equity	32%	9%	
Year-end market value (ISK millions)	16.356	21.677	
Price/earning ratio	19,4	53,0	
Price/book ratio	5,2	10,1	
Number of shares (millions)	328,4	328,4	
EPS	2,57 kr.	1,25 kr.	

* Key figures for the year 2000 have been calculated using net income before extraordinary expenses.

II Introduction from Jon Sigurdsson
President and Chief Executive Officer

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At the close of what was quite a turbulent year for much of the world, the opportunity for reflection and analysis is a humbling one. A busy and eventful year for Ossur, it was nonetheless a very exciting and profitable one, and we are proud to share some of our achievements with you in this report. Integrating five companies into a keenly focused business, while maintaining profitability, has been a significant challenge throughout the period. Yet our dedication to growth and quality is clearly demonstrated in our results, both the fiscal results and feedback from our customers.

Early last year we predicted the trend towards consolidation within the prosthetic industry, reflecting what was already occurring in the service sector. That prediction is coming true, and Ossur has undoubtedly been a catalyst in this situation. As the fastest growing company in its field, and I believe the best, we have been careful to acquire companies that fit into the bigger picture. The ability to offer total solutions and complement our core knowledge have been key drivers behind our expansion.

We are fortunate to be in a business less affected than many others by the economy at large and the global events of 2001. Reimbursement for medical costs is an ever-evolving issue though, particularly in the US, and we must remain vigilant and flexible, working with service providers, health authorities and the insurance sector to lessen the overall cost to society.

2001

While expansion was obviously the focus of 2000, last year saw Ossur concentrating on the integration of five companies, each with complementary yet different cultures, locations and expertise. The whole process of consolidation, and the fact that we could achieve such a major task without impacting on our profitability, speaks volumes of the people that work here.

We have accomplished our goal of assembling the most distinguished trademarks in the industry. And we have brought together the skills and knowledge of arguably the best personnel in this field. Over the course of last year we also moved to direct sales across Europe and North America. Bringing us closer to customers as well as increasing profit margins, this is a huge change in the way we do business and I am pleased to say we are already seeing some very positive results.

Against this backdrop of major restructuring, Ossur successfully launched a number of new products last year. The TALUX™ foot, which helps amputees accomodate changing ground conditions, is receiving good reviews in the market. Sales of the new ICEROSS® TRANSFEMORAL liner, especially designed for above-knee amputees, exceeded all expectations, reaching more than double what was originally projected for the year.

Development work which will bear fruit in 2002 includes a new foot, CETERUS™, which combines rotation, shock absorption and dynamic response capabilities, and the TKO 1500™, a unique single axis knee. We are also very pleased and excited about progress on another project, a revolutionary new knee. An ambitious project, this electronically controlled, intelligent knee has been developed with the Massachusetts Institute of Technology (MIT) in Boston. Quite unlike anything that has been seen before, it is already generating a lot of interest prior to its launch.

In the amputee community, Jami Goldman saw her first book published and continued her world record-breaking efforts in the athletic arena. Eleven-year-old Laura Giddings started a new school and qualified for junior national championships in disabled swimming. Jim Wazny, recently amputated as the result of a motorsport accident, managed to get back on his feet for ten hours a day, running his busy Cadillac sales dealership. And, happily for Jim, he also got back on his motorbike. These and many others are equally important achievements of 2001.

The way ahead

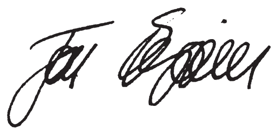
The Company moves into 2002 on a strong and buoyant platform. Having successfully consolidated our business and remained on track throughout last year, we are in the healthy position of being able to concentrate on further improving service to our customers. Ossur actively embraces ongoing change. It is a flexible and adaptable organization, ready to respond to the market and world economies.

Continuing to rise to the challenges faced by the healthcare sector, we are developing products which, by virtue of their high quality and effectiveness, help to reduce ongoing costs to governments, insurance companies and individuals. Taking a rounded and more holistic approach is key to this goal – our solutions are focused on the broader spectrum of patient care, from initial amputation through to rehabilitation and daily life.

This year we shall begin reporting in US dollars. Our international operations and reputation continue to grow. Our objectives include the development of more new products and to sustain our expansion. Serious

preparation is underway for entry into the orthotics market. It is our intention to grow by some two to three times the average growth of the prosthetic market as a whole, and to maintain our substantial investment in R&D and new business generally. It is worth mentioning in this context that economic measures taken by the Icelandic Government, including the reduction of taxes from 30% to 18%, are making the tax environment in Iceland among the most favorable in the world.

There is a remarkable young boy featured elsewhere in this report, three-year-old Jake, who is learning to walk on two artificial legs. More than half of our products sold last year were developed in his short lifetime, and we are determined to maintain that record of product development. The aspirations of Jake and other amputees the world over are paramount to our work, and by focusing on their success we are confident of increasing our own.



III The Company

III The Company

Voted the best company in Iceland last year, Ossur has remained highly profitable throughout the course of 2001, despite major expansion and restructuring activities.

Today, Ossur is a leading international company, employing over 390 staff in seven locations around the globe. The Company's Head Office is in Iceland. It has North American, European and Nordic operations, and an extensive network across other international markets. Ossur's revenue last year exceeded ISK 6.7 billion and that figure is set to increase further in 2002. Record investment in Research & Development (R&D) has, and will continue, to secure exciting new products and ground-breaking developments.

Founded by prosthetist Ossur Kristinsson, in conjunction with a number of disability organizations in Iceland, the Company originally started life as a prosthetic clinic in Reykjavik in 1971. Mr Kristinsson

Tomorrow's World

Demonstrating leadership in the prosthetics field is not purely about sales figures and new products. Ossur's involvement in events such as the International Conference of Advanced Prosthetics (ICAP) helps to position the Company at the forefront of new thinking and developments. Organized in conjunction with the University of California (Dept of Orthopedic Surgery, College of Medicine) and California State University (Prosthetic and Orthotic Program), the second ICAP is to be held in 2002, attracting widespread interest.

2nd International Conference for Advanced Prosthetics

Could you imagine a micro-motor, no bigger than a pinhead, which may one day be powerful enough to create insulin inside the human body? There are many developments worldwide that will have a huge impact on the future of prosthetics and rehabilitation, and the second International Conference of Advanced Prosthetics offers a unique look at what the future holds for many aspects of medical science and technology.

The Conference takes place 18–20 April 2002, at Newport Beach, California. Prosthetic practitioners, as well as therapists and physicians, will be exploring some of the most advanced technical procedures and technologies known to man. Artificial muscles, robotics and micro-motors — take your imagination five to ten years ahead of today and look at the potential of these developments.

More information: www.ossur.com

and his family owned the business from 1984, steadily building up a world-class reputation for the design and production of silicone liners, sockets and locking systems, and to this day he remains an active contributor on the Board of Directors. First listed on the Icelandic Stock Exchange in 1999, Ossur hf. has expanded significantly over the past two years, and now combines a broad range of products, to suit individual needs.

Patents

Foreign exports started in 1986, the same year the Company registered its first patent. In the prosthetics industry, as much as elsewhere, the patenting of materials and designs, and registering of brand names is crucial to commercial success, preventing cheap ‘copy-cat’ models from gaining a competitive advantage. At the close of 2001 Ossur products were protected by 59 US patents and by many other worldwide patents granted or pending.

Strategic growth

The trend towards consolidation within the fragmented prosthetic industry, accurately predicted by the Company’s management, has moved forward rapidly over the last year or so. Ossur moved proactively and swiftly during 2000 to acquire a range of distinguished companies. This was, however, not a random expansion. Ossur was careful to seek out viable businesses that would enhance its ability to offer total prosthetic solutions and complement its core materials and technology expertise. From relatively humble beginnings, in the form of a local prosthetic facility, Ossur is now the second largest company in its field, several times larger than its next competitor, and adeptly placed for future growth in a number of areas.

In addition to the rapid growth of its development and manufacturing capabilities, Ossur also dramatically refocused its sales, marketing and customer service functions last year. The Company now sells its products directly to customers in all of its major markets, a significant change from selling via distributors, and a strategy that is already delivering numerous advantages. Ossur’s commitment to service, quality and the final clinical outcome for amputees, is a factor that helps to differentiate the Company and its products from others in the industry.

Business development and the market

A new division of Ossur was established in September 2001. The creation of a Business Development division spells out the Company’s commitment and determination to achieve its growth objectives. Headed by Vice-President Arni Alvar Arason, the division is focused on additional growth in prosthetic-related markets, exploring opportunities in other, unrelated markets, and utilizing Ossur’s core strengths and knowledge in new ways. One of the main objectives is to establish a new area within Ossur, in the orthotics market. A specific business unit for orthotics has been set up, where the necessary preparations are underway.

The orthotics and prosthetics market (O&P) is part of the broader industry in orthopedic products, sales of which were estimated to have been USD 12 billion worldwide in 1999. The orthopedic industry offers solutions ranging from reconstructive implants and fracture fixation, to soft tissue repair products, and reconstructive and rehabilitative braces and supports for the ankle, knee, spine, and upper extremities. The products are used to remedy incidents of congenital deformity, osteoarthritis and damaged ligaments, often caused by illnesses connected to old age or lifestyle, and sports-related injuries. Until now, Ossur has primarily produced and distributed prosthetic joints and components, but it is the Company's intention to penetrate the orthotics market.

Orthotics

Ossur's current prosthetic business deals, to a great extent, with prescription products. Ossur customers are service centers or workshops that receive patients who need artifical limbs or support in the form of braces or other orthotic products. Contrary to the prosthetic market, which consists mainly of prescription products, the orthotics market is divided into two segments: non-prescription and prescription products. Customers, or the target groups that are the purchasers of prescription orthotic products, are physicians, physiotherapists, nurses and orthotists. In the prosthetic sector, on the other hand, purchasing decisions are mainly in the hands of certified prosthetists and some physicians. Interaction with this broader segment of decision-makers will add a new dimension to Ossur's sales approach in the medical field.

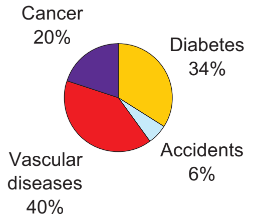
The manufacturing sector of the prescription orthotic market, where Ossur will concentrate its efforts, is valued at USD 1–1.3 billion, and the long-term growth prediction for the prescription market in orthotics is 5–8%.

Prosthetics

The necessity for amputation is largely caused by vascular diseases, such as diabetes and arteriosclerosis. Other causes of amputation are cancer and trauma incidence (the ratio of trauma amputees being considerably higher in developing countries). It is believed that over 80% of all amputees are lower-limb amputees and that the majority of people losing limbs are aged 51 and above.

Current lifestyle patterns and changing demographics in the Western world - a rapidly increasing number of people aged 65 years and above - mean a considerable rise in the frequency of vascular diseases and consequent amputations. Greater political influence and higher levels of disposable income are features of this age group, adding to the demand for prosthetic devices. Greater mobility, independence and comfort for prosthetic users are also very much in demand, contributing to an environment of continuous improvement and innovation in the market.

Reasons for amputation in Western Europe and North America



R&D

The increasing demand for new and better prostheses helps to fuel Ossur's ambitious R&D program. Record investment in this area, around 7% of total revenues last year, is mirrored by the number of new products being developed. The product age portfolio of the Company has changed significantly over recent years with around 50% of total sales now attributable to new products, developed in the last three years. This is in comparison to a mere 20% in 1997.

The synergies created by the mergers of Flex-Foot and Century XXII with Ossur, continue to evolve. The aim is to organize Ossur technologies into four principal platforms for future developments:

- Silicone
- Carbon fiber
- MCP - machine components and products
- Mechatronix* – mechanical engineering and electronics

* Mechatronix is a relatively new platform, recently identified as an area for future development.

Manufacturing capacity is divided between the first three categories to increase efficiency and improve production quality. To help synchronize this work, a new design process has been implemented throughout the Company, and part of the R&D function has been relocated, consolidating resources and expertise. New worldwide CAD software has been selected (Computer Aided Design) and capacity for in-house production has been increased.

Participation in major research projects with leading universities and institutions has never been greater, and Ossur employees are actively working on four such projects at present. The Company also participates in and supports research at different levels throughout the world, sharing technology and knowledge with leading scientists, as well as encouraging students and young scientists in their work. Ossur's outstanding contribution and open attitude to academic activity is recognized among its customers and various stakeholders in the industry. The benefit of this to Ossur, is qualified background information on the Company's products and documented evidence for the benefits they offer. Additionally, the broader the Company's knowledge base, the stronger its product development platform becomes.

Company Organization

Ossur has seen considerable organizational change throughout the year. Consolidating its resources – personnel, expertise, property and production capabilities – has been an important and ongoing task. Business efficiency as well as development potential are key factors in the current structure which brings R&D and manufacturing into a single division, and sees the establishment of a new Business Development division. Recent moves also simplify reporting lines within the Company and help to ensure consistently high quality across all Ossur services and products.

New tax and business incentives have made Iceland a very attractive place to expand the Company’s activities. While Sales and Marketing units are more reliant on and need specifically to be located within major markets, the process of reorganizing development and production to where it is most profitable and effective will continue.

Not all decisions have been easy ones and the Company pays tribute in this report to a number of staff no longer with Ossur, staff whose dedication and skills have formed a significant contribution to the field of prosthetic advancement.

Ossur Divisional Organization

Business Development is a new division headed by Arni Alvar Arason, and is primarily dedicated to exploring new business opportunities and supporting Ossur's growth strategy. Ossur's acquisition of Flex-Foot and Century XXII has speeded up consolidation in the fragmented prosthetic industry. However, opportunities still exist for further expansion and Ossur is undoubtedly well placed for continued growth. The application of its core technologies, materials knowledge and sales and marketing expertise, will also lead the Company into new business arenas in the future. A more focused business has already evolved as a spin-off from the precision machining and spinal implant production work, previously part of the Mauch operation in Ohio. The original Ossur Orthopedic and Prosthetic Workshop in Reykjavik is also a feature of the Business Development Division.

Corporate Finance is lead by former Partner of Deloitte & Touche, Hjorleifur Palsson. Playing a key role in the integration process and financial consolidation, other responsibilities of the division include financial strategies, cash management, external reporting, budget co-ordination, human resources and investor relations. Ossur's Management Information System, facilitating internal reporting, is also a project managed by this division.

The Prosthetic Division is responsible for running Ossur's prosthetic business, namely Feet, Knees, Liners, Sockets, Adapters, Locking Systems and Shock Absorbers. Vice President Eythor Bender leads a matrix style team which, in addition to Product Management, includes the supporting functions of Global Marketing, Technical Services (Products) and Market Intelligence. The Prosthetics Division works closely with Ossur's Sales Divisions, R&D and Manufacturing to ensure harmony in market developments and demand. International Markets, a major unit that does business in countries as diverse as Japan, Australia, Greece and the Czech Republic, is a significant part of this division. International Markets offers a comprehensive service of sales, technical services and training to carefully selected distributors, and the intention is to move to a direct sales approach in countries where no distribution partners are available.

The Technical Division, incorporating global R&D and manufacturing, is now a single division under the leadership of Dr Hilmar Br Janusson. The innovative development and application of Ossur's core material technologies, particularly carbon composites and silicone, are a continuing objective, and received record investment of around 7% of total revenues last year. Principal organizational developments in the division include the relocation of R&D for Feet to Iceland, consolidating carbon composite product research and development here. Assembly and production for Ossur's range of Knees is now undertaken mainly at Albion, Michigan. A new international Quality Assurance team has been formed, bringing an even more focused approach to a wide range of quality issues across the Company. By direct sponsorship and co-operation in research projects, Ossur also continues to improve its ties to leading research institutions and universities in the field of medical technology, O&P and rehabilitation.

Ossur North America, Inc. | Ossur Europe B.V. | Ossur Nordic A.B.

Ossur North America, Inc., lead by President Gary Wertz, is the operational division taking care of customers in North America, Ossur's largest market. This extensive geographical area is divided into East and West regions, covering a total of 13 US zones and all of Canada. Customer service is also aligned geographically to reflect these territories. Marketing, sales and service have traditionally been very strong areas in this division and continue to make a highly significant contribution to the Company's success.

Ossur Europe B.V. is the division servicing most of central Europe, including the UK, France and Germany – very significant markets in the European prosthetics industry. Lead by Olafur Gylfason, Ossur Europe has built a new structure to respond to and increase its business, with a decentralized salesforce and a comprehensive support team based in Eindhoven, the Netherlands. The division concentrates on sales & marketing and offers technical support and training for customers. All distribution is from Eindhoven and delivery is within 24 hours to most destinations.

Ossur Nordic A.B. is lead by Yvonne Meyer, former owner of the company PiMedical. Along with another Swedish company, Karlsson & Bergström, PiMedical was acquired by Ossur in the fall of 2000. Both companies had previously enjoyed a lengthy and successful history of working with products in the Ossur group. The Nordic division focuses on sales & marketing and distribution of Ossur products and other related product lines in Sweden, Norway, Finland, Denmark and the Baltic States. The main office is in Uppsala, Sweden, where there is also manufacturing of both orthotic and prosthetic products. There is an additional sales office located in Helsingborg.

Mission

Ossur's mission is "to be the principal source of innovative, quality prosthetic and orthotic products and services – enabling people to lead a Life Without Limitations". That is to say, we strive to remove some of the physical limitations incurred by amputees by producing the best artificial limbs available, replicating the lost function of the natural limb as closely as possible. Over the coming years our objective is to extend that goal to the orthotics market. In addition to our products, we also aim to provide services, both technical and sales, which will meet and exceed our customers' expectations in an increasingly competitive environment.

Ossur Companies

An inheritance of the combined acquisitions of the previous year, was the large number of legal entities which came into Ossur's possession. In 2001, therefore, a restructuring of these entities took place, in order to reflect more accurately Ossur's operations and management responsibilities, as well as simplify the structure. (The main company names are outlined below.)

Company name	Location	Function
Ossur hf.	Iceland	Head Office R&D Manufacturing Prosthetic Workshop
Ossur North America, Inc.	USA	Sales & Marketing Customer Service Distribution
Ossur Engineering, Inc.	USA	R&D Manufacturing
Ossur Nordic A.B.	Sweden	Sales & Marketing Customer Service Distribution
Ossur Europe B.V.	Netherlands	Sales & Marketing Customer Service Distribution

IV Operations 2001

IV Operations 2001

Ossur's business strategy has put the Company on a very strong, competitive footing. Operations throughout 2001 were intensive and diverse, as the Company cemented a huge program of change at the same time as successfully delivering its financial goals for the year. A significant proportion of operational activity has naturally been internally focused, in support of major restructuring work. These efforts will, however, demonstrate additional tangible benefits in the future for customers and investors alike.

ICELAND

Ossur's Head Office is in Reykjavik, Iceland. As the Company continues to expand its horizons, organizational structure and staff roles changed accordingly during 2001 to deliver new objectives.

The process of reorganizing R&D and manufacturing to where it is most effective and profitable was a significant feature of last year's work. Ossur has begun to co-locate its core materials expertise, and to identify and enable key staff to work independent of location. At the close of the year the decision was announced to relocate the R&D function for the Company's line of artificial feet, from California to Iceland, a move that will be phased in over the first six months of 2002.

New silicone production lines have been created to facilitate increased production, not least for the highly successful ICEROSS® TRANSFEMORAL liner. Capacity and capability of the CNC machine facilities has been doubled (Computer Numerically Controlled machines used in the precision machining and production of components), and staffing numbers increased

Best Foot Forward

Jake Frank is a happy, lively boy. Growing up in the US, with his sister, Madison, and parents, Julie and Steve, he has already faced more challenges than the average three-year-old perhaps encounters.

Born with a congenital condition which would have put Jake in a wheelchair for life, his parents made the difficult decision to have his legs amputated. Inspired by the story of the unstoppable Rudy Garcia-Tolson (born with a similar condition, amputated at the age of five, and now gaining international recognition for his courage and sporting achievements), Jake's mother went to local prosthetist Pete Davidson, with a videotape of Rudy, and asked if the same could be done for her son.

Pete Davidson just happened to be the brother of Mike, Rudy's own prosthetist. So, with a combination of shared experience, expert clinical care, Ossur products and a lot of love, young Jake is up on his feet, and loving every minute of it.

appropriately. Warehouse facilities and general production space were extended during 2001, and next year sees further expansion into premises next door to Ossur's current building.

Product launches

A total of thirteen major new products were launched worldwide in 2001, with some very exciting results. Ossur re-established itself as a market leader in the liner market with a number of product introductions: Sales of ICEROSS® TRANSFEMORAL, specially designed for above-knee amputees, were more than double what was originally projected for the year, and sales of the improved ICEROSS® COMFORT rapidly exceeded those of the previous year. ICEROSS® UPPERX, the first liner designed for upper extremities, was introduced at the end of the summer, together with a specially designed locking device. A revolutionary liner locking system, ICELOCK™ 600, was also introduced, securing market leadership for Ossur in this product sector. TALUX™, a new foot from the FLEX-FOOT® range, received very good reviews. It helps amputees to accommodate changing ground conditions and get up and down stairs more easily.

Organizational developments in the Prosthetics Division included the creation of a team of product managers to lead the various product lines. A business support team was established to work closely with them, providing marketing and market intelligence expertise.

International markets

During 2001 the sales & markets activities of the International Markets business unit (based in Iceland) expanded to cover Asia, the Middle East, parts of Eastern and Southern Europe, Africa and South America. Around 70% of the world's amputee population lives in these regions, which means there is strong potential for growth in these markets. The focus in 2001 was firmly on restructuring sales networks. Previously, there had often been two or more distributors in each country (Ossur and Flex-Foot). The aim was to select a single, and the strongest, partner to appoint as exclusive distributor. In achieving that aim, Ossur has gained a critical mass in those countries and acquired new bargaining powers and influence. There is a great need for education in modern prosthetics across the regions and International Markets have invested considerable resources in comprehensive education programs, with localized seminars and technical support. The dividends of this approach are clearly apparent, with an increase in sales of around 60% in 2001.

New developments

The new Business Development division is based at Ossur's Head Office and the exploration of new business opportunities, including entry into the orthotics market, continues. Consolidation of company accounts and financial reporting has been completed, and systems put in place to enable Ossur to report in US Dollars in 2002. The specification for a new Management Information System, COGNOS, was carefully researched last year in order to produce a single monitoring and reporting system across the Company. Work on implementing the system has begun and will be completed this coming year. To enable COGNOS to function, a virtual private network (VPN) has been established. This has the added benefit of making it easier for staff to move between company locations while maintaining access to email and file networks. At the start of 2001 the new position of Human Resources Director was also established, enhancing Ossur's planning and policy regarding human resources.

The original Ossur orthopedic and prosthetic workshop in Reykjavik, continues to build up its local orthopedic shoe business and to offer the most comprehensive prosthetic service for the Icelandic market. Gait training and gait analysis is a specialist service offered by the workshop, and staff also work in partnership with Iceland's health service to develop orthopedic devices.

www.ossur.com

Six websites (pertaining to the various companies acquired by Ossur) were amalgamated into a single new site last year, and development work on the project is ongoing. Ossur's enhanced presence on the Internet has attracted a huge increase in the number of visitors to its site. This is helping to build up a source of valuable marketing data, as well as raising the Company's profile and that of its products. Direct forms of communication with amputees, such as the Internet, are becoming increasingly important as the influence and advocacy powers of amputee communities continue to grow.

NORTH AMERICA

Aliso Viejo, California

The center of Ossur's North American operations, Aliso Viejo also serves as the base for all distribution across this market. During 2001, business growth entailed the expansion of company premises. The 'Ossur campus', three co-located properties in Orange County, now supports all functions and is fast becoming a recognized landmark. Operations in 2001 have focused on integrating Ossur, Flex-Foot and Century XXII, and building new competitive advantages.

'Empowering People Through Advanced Technologies'

Washington DC, July 2001

Commemorating the 11th anniversary of the Americans with Disabilities Act (ADA) last summer, were Members of Congress and leading disability rights advocates. The event, on Capitol Hill, was entitled 'Empowering People Through Advanced Technologies', and Ossur was proud to be among the few companies selected to join the Congressional celebration.

National leaders addressed around 300 guests, looking at future Medicare reform legislation that will increase access to life-enhancing and life-saving medical technologies for people with disabilities. Among the distinguished speakers, which included Senator Ted Kennedy and former Senator Bob Dole, there was general acknowledgement of the importance of access to medical technologies as disabled individuals seek greater independence and participation throughout society.

Tom Whittaker was the lead speaker and talked about his personal experience using the advanced technology of Flex-Foot products in his quest to conquer Mount Everest. Teenager Rudy Garcia-Tolson was amputee spokesperson at the OSSUR exhibit. His enthusiasm and achievements captured the attention of Members of Congress and the media.

Rudy Garcia-Tolson meets former Senator Bob Dole

The sales force has maximized synergies created by the recent mergers, without dramatically increasing in size. Most of the 14 territories generate over three million dollars, and the four top territories are approaching annual sales of four million (significantly greater than the one-and-a-half million dollars which is typical of most medical device sales territories). The sales structure has been divided into East and West regions, allowing for more focused and frequent one-on-one customer calls. Customer Service Representatives have also been realigned geographically, giving customers a consistent point of contact.

Operation Direct (selling Ossur's complete product line direct to customers) has had a positive impact on business. Market penetration of new products often took some time from the date of initial launch, because distributors did not necessarily have the same priorities. In 2001, market penetration of new product lines has been instant. Substantial progress has been made with several products, especially TALUX™ and ICEROSS® TRANSFEMORAL.

A number of marketing and sales programs were implemented last year. 'Partners for Success' is the collective title for a number of customer-focused programs designed to solidify relations and improve business with key customers. Fit'N Go, for example, involves a consignment of liners stored on the customer's premises. Patients can then be fitted with an 'off the shelf' liner, avoiding any delay and reducing the number of appointments needed to fit the prosthesis correctly. Another program MAP, the Marketing Advantage Program, is designed to assist prosthetists in growing their practices by providing marketing tools, ideas and templates. Ossur North America, Inc., is implementing the Ossur Academy program for 2002 (the Company's international education program). One aspect of the Academy will be to award research scholarships at each of the eight main North American prosthetic training institutions.

Albion, Michigan

Home to TOTAL KNEE® operations for more than three years, Ossur's assembly work for its Knee product line has been consolidated in Albion. There are clear benefits to the Company in co-locating all engineering, testing and assembly in one facility.

The Century assembly line was upgraded last year, with much of the equipment being replaced with automated machines. The process of moving Mauch assembly from Dayton to Albion began in November, and a brand new assembly line will be complete and functioning early in 2002. Improving design issues and testing new features of the TKO 1500™ knee were completed last year. Work on a new, stronger aluminium ankle will be unveiled in February 2002, as part of the improved TOTAL CONCEPT™ foot.

Dayton, Ohio

Key projects last year included the development of a rounded GAITMASTER™ frame utilizing the MAUCH® Jr SNS hydraulic cylinder, allowing for improved cosmetic covering. Design and development work continued on the brand new MAUCH XG™ knee frame. This exciting new product, scheduled for launch early in 2002, will be the strongest carbon fiber knee on the market, with the added benefit of a slimline rounded frame. In addition, production of various components was streamlined to minimize the differences in imperial and metric measurements.

The precision machining and spinal implant production work, originally just part of the operations in Dayton, was taken a step further in 2001. A new, specialist business will expand the activities in this field and actively market its services to new customers.

THE NETHERLANDS

Ossur Europe B.V. is located in Eindhoven in the Netherlands. The division has been extensively restructured during the course of 2001 to support a number of initiatives, primarily the process of moving to direct sales.

Moving away from distributors and promoting Ossur's complete prosthetic solution direct to customers, entailed 15 launches of the Company's product lines in six European countries last year, backed up by comprehensive marketing campaigns. A major change, and key to increased growth and profit in the future, is the decentralization of responsibility and decision-making to local sales managers for the six countries / regions (Germany, Austria, Switzerland, UK, Benelux and France). The goal is to listen to local markets, distinguish their needs, and tailor Ossur's services and response appropriately.

At the same time, work has also been put into building up support functions, centralizing the factors that impact less on individual customers, invoicing, shipping and distribution, for example. Information systems have been streamlined, new staff recruited and trained, and operations relocated to more suitable premises. Throughout the process, however, the division has improved relations with its customers, who are now getting top quality products from the same source, with a 24 hr delivery time.

Preparations are underway for Europe's largest and most influential O&P trade show in Leipzig in Germany, May 2002. A new German office will be opened prior to the event, offering an even better service in Europe's largest market.

SWEDEN

The key focus for the Nordic operation has been to streamline the product range and sales & marketing activities of the two companies that had previously handled all Ossur products in the region – PiMedical and Karlsson & Bergstrom. Bringing together the companies' respective specialisms, marketing and sales, has proved to be a very astute move.

All stock is now housed in in Uppsala, and as a result, the Helsingborg team has moved to smaller, more suitable offices. The two branches are now synchronized with a joint business system and product range, a single product catalogue and a computer system that facilitates a united approach. A large number of legal entities were brought together under a single company name, simplifying reporting and financial management in the region. As a clear indicator of the unstinting commitment to customer service, and despite such a major transition, the Nordic team increased sales by 15% in 2001.

The effect of these new synergies has been clearly demonstrated in Finland, a country that had previously been served in part from Iceland. The combination of a more active presence in the market and enhanced customer service and marketing, produced a significant increase in sales compared to the previous year.

Last year, Ossur products continued to increase their market share in the Nordic region generally. A very active marketing campaign, for example, helped create a significant impact for ICEROSS® DERMO in all countries. In less than nine months it became the second highest selling liner from Ossur.

V Major Ossur Brands

V Major Ossur Brands

In acquiring and integrating five companies, Ossur has been careful to safeguard and actively promote the major, already familiar brands that make up its total prosthetic solutions. With more than 200 individual items, the Company's products are organized into broad product lines: Feet, Knees, Liners, Sockets and Locking systems.

The patenting of materials and designs, and registering of brand names, is an essential factor of commercial success. At the close of 2001 Ossur products were protected by 59 US patents and by many other worldwide patents, granted or pending. New market research and further brand development is on the agenda for 2002.

FLEX-FOOT® is the name synonymous with the world's most exciting range of high-tech artificial feet. The special properties of the Flex-Foot make it the first choice for thousands of amputees, of all ages and activity levels. Its distinctive form is also a familiar sight at the Paralympics, where it is used by the majority of the world's top athletes.

Developed by Van Phillips, American inventor, research prosthetist and himself an amputee, commercial production of the first Flex-Foot was in 1984. Two critical technology breakthroughs made this product unique, and revolutionized the everyday aspirations of amputees. Energy storage and release was the first breakthrough, a function inherent in the patented carbon fiber design. Carbon fiber is a material used extensively in the aerospace industry for its superior strength and flexibility. The second breakthrough was vertical shock absorption, which reduces impact on the residual limb, the sound limb and the rest of the body generally.

Last year a total of nine feet were available in the Flex-Foot product line, suitable for many different individual needs and activities. A new addition for 2002 is CETERUS™, which combines rotation, shock absorption and dynamic response capabilities.

TOTAL KNEE® is a unique lightweight aluminium knee, and the brainchild of Swedish inventor, Finn Gramnas. A locking feature keeps the knee from collapsing when in full extension and its polycentric design recreates the natural knee motion.

Subsequent models cater for more active lifestyles, while the 'Small Wonder' is a particularly effective and popular pediatric knee. The newest addition to the line, TKO 1500™, is a low impact knee which completely eliminates the need to hip hike or vault in order to initiate swing (a unique feature among competitors in this target group).
From the same development team that produced the TOTAL® KNEE, the TOTAL CONCEPT™ is an ankle/foot system which adjusts to varying heel heights at the simple touch of a button. A redesigned TOTAL CONCEPT is scheduled for launch very soon.

MAUCH® GAITMASTER™ is the recognized leader in hydraulic knees. Widely acknowledged for its trusted performance and reliability, the MAUCH knee was invented by the brilliant German scientist Hans Mauch and produced commercially since 1959.

The new MAUCH XG™ is the strongest carbon fiber knee available and, with its modern slimline cover, will open up a different market for the MAUCH knee, the hydraulic function of which remains an industry classic.

ICEROSS® liners are undisputably the original and still the best silicone liners on the market. At the forefront of research since 1971, Ossur has pioneered silicone technology to great effect. SenSil® is the medical grade silicone material used in the manufacture of ICEROSS liners, and the newest material, DermoGel™, is exceptionally soft and durable. ICEROSS® DERMO, with its highly effective mix of Aloe Vera and moisturizers, took skin care for amputees to a new level last year. Specifically designed for transfemoral (above-knee) amputees, ICEROSS® TRANSFEMORAL was launched in 2001 and proved so successful that sales were more than double what was originally projected. Four new liners will be presented to the market in the year ahead, including a pediatric model.

ICEX® combines casting, fabricating and fitting of a prosthetic socket in a single session. Utilizing technology advances of the nineties, Ossur conceived this breakthrough technique, harnessing the properties of carbon fiber. Creating a new carbon composite material, it developed the ICEX technique, which allows prosthetists to produce well fitting sockets time and time again. Building on customer feedback and additional development work, a second generation version of ICEX is due to be launched in the summer of 2002.

ICELOCK™ is the name of the series comprising a complete range of locks, lanyards and valves – the most comprehensive range available to prosthetists, with innovative features to suit any situation. The world-famous lock, The Pin, is now featured in the ICELOCK 400 series. Ossur also produces a wide range of modular adapters, for use in the building of prosthetic limbs.

"I got back to a normal life with the help of my prosthetist, my wife, and the awesome products that I'm using." (Jim Wazny, transfemoral amputee, uses a VARI-FLEX® foot and a MAUCH® knee)

"It's people like you that made me choose your company's products for my first prosthetic." (George Hinckley, transfemoral amputee, uses TOTAL KNEE® 2100)

"My legs are like my best friends," (Rudy Garcia-Tolson, bi-lateral amputee, uses ICEROSS®, TOTAL KNEE® and VARI-FLEX®).

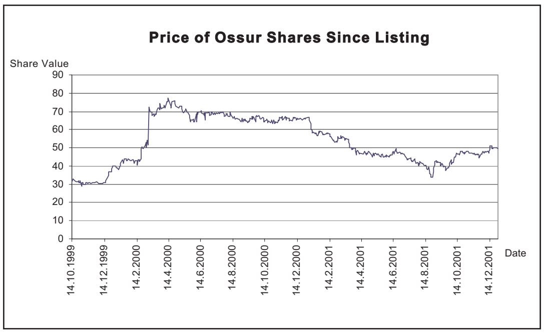
"An ICEX® socket is fast, it fits, and it's comfortable. Within three to four hours my patients are up and walking!" (Chuck Dillard CP, Dillard Prosthetics, Nashville: who has cast over 700 ICEX sockets to date)

VI Ossur and the Financial Market

VI Ossur and the Financial Market

Share price trends

As a thriving and profitable enterprise, Ossur was historically at its best in 2001. The Company's performance was strong across a whole range of indicators - organization, market position, financial results, facilities and human resources. The Company's share price, however, mirrored the general downward trend on the Icelandic stock market. At the start of 2001, the Ossur share price was ISK 66. The closing price at year-end was ISK 49.8. Shares peaked at ISK 66.5 at the beginning of the year. As the overall volume of trading on the Icelandic stock market fell, Ossur shares correspondingly reached a low of ISK 34 in late August.



Stocks and Shareholders

The number of outstanding shares in Ossur hf. remained unchanged during the year at 328,441,000, with a market value of ISK 16.4 billion at year-end. In 2001 Ossur hf. exercised its authority to purchase its own shares, and the Company currently holds 4.2 million shares. The shares will be used, among other things, to meet stock options held by current and former directors. At year-end 2001, 4,918 investors owned shares in Ossur, including 80 employees.

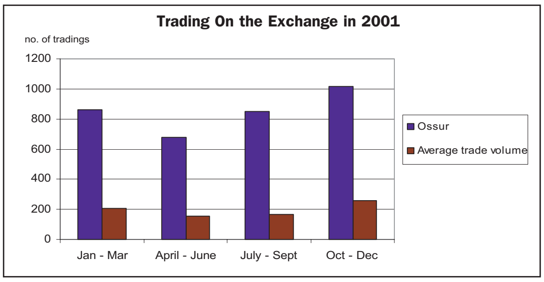
Largest Shareholders of Ossur hf.

Name	*Nominal price of stocks*	*%*
Mallard Holding S.A.	94,531,846	28.78
Kaupthing hf. Investment Bank	37,303,028	11.36
Kaupthing Luxembourg S.A.	16,882,594	5.14
Pension Fund, Bankastræti 7	10,253,825	3.12
The Pension Fund of Commerce	10,091,250	3.07
Kaupthing hf., trading stocks	9,301,212	2.83
Vik Investment Holding S.a.r.l.	7,872,423	2.4
Hafnarfjordur Savings Bank	7,501,374	2.28
Foroya Sparikassi Bank	7,500,000	2.28
Framsyn Pension Fund	6,084,944	1.85
Total holdings of ten larg. shareh.	207,322,496	63.11
Other shareholders	121,118,504	36.89
Total shares	328,441,000	100.00

Professional investor holdings increased by 2% over the year, to 48% at year-end.

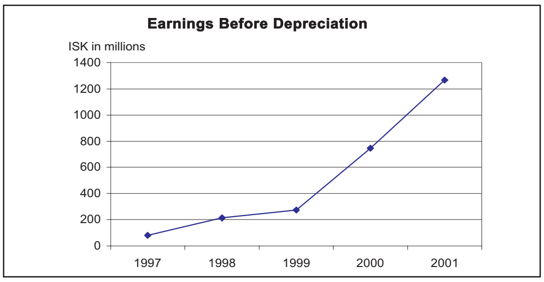
Trading on the Iceland Stock Exchange 2001

The total number of trades in Ossur stocks on the Iceland Stock Exchange was 3,406, at an average price of ISK 44.7. The total volume of trading in Ossur stocks was ISK 11.2 billion, compared to a total volume of trading on the Iceland Stock Exchange of 138.3 billion, ie 8.1% of total volume of trading.



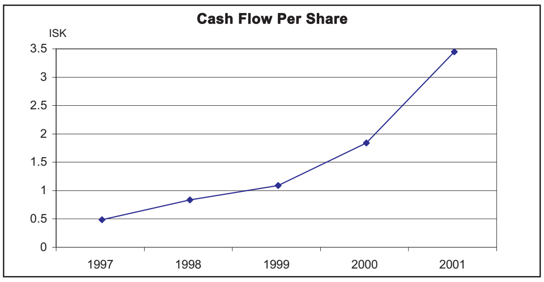
Earnings before depreciation - EBITDA

Trends in earnings before depreciation have been favorable over the last five years, with profits growing steadily. In 2001 earnings before depreciation totaled ISK 1,268 million, compared to ISK 746 million in the preceding year, which corresponds to an increase of 70% between years.



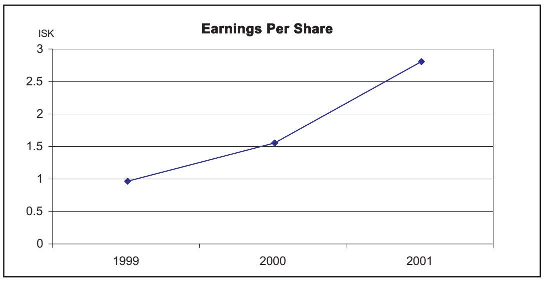
Cash flow per share

Earnings per share in 2001 came to ISK 3.18 (1 share = 1 ISK), rising from ISK 1.57 in the preceding year, which represents an increase of 102.5%.



Earnings from regular activities per share (EPS)

Earnings from regular operations in 2000 were ISK 1.25, but rose by 105.6% to ISK 2.57 in 2001.



* The 2000 figures are based on earnings from regular operations per share.

Return

Return on total capital after taxes was 19%, which represents an increase of 133% between years. Return on equity after taxes was 32% in 2001, which represents an increase of 260% between years.

VII Currency Issues and Future Prospects

VII Currency Issues and Future Prospects

Currency Issues

The Icelandic foreign exchange market fluctuated substantially in 2001. The Central Bank abandoned its policy of defending the tolerance limits of the Icelandic krona. The US dollar gained 22% against the krona, and the Euro gained 16%. These trends have a favorable impact on the Company's income, however a large part of the raw material used by the Company is purchased in the United States and prices have increased accordingly.

A major part of the Company's revenues, 68%, is in US dollars, while 30% is in European currencies and 2% in other currencies. The connection between operating expenses, on one hand, and sales revenues, on the other, is proportionally greater in US dollars than in Euros.

The decision has been made that the financial reporting systems and financial statements of Ossur hf. will be in US dollars, as of 1 January 2002. In line with this decision, loans in Icelandic krona have been settled, and most of the Company's expenses are now in US dollars and Euros. The change also had the effect that the Company ceased its use of forward contracts, and as of 2002 the Company will no longer use forward contracts for hedging purposes. Through its decision to change its reporting currency, the Company has considerably reduced the risk of currency losses.

Future Prospects

Organic growth in Company sales is projected at 12–24%. The ratio of earnings before interest, taxes, depreciation and amortization (EBITDA) to income is expected to remain at approximately 20% in 2002.

There are three main reasons for this: First, investment in developing the Company's sales & marketing network in Europe; second, the increased scope of the Company's product management activities and global marketing; and third, costs associated with the new Business Development Division.

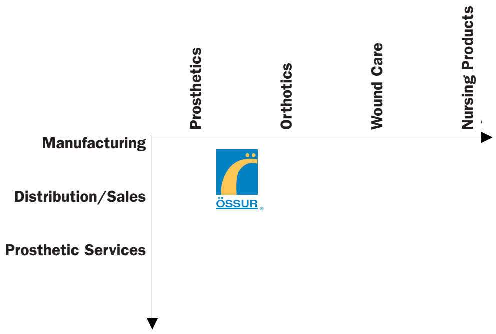
The Company projects increases in revenues at two to three times the general growth level of the prosthetics market. Assuming a growth of 6–8% for the prosthetic market generally, and around 12% growth in the world market for medical instruments, the organic growth of the Company should be able to reach levels of 12–24% in the coming years. Increasing life expectancy of much of the world's population is a contributory factor in this growth, as is the increase in the frequency of diabetes and other diseases affecting blood circulation. Diabetes, together with arterial diseases, is the most common cause of amputation in the western world, and the number of diabetics in the world is predicted to increase by over 100% by 2025 (World Health Organization - Diabetes - shortcut, 2000). Growth will also be fuelled by the increasing number of new products regularly being launched by the Company.

During the course of 2001 product development has increased steadily, and this year the Company launched 13 new products or product improvements. The Technical Division, which incorporates global R&D and Manufacturing, has undergone considerable reorganization over the course of the year, making it even more efficient as a result. The reorganization included the establishment of a new unit, 'Mechatronix', that will focus on the development of electronically controlled artificial limbs. Following favorable changes in the Icelandic tax environment, R&D and Foot design will be relocated to Iceland. The move should be completed by mid-year. There are plans for launching more than ten major new products in the year ahead, including a revolutionary electronic knee developed in partnership with the Massachusetts Institute of Technology (MIT) in Boston. A new foot, which incorporates a unique rotational feature, is being launched in February 2002 and there are plans to promote four new liners.

Ossur's goal is to develop new products, continue the expansion of the Company and to sustain its active investment in research, development and new business opportunities. The operating revenues of the Company in 2002 are projected at USD 78–86 million, and profit at USD 9.5–11.5 million. In recent years revenues from new product launches (ie less than one year old), made up between 10% and 20% of total revenues each year.

O&P markets

Ossur currently operates in the prosthetics market, just one branch of the healthcare sector. The nearest markets to this field are the orthotics market, the wound care market and medical products market. The Company is constantly strengthening its current product lines, but at the same time the Business Development division is looking into new opportunities in alternative markets. Most orthotic products are sold through the same distribution channels as prosthetic products. Looking at markets other than the prosthetics market offers huge opportunities, as the Company could, therefore, benefit from substantial synergy effects.







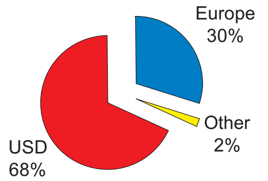
VIII Performance Overview 2001

VIII Performance Overview 2001

Operating Revenues

Operating revenues in 2001 amounted to ISK 6,765 million, compared to ISK 3,614 million in the preceding year. This represents an increase between years of 87%. There were no material changes in the composition of the Company during the year 2001, but any comparison with the year 2000 must take into account that the acquisition of various companies resulted in substantial changes in the Company that year. The sharp rise in the price of the dollar has had a marked impact on all figures in the consolidated accounts, as a large proportion of the Company's business is conducted in dollars. Operating items are translated into the Income Statement of the Company at the average price of the dollar for the year. The average price of the USD rose by 25% against the Icelandic krona between mid-year 2000 and mid-year 2001.

Revenues by currencies 2001

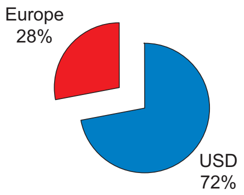


Operating Expenses

Operating expenses over the year amounted to ISK 5,699 million, or 84% of revenues, compared to 83% in 2000. The ratio of individual cost items to operating revenues was as follows:

	2001	2000
Cost of goods sold	37%	39%
Sales and marketing expenses	18%	15%
Research and development expenses	7%	8%
General and administrative expenses	22%	22%

In comparing the trends in operating costs between years, it must be kept in mind that the composition of the Company changed substantially in 2000. The cost of goods sold varies both between years and within each year, owing to fluctuations in the composition of the product range. The contribution margin of liners is usually higher than that of artificial feet and knee joints. The increase in sales and marketing costs between years is a result of changes in the way the Company sells its products. Products were sold directly to customers in the United States throughout the year, instead of through distributors, and for the second half of the year the same was true of Europe. In addition, the Company emphasized global marketing of its product categories. Research and development costs are all expensed to the income statement, and these decreased slightly between years as a ratio of income. The stated goal of the Company is to maintain development costs at 6–8% of income. General and administrative costs, as a ratio of income, remained unchanged between years, at approximately 22%.



Financial Items

Interest income amounted to ISK 38 million, while interest expense and exchange rate losses came to ISK 86 million, resulting in negative financial income amounting to ISK 48 million. At year-end, 95% of the Company's long-term liabilities were in US dollars. As explained in Note 2 to the Consolidated Financial Statements, accounting methods were changed at the beginning of 2001. The exchange difference of a long-term loan, taken as a hedge against acquisition costs, was entered against equity rather than expensing it to the income statement. This was done to balance price gains on foreign holdings to the amount of ISK 671 million that was entered against equity. If this method had not been employed, financial items would have been negative by an additional ISK 146 million. The total impact of the change on the Income Statement for 2001, after taxes, amounts to ISK 71 million.

Income Tax

The Company expensed income tax amounting to ISK 175 million, which corresponds to 17% of total pre-tax income. The corresponding ratio in 2000 was 12%. The Company, as a whole, is not jointly taxed, although the US consolidation is. In other countries, individual companies are separate taxable entities. Business transactions within the Company are subject to standard discount terms. In the US, Ossur is entitled to substantial tax benefits in connection with its acquisitions in 2000. The table below shows the statutory income tax ratios in the different business regions of the Company in 2001, excluding deductions and concessions.

Iceland	30%
US, California	42%
US, Michigan	36%
US, Ohio	39%
Sweden	28%
The Netherlands	35%

Profit for the Year

The operating profit for the year was ISK 1,067 million, compared to ISK 596 million for the preceding year. The ratio of operating profit to operating income was 15.7%, compared to 16.5% for the year 2000. Earnings before interest, taxes, depreciation and amortization, (EBITDA) was ISK 1,268 million, or 18.7%, compared to ISK 702 million, or 19.4%, in the preceding year. Since there was no extraordinary income or expense in 2001, profit from regular operation is the same as profit for the year, ISK 844 million, which corresponds to 12.5% of total income. Profit from regular operations in 2000 amounted to ISK 409 million, but as a result of expensed goodwill the result for the year 2000 was a loss amounting to ISK 6,763 million.

Results of the Year by Quarter

Income Statement 2001 (ISK m)	**1 Q**	**2 Q**	**3 Q**	**4 Q**	**Total**
Operating revenues	1,422	1,714	1,816	1,813	6,765
Operating expenses	-1,275	-1,520	-1,444	-1,459	-5,698
Operating profit	147	194	372	354	1,067
Financial income/(financial expenses)	-31	17	1	-35	-48
Earnings before income tax	116	211	373	319	1,019
Income tax	-59	44	-126	-34	-175
Net income for the period	57	255	247	285	844
EBITDA	193	246	422	407	1,268

Earnings per Share

Earnings per share in 2001 amounted to ISK 2.57, compared to ISK 1.25 in the year 2000, based on regular operations in 2000.

Assets

Total assets at year-end amounted to ISK 6,006 million, compared to ISK 4,815 million at year-end 2000, which represents an increase of 25%. Since a large proportion of the Company's assets represent Ossur's companies in the US, the rise of the dollar has a substantial impact on the Balance Sheet. The US dollar rose by 22% against the Icelandic krona from the beginning of the year to year-end. Fixed assets at year-end amounted to ISK 3,194 million, rising by 22% from the preceding year. The largest proportion of the fixed assets consists of capitalized capitalized tax savings resulting from acquisitions of US companies in 2000. Goodwill on acquisitions can be charged against taxes over a period of 15 years, which results in a positive tax allowance. The accounting procedure in respect of the acquisitions in the consolidated accounts for 2000, was to charge all the acquired goodwill, excluding three quarters of the future tax benefits. The increase in investment in operational fixed assets over the year amounted to ISK 323 million. Inventories of raw materials and finished goods increased by ISK 406 million, or 66%, over the course of the year. A large proportion of this rise is related to the changes in the way the Company sells its products. When sales were conducted through distributors, the inventories of products maintained by the distributors did not figure in the Company's inventory. Now that products are sold directly in the United States and Europe, all inventories relating to those areas are capitalized in the Company's consolidated accounts. Accounts receivable and other receivables increased by 19% between years. Customer credit was 44 days on average, compared to 50 days in 2000. Changes in cash between years were insignificant.

Liabilities

Total liabilities at year-end amounted to ISK 2,854 million, compared to ISK 2,754 million for the preceding year. Long-term liabilities amounted to ISK 1,335 million, compared to ISK 1,172 million at year-end 2000. No new long-term loans were taken during the year, apart from leases to the amount of ISK 57 million. Fixed assets bought on lease agreements are capitalized in the Balance Sheet with a corresponding amount entered under liabilities. Over 95% of the Company's liabilities are in US dollars; the rest are in Icelandic krona. Short-term liabilities amounted to ISK 1,519 million at year-end, falling by ISK 63 million from the preceding year. Cash from operations in 2001 represented 36% of total liabilities, compared to 30% in 2000.

Equity

Issued shares in Ossur hf. at year-end amounted to ISK 328 million, the same as in the preceding year. The Company bought its own shares over the course of the year for the nominal amount of ISK 6.4 million, priced at ISK 265 million. The shares were bought at market value, on average at 41 times the nominal value. Approximately 2.2 million shares were resold for the purpose of meeting stock options. Net equity of own shares at year-end amounted to ISK 324 million. At year-end stock option contracts on 8.2 million shares have been granted for the years 2002-2006. The Company has also undertaken to use an additional 1.6 million shares to meet obligations resulting from the acquisition of Swedish subsidiaries in 2000. This liability was charged to the Balance Sheet at the time of the acquisition. The own shares in the possession of the Company will be used to meet the above obligations on share transfers, but the Company also possesses authorization, as yet unexercised, to issue 10 million additional shares for this purpose. In the Consolidated Financial Statements, ISK 4,634 million has been assigned from the additional paid in capital to meet an accumulated deficit from the year 2000. The equity ratio at year-end was 52%, up from 45% in 2000.

Cash Flow

Working capital provided by operating activities amounted to ISK 1,053 million, increasing 52% between years. Cash from operations amounted to ISK 1,012 million, more than doubling between years. A net amount of ISK 295 million was used to pay for investments, and a net amount of ISK 787 million was used for payment of debts and purchases of own shares. The change from the preceding year in the cash balance at year-end was insignificant. The current ratio was 1.9, rising from 1.5. The cash ratio was 1.2, rising from 1.1.

IX Report by the Board of Directors and President and CEO

IX 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 all the information necessary to show the position of the Company at year-end, the operating results for the year and financial developments during the year 2001.

Ossur hf. designs, manufactures and sells prosthetic solutions. The Company's headquarters are located in Iceland, but the Company owns and operates subsidiaries in the United States and Europe. The Company sells its products all over the world, but the principal market areas are the United States, Western Europe and Japan. In the year 2001, the Ossur Group consisted of Ossur hf. in Iceland, the Ossur Holdings, Inc., group in the United States, the Ossur Holding, A.B., group in Sweden, and individual companies in Luxembourg, the Netherlands and elsewhere. During the year, work was in progress on coordinating the names of individual legal entities within the group, and the operation of the group in Sweden was simplified by merging the operations of individual companies. A company was established in the Netherlands that will take over the operations in Europe at the turn of the year.

The total revenues of the Ossur Group amounted to ISK 6.765 million, compared to ISK 3.615 million in the preceding year. This represents an increase in revenues of approximately 87%. Profit from the operation of the Group amounted to ISK 844 million. For the purpose of comparison, profit from regular operation amounted to ISK 409 million in 2000. Earnings per share amounted to ISK 2,57, compared to ISK 1,25 in 2000. The operating budget of the Company for 2001 projected revenues of ISK 6.100 million over the year, and a profit of ISK 700 million. In October, estimates were revised and annual revenues projected at ISK 6.650 million and profit at ISK 810 million. Earnings before interests, taxes, depreciation and amortization were projected at 20%, or approximately ISK 1.320 million. The Company's financial reporting and budgeting will be in USD in the year 2002. The total assets of the Group amounted to ISK 6.006 million at year-end, liabilities were ISK 2.854 million, and equity was ISK 3.152 million. The equity ratio at year-end was 52%, compared to 45% the preceding year.

In the course of the year the Group employed 392 employees, of which 129 were employed by the parent company in Iceland. Throughout 2000 an average of 327 employees were employed with the Company, of which 120 were employed by the parent company

In the course of the year, the Company acquired 4,2 million of its own shares. As a result of a temporary, but substantial, fall in the price of the Company's shares, which could not be explained by changes in its operating performance, it was the opinion of the Board of Directors and the President and CEO that investment in its own shares was a reasonable course of action. The stocks will be used, among other things, to meet stock options held by former owners and current executives of the Group's companies in the US and Sweden. The share price of the Company was 49,8 at year-end, compared to 66,0 at the beginning of the year. The market value of the Company at year-end was ISK 16,4 billion, which corresponds to a reduction of ISK 5,3 billion over the year. At year-end, shareholders in Ossur hf. numbered 4.918, compared to 5.923 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 28,78%, and Kaupthing Bank hf., with 11,36%.

The Board of Directors does not recommend payment of dividends to shareholders in 2002. As regards changes in the equity of the Company, the Board refers to the Notes attached to the Financial Statements.

The Board of Directors and President and CEO of Ossur hf. hereby confirm the Consolidated Financial Statements of the Ossur Group for the year 2001 with their signatures.

Reykjavik, February 6, 2002

Board of Directors

Petur Gudmundarson
Chairman of the Board

Ossur Kristinsson

Gunnar Stefansson

Heimir Haraldsson

Kristjan T. Ragnarsson

Sigurbjorn Thorkelsson

Jon Sigurdsson
President and CEO

Financial Ratios

Consolidated statement

		2001	2000*	1999	1998	1997
Growth						
Net sales in terms of 2001 prices	ISK millions	6.765,4	3.838,9	1.455,8	1.190,1	918,0
Employees	Number	392,0	327,0	122,0	101,0	87,0
Net income before extraordinary exp. (2001 prices)	ISK millions	843,9	434,5	155,8	91,1	13,3
Total assets in terms of 2001 prices	ISK millions	6.006,4	5.229,9	1.995,3	614,9	538,1
EBITDA in terms of 2001 prices	ISK millions	1.268,3	745,9	272,0		
Operational performance						
Cash provided by operating activities (2001 prices)	ISK millions	1.012,7	485,6	262,4	92,8	38,0
- as ratio to total debt	%	36,1	30,0	67,0	24,5	10,0
- as ratio to income		1,2	1,1	1,7	1,0	2,9
Working capital from operating activit. (2001 prices)	ISK millions	1.053,0	716,8	210,3	131,9	46,1
- as ratio to long-term debt and stockholders´equity	%	27,3	24,6	19,2	30,9	11,9
- as ratio to investment, current maturities, dividends		1,2	0,1	2,7	2,4	0,7
Liquidity and solvency						
Acid-test ratio		1,2	1,1	1,5	1,7	1,3
Current ratio		1,9	1,5	2,2	2,7	2,3
Equity ratio	%	52,5	44,6	78,6	35,7	23,2
Asset utilization and efficiency						
Net sales pr. employee in terms of 2001 prices	ISK millions	17,3	11,7	11,9	11,8	10,6
Total assets turnover		1,3	1,1	1,1	2,2	1,8
Inventory turnover, finished products		4,9	8,4	7,0	6,2	6,0
Grace period granted	Days	44	50	40	39	41
Profitability						
Return on total assets	%	19,0	8,2	22,9	22,2	4,6
Return on common equity	%	32,4	9,0	44,7	77,3	12,8
Operating profit as ratio to net sales	%	15,8	16,5	16,1	14,7	5,0
Net income before taxes as ratio to net sales	%	15,1	12,9	16,6	12,5	4,0
Net income for the year as ratio to net sales	%	12,5	11,3	10,7	7,7	1,4
Market						
Year-end market value	ISK millions	16.356,4	21.677,1	8.477,5		
Price/earnings ratio		19,4	53,0	60,8		
Price/book ratio		5,2	10,1	6,1		
Number of shares	Millions	328,4	328,4	211,9		
Earnings per share, EPS	ISK	2,57	1,25	0,66		

* Key figures for the year 2000 have been calculated using net income before extraordinary expenses.

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, 2001, 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 & Touche member firms.

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

In our opinion, based on our own audit and the audit reports on the Financial Statements of the foreign subsidiaries of 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, 2001 and of the results of their operations and their cash flows for the year then ended in accordance with generally accepted accounting principles applied on a consistent basis.

Reykjavik, February 6, 2002

Deloitte & Touche hf.

Heimir Thorsteinsson
State Authorized Public Accountant

Thorvardur Gunnarsson
State Authorized Public Accountant

Consolidated Income Statements for the Year 2001

	Notes	2001	2000
Operating revenues			
Net sales		6.685,1	3.603,0
Other income		80,3	11,5
		6.765,4	3.614,5
Operating expenses			
Cost of goods sold		2.480,9	1.407,0
Sales and marketing expenses		1.248,7	555,1
Research and development expenses		498,7	276,6
General and administrative expenses		1.470,3	779,5
		5.698,6	3.018,2
Operating profit		1.066,8	596,3
Net interest			
Interest income/(expenses)	21	(47,7)	(130,9)
Income before taxes		1.019,1	465,4
Taxes			
Income tax	16	(175,2)	(56,2)
Net income before extraordinary expenses		843,9	409,2
Extraordinary expenses			
Goodwill charged to cost		0,0	(7.171,9)
Net income/(loss) for the year		843,9	(6.762,7)

All amounts in millions of ISK

Consolidated Balance Sheets

Assets

	Notes	31.12.2001	31.12.2000
Fixed assets			
Intangible assets			
Goodwill/deferred tax asset	4	2.122,0	1.751,8
Other intangible assets	5	31,1	32,9
		2.153,1	1.784,7
Operating fixed assets	6		
Buildings and sites		303,8	233,1
Other operating fixed assets		605,3	437,8
		909,1	670,9
Investments			
Share of equity in affiliated companies		13,2	0,0
Long-term securities	8	118,5	158,5
		131,7	158,5
Total fixed assets		3.193,9	2.614,1
Current assets			
Inventories	9		
Raw materials and work in process		369,4	258,6
Finished products		649,5	354,3
		1.018,9	612,9
Short-term receivables			
Accounts receivable	10	1.016,9	875,5
Other receivables		157,9	109,4
		1.174,8	984,9
Cash and cash equivalents			
Marketable securities	11	46,7	265,2
Cash		572,1	338,2
		618,8	603,4
Total current assets		2.812,5	2.201,2
Total assets		6.006,4	4.815,3

All amounts in millions of ISK

December 31, 2001

Liabilities and equity

Consolidated Statements	Notes	31.12.2001	31.12.2000
Stockholders' Equity	12,13		
Common stock		324,2	328,4
Additional paid-in capital		2.813,1	7.660,6
Statutory reserve		15,2	15,2
Other equity (negative)		0,0	(5.942,9)
Total stockholders´equity		3.152,5	2.061,3
Liabilities			
Long-term liabilities	15		
Credit institutions		1.461,4	1.293,7
Long-term notes		5,2	91,2
Other long-term liabilities		374,4	557,4
		1.841,0	1.942,3
Current maturities of long-term debt		(506,5)	(770,3)
Total long-term liabilities		1.334,5	1.172,0
Current liabilities			
Accounts payable		355,8	290,1
Current maturities, as above		506,5	770,3
Accrued taxes payable	16	81,5	11,2
Other current liabilities		575,6	510,4
Total current liabilities		1.519,4	1.582,0
Total liabilities		2.853,9	2.754,0
Total liabilities and stockholders´equity		6.006,4	4.815,3

All amounts in millions of ISK

Consolidated Statements of Cash Flow for the Year 2001

	Notes	2001	2000
Cash flows from operating activities			
Net income/(loss) for the year		843,9	(6.762,7)
Adjustments to reconcile net income (loss) to net cash provided by operating activities			
Depreciation and amortization	5,6	201,5	106,1
Indexation and exchange rate differences		64,9	134,5
Calculated inflation adjustment		(85,4)	(9,0)
Deferred income tax		122,5	56,2
Other non-cash items		(94,4)	(2,1)
Goodwill charged to cost		0,0	7.171,9
Working capital from operating activities		1.053,0	694,9
Changes in operating assets and liabilities			
Inventories, increase		(268,5)	(33,6)
Accounts receivable, increase		(484,9)	(200,1)
Current liabilities, (decrease) increase		713,1	(4,0)
Net cash provided by operating activities		1.012,7	457,2
Cash flows from investing activities			
Purchase price of fixed assets		(263,4)	(136,5)
Sales price of fixed assets		15,4	25,0
Share investments		(94,0)	(5.795,5)
Long-term securities and other receivables, changes		47,1	953,6
Net cash used in investing activities		(294,9)	(4.953,4)
Cash flows from financing activities			
Borrowings of long-term debt		0,0	1.162,0
Payments on long-term debt		(569,4)	(20,5)
Purchases of treasury stock		(265,1)	0,0
Paid-in capital		0,0	3.779,8
Exercised share options		47,6	0,0
Net cash provided by financing activities		(786,9)	4.921,3
Net increase in cash and cash equivalents		(69,1)	425,1
Cash from purchased subsidiaries		24,8	53,5
Effects of foreign exchange adjustments		59,7	0,0
Cash and cash equivalents at beginning of year		603,4	124,8
Cash and cash equivalents at end of year		618,8	603,4
Notes: Statement of cash flows	24		

All amounts in millions of ISK

Notes to the Financial Statements

Operations

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

The production and assembly of the Company's products was conducted in four places in 2001: at Ossur North America, Inc. in Aliso Viejo, California, which manufactures and assembles prosthetic feet; at Ossur Engineering, Inc. in Albion, Michigan, which manufactures prosthetic knees, at Mauch, Inc. in Dayton, Ohio, which also manufactures prosthetic knees, and at Ossur hf. in Iceland, which manufactures sockets and components. In addition, orthotic devices are manufactured at Ossur Nordic A.B. in Uppsala, Sweden, and the parent company runs a prosthetic workshop in Iceland.

Sales, distribution and services in the United States and Western Europe were handled by Ossur North America, Inc., and the Nordic countries by Ossur Nordic A.B. Other markets were mostly serviced by Ossur hf. in Iceland and Ossur North America, Inc. Starting in January 2002, Ossur Europe B.V. will be responsible for sales, distribution and service in Europe. In the course of the year 2001, the organization of the Company's sales was changed, both in Europe and the United States, and products are now sold directly to customers rather than through distribution companies.

A new organization for operations and the companies within the Group takes effect in 2002. The Technical Division will manage all R&D and Manufacturing. The Prosthetic Division will handle international marketing, product management and sales to markets other than the United States and Western Europe. Localized marketing, sales distribution and services will be handled by three independent sales companies, Ossur North America, Inc., California, Ossur Europe B.V., The Netherlands, and Ossur Nordic A.B., Sweden.

Summary of Accounting Policies

1. The Consolidated Financial Statements of Ossur have been prepared in accordance with the Act on Financial Statements and generally accepted accounting standards in Iceland. They are prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year in all material respects. Changes in accounting principles are described in note 2, comparison with previous year.

   The Financial Statements of the Icelandic consolidated companies are based on historical cost, adjusted for general price-level changes. Accordingly, the Income Statement is presented at the average price level of the year and amounts in the Balance Sheet are stated at the year-end price level. The adjustment is based on an 8,61% increase in the Consumer Price Index during the year. Fixed assets and intangible assets have been revalued by restating their historical cost and accumulated depreciation to the price level at the end of the year 2001. Fixed assets and intangible assets purchased or sold during the year have been revalued based on duration of ownership. The effect of general price level changes on monetary assets and liabilities at the beginning of the year, as well as their changes during the year, has been calculated and entered as "Purchasing power gain on net monetary items" amounting to ISK 85,4 million. Revaluation of fixed assets and the calculated "Purchasing power gain on net monetary items." has been posted to the revaluation reserve account as Stockholders' Equity in the Balance Sheet. Monetary assets and liabilities which are indexed or denominated in foreign currencies are presented at year-end price level or at the year-end exchange rate.

   The Financial Statements of the other consolidated companies are based on historical cost. The Income Statement is presented in Icelandic currency (ISK) at the average exchange rate of the year, and Balance Sheet items are presented in ISK at the year-end exchange rate. Translation differences from foreign companies are posted to other equity.

   On December 12, 2001, new legislation was enacted amending the Act on Financial Statements, effective January 1, 2002. The law directs companies not to include the effects of price-level changes on financial reports; i.e. the so-called "Purchasing power gain/loss on net monetary items" will cease. The Act includes a transitional provision permitting companies to take account of general price-level changes in the preparation of Financial Statements for fiscal years starting in 2002 and 2003. The Financial Statements for 2001 report the effect of price-level changes on the Icelandic consolidated companies. Had this not been done, the profits for the year 2001 would have been ISK 84,2 million less.

   Other accounting policies relating to individual items in the Financial Statements are listed in the following notes.

Comparison to The Previous Year

2. Comparative figures from the previous year have not been adjusted for the effects of general price level changes. Substantial changes were made in the operation of the consolidated companies during the year 2000, investments were made in new companies in April, late October and late

November. In the Consolidated Income Statement account of Ossur for the year 2001, all subsidiaries are in operation.
The following changes have been made in accounting principles from prior year:

On the basis of IAS 21 and 39, the exchange-rate difference of a foreign loan taken to finance the acquisition of US subsidiaries is entered to equity to offset the exchange-rate adjustment from the Income Statements and net assets of the subsidiaries, since the loan was taken as a hedge against net investment in a foreign entity. The exchange-rate loss, net of taxes and purchasing power gain, amounts to ISK 71,4 million.

The Consolidated Statements of Cash Flows shows the effects of foreign exchange adjustment of the cash flows statements of foreign subsidiaries as a separate reconciliation item, in accordance with IAS 7.

Comparison numbers from the 2000 Financial Statements have been corrected for the acquisition of subsidiaries in late 2000. The finalization of contracts made in the year 2000 led to expenditures which should have been a part of the investment in subsidiaries, and should have been charged to extraordinary expenses as depreciation of goodwill in the Financial Statements for the year 2000. Accordingly, extraordinary expenses in the Income Statement for the year 2000 and current liabilities in the Balance Sheet December 31, 2000 have been increased by ISK 84,2 million

The Group

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

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

In the beginning of the year, Ossur hf. participated in the establishment of the company Eirberg ehf. Ossur's ownership is 48.75%, which is entered in the accounts using the equity method. Ossur's share in the year's net income, ISK 2.2 million, is entered in the Income Statements among other income.

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. The minority interest in Ossur sto_tæki hf. is not material and is not accounted for in the Consolidated Financial Statements.

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

Intangible Assets

4. Goodwill /deferred tax asset is due to, on the one hand, by 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 income tax liabilities of subsidiaries where applicable are deducted from income tax loss carryforward from goodwill. The amount is shown in the following schedule in millions of ISK:

Taxable benefits in relation to the purchase of shares in other companies	1.812,5
Calculated tax credit because of carry-forward losses	347,6
Calculated tax credit because of eliminated gain in inventories within the Group	43,9
Tax liabilities	(82,0)
	2.122,0

The purchase price of shares, in excess of the book value, of stockholders' equity is deductible over a period of 15 years according to the tax law in force in California if the purchase complies with specified conditions. Thus the subsidiary Ossur Holdings Inc. will have a tax deduction over the next 14 years on profits amounting to ISK 5.846 million. The Company estimates sufficient annual profits to utilize the tax benefits; accordingly 30% of the amount has been capitalized, despite the fact that the income tax rate in California is closer to 40%. The amount will be charged to income tax expense in the Income Statement over the next 14 years. Accordingly, ISK 129,8 million was charged to income tax expense in the Income Statement for the year 2001. The remaining balance amounts to ISK 1.812,5 million.

At the year-end 2001 the consolidated companies had an income tax loss carryforward , which can be used in following years. The Income tax loss carryforward, ISK 347,6 million, has been capitalized. This is offset by the tax liabilities of the consolidated companies, which are estimated to be paid over the next few years; deferred income tax liabilities amounting to ISK 82,0 million are deducted from the income tax loss carryforward.

In the preparation of the Consolidated Financial Statements, accumulated gains in inventories from intercompany transactions amounting to ISK 244 million were eliminated. This has an effect on the calculated income tax of the consolidated companies, and an adjustment of ISK 73,2 million is made in the Consolidated Financial Statements to account for this. At the end of the year income tax loss carryforward is reduced to ISK 43,9 million due to reduction in the income tax rate from 30% to 18% as of January 1, 2002. The reduction amounts to ISK 29,3 million which is charged to income tax in the Income Statement.

5. Other intangible assets consist of capitalized development expenses from previous years and the cost of obtaining patents for the products manufactured by the Company. These assets are amortized by 10–20% annually. All research and development costs incurred during the year are expensed.

Development cost and other intangible assets are further specified as follows in millions of ISK:

Cost at January 1.	63,3
Previously amortized	(30,4)
Book value at January 1.	32,9
Revaluation and exchange rate difference during the year	5,4
Additions during the year, cost	0,9
Amortized during the year	(8,1)
Book value at December 31.	31,1

The amortization of other intangible assets, classified by operational category, are specified as follows in millions of ISK:

Research and development expenses	3,1
General and administrative expenses	5,0
	8,1

Fixed Assets and Depreciation

6. Depreciation of fixed assets is calculated on a straight-line basis. The following rates are used:

Buildings	3%
Automobiles	10-48%
Machinery and equipment	12-20%
Fixtures and office equipment	15-33%

Fixed assets, revaluation and depreciation are specified as follows in millions of ISK:

	Buildings and sites	Automobiles	Machinery & equipment	Fixtures & office equipment	Total
Total value January 1.	258,0	20,3	516,1	290,8	1.085,2
Previously depreciated	(24,9)	(5,4)	(253,0)	(131,0)	(414,3)
Book value January 1.	233,1	14,9	263,1	159,8	670,9
Revaluation / exchange rate difference during the year............	52,0	2,3	45,8	29,5	129,6
Purchases during the year	31,1	19,9	148,3	123,6	322,9
Sales during the year	0,0	(10,5)	(9,7)	(0,7)	(20,9)
Depreciation during the year	(12,4)	(4,2)	(94,4)	(82,4)	(193,4)
Net book value Dec. 31.	303,8	22,4	353,1	229,8	909,1

Depreciation is calculated as a fixed annual percentage of revalued historical cost, based on the period of ownership during the year. It is charged to expenses at the average price level for the year. Depreciation, classified by operational category, is shown in the following schedule in millions of ISK:

Cost of goods sold	72,7
Sales and marketing expenses	7,4
Research and development expenses	25,2
General and administrative expenses............	88,1
	193,4

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

	Insurance value	Book value
Fixed assets and inventories...	2.135,5	1.928,0

The Group owns buildings situated in California, USA.

Investments

8. Long-term securities are intended for the investments of the consolidated companies in the future. Long-term securities are recorded at purchase price adjusted for price level changes.

Inventories

9. Inventories are valued at the lower, cost or market value, after taking obsolete and defective goods into consideration.

Inventories in finished goods have been lowered in the Consolidated Financial Statements by unrealized gain from intergroup transactions.

Short-term Receivables

10. Accounts receivable are valued at nominal value with interest and exchange rate gains added, less an allowance for doubtful receivables amounting to ISK 125,9 million. This allowance is deducted from accounts receivable in the Balance Sheet and does not represent a final write-off. The increase in the allowance for doubtful receivables during the year ISK 101,3 million is entered in the income statement.

Marketable Securities

11. Marketable securities consist of mutual fund shares and are valued at the year-end market price. No restrictions apply to the securities´ liquidation.

Stockholders' equity

12. Common stock is as follows:

	Shares	Ratio	Nominal value
Total common stock at the end of year.............	324,2	98,7%	324,2
Treasury stock at the end of year.......................	4,2	1,3%	4,2
	328,4	100,0%	328,4

Shares issued and outstanding at year-end numbered a total of 328.441.000. The nominal value of each share is ISK 1.

13. Changes in stockholders' equity are as follows:

	Common stock	Additional paid-in capital	Statutory reserve	Other Equity	Total
Stockholders' equity as of January 1, 2001	328,4	7.660,6	15,2	(5.942,9)	2.061,3
Tax impact of prior year adjustment				9,4	9,4
Purchases of treasury stock	(6,4)	(258,7)			(265,1)
Exercised share options	2,2	45,4			47,6
Revaluation of fixed assets				15,7	15,7
Translation difference of shares in foreign companies				525,1	525,1
Calculated infl. adjustments				(85,4)	(85,4)
Net income for the year				843,9	843,9
Transferred from additional paid-in capital and balanced against losses		(4.634,2)		4.634,2	0,0
	324,2	2.813,1	15,2	0,0	3.152,5

Stock Option Contracts and Obligations to Increase Share Capital

14. The consolidated companies have made stock option agreements with Directors, employees and other parties related to the operations. Furthermore, a portion of the purchase price of companies purchased by the Group 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. In cases where the market price on the contract date has been equal to or lower than the exercise price, no entry has been made.

	Number of shares (in Thousands)				
Contract rate / conditions	2002	2003	2004	2005-6	Total
3,125 / conditional	429,0	429,0	429,0	0,0	1.287,0
24,0 / conditional	189,6	189,6	189,6	189,6	758,4
46,0 / conditional	0,0	0,0	0,0	1.000,0	1.000,0
58,5 / conditional	400,0	400,0	400,0	400,0	1.600,0
73,7/ conditional	0,0	0,0	0,0	3.550,0	3.550,0
	1.018,6	1.018,6	1.018,6	5.139,6	8.195,4

At year-end 2001, 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. The listed market price per share at year-end 2001 was 49,8.

Ossur hf. has contractual obligations from the purchase of Swedish subsidiaries in the year 2000 to issue 1.648.800 shares in the years 2002–2004 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.

Long-term Debts

15. Long-term debts are recorded at year-end exchange rate. Long-term debts, classified by currency, are shown in the following schedule in millions of ISK:

Long-term debts in foreign currencies:

	Remain balance
Loans in USD	1.757,5
Loans in ISK	83,5
	1.841,0

Aggregated annual maturities are as follows:

In 2002	506,5
In 2003	496,6
In 2004	798,1
In 2005	39,8
	1.841,0

Taxation

16. Income taxes on the consolidated profits during the year have been calculated and entered in the Consolidated Financial Statements. Income tax expense in the Income Statement is shown in the following schedule in millions of ISK:

	2001	2000
Income tax payable in the year 2002	84,1	12,3
Amortized taxable benefits relating to the purchase of other companies	129,8	84,5
Income tax effects of the elimination of unrealized inventory gains	(38,1)	(24,6)
Effect of change in income tax rate on calculated tax credit because of eliminated gain in inventories, note 4	29,3	0,0
Effect of change in income tax rate on calculated tax liability at the parent company	(19,0)	0,0
Changes in calculated tax benefits / tax liabilities in the year 2001	(10,9)	(16,0)
	175,2	56,2

Commitments and Mortgages

17. The assets of the consolidated companies carry registered liens and undertakings securing debts with a residual amount of ISK 73,9 million at year-end. The terms of loans amounting to ISK 1.227,2 million include provisions to the effect that the Company shall not, without consulting the lender, divest itself of a substantial proportion of its fixed assets or substantially alter its operations. In addition, the loan agreements contain terms on gearing limits.

Other Issues

18. The Group has purchased business interruption insurance intended to compensate for temporary breakdown of operations. The insurance amount is ISK 584,8 million.

19. Nine renting agreements are in place for premises in Reykjavik, the Netherlands, Sweden, the United Kingdom and the United States. The leases expire in the years 2002–2020. The total amount of rent for the consolidated companies in the year 2001 is ISK 92,8 million.

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

20. The sales of the Group is specified as follows according to sales regions and product lines:

America	56%
Europe	35%
Other countries	9%
	100%

Prosthetics	91%
Orthotics	5%
Other products	4%
	100%

21. Financial income and (financial expenses) are specified as follows in millions of ISK:

	2001	2000
Interest income	38,5	83,6
Dividends	0,0	0,6
	38,5	84,2
Interest expenses and exchange rate difference	(171,6)	(224,1)
Calculated inflation adjustment	85,4	9,0
	(47,7)	(130,9)

22. Salaries and salary-related expenses paid by the Group are specified as follows in millions of ISK:

	2001	2000
Salaries	1.788,2	856,3
Salary-related expenses	595,9	182,7
	2.384,1	1.039,0
Average number of positions	392	327

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

	2001	2000
Cost of goods sold	745,2	406,8
Sales and marketing	669,3	230,2
Research and development	236,7	131,3
General and administrative	732,9	270,7
	2.384,1	1.039,0

    The consolidated companies have granted loans to employees to purchase shares in the Company. The remaining balance of the loans is ISK 3,0 million at year-end 2001. The loans were granted for two years and are interest free.

    The total fees and salaries to the Board of Directors and the President and CEO of the consolidated companies amounted to ISK 29,2 million in 2001. These persons have entered into stock option contracts granting them the right to purchase of 3.050.000 shares at ISK 73,70 per share. The stock options are exercisable in 2005 if specified conditions are met. No dividends, loans or commitments have been extended to these persons.

23. The consolidated companies have entered into forward contracts in order to limit currency exchange risk. Forward contracts will be exercised in the period January–May 2002. The total contracts value amounts to 900 thousand USD vs. ISK 93,0 million.

Cash flow

24. Cash and cash equivalents in acquired companies are recorded as a separate item in the Statement of Cash Flows.

    The treatment of the effects of foreign exchange adjustments in the Statement of Cash flows is explained in Note 2.

    Taxes paid during the year amounted to ISK 23,0 million. Interest expenses in excess of interest income amounted to ISK 125,3 million in the year 2001.

    Fixed assets in the amount of ISK 57,0 million were purchased during the year, financed in full by lease agreements. These purchases do not affect cash, and are therefore not included in the Statement of cash flows.

X Board of Directors

X Board of Directors

Petur Gudmundarson, Gunnar Stefansson, Ossur Kristinsson, Sigurbjorn Thorkelsson, Kristjan Ragnarsson and Heimir Haraldsson

Members of the Board of Directors at Ossur are Gunnar Stefansson, Heimir Haraldsson, Kristjan Ragnarsson, Petur Gudmundarson, Sigurbjorn Thorkelsson and Ossur Kristinsson.

GUNNAR STEFANSSON has been a Member of the Board since 1993. Currently a lecturer in Mathematics at the University of Iceland, he has previously worked as Deputy Director of the Institute of Marine Research in Iceland. He has also worked at the International Marine Research Council. Mr Stefansson holds a PhD in Statistics from Ohio State University in Columbus, Ohio.

HEIMIR HARALDSSON joined the Board in 2001. CEO and a partner at KPMG for a number of years, he was also CEO of Gilding Investment Company from 2000, which has since merged with Bunadarbanki. Mr Haraldsson graduated with a Business Degree from the University of Iceland in 1979, and he has been a chartered accountant since 1982.

KRISTJAN RAGNARSSON became a Member the Board in 1999. He has worked for many years in the United States. Since 1986, he has served as Professor and Chairman of the Department of Rehabilitation Medicine, Mount Sinai Medical Center in New York City, and since 1997 he has been Chairman of the Faculty Practice Associates Board of Governors, Mount Sinai School of Medicine. Mr Ragnarsson graduated from the University Of Iceland School of Medicine in 1969 and became certified by the American Board of Physical Medicine and Rehabilitation in 1976.

PETUR GUDMUNDARSON has been Chairman of the Board since 1995. He is a practicing legal attorney and a partner of the law firm Logos. He has been licensed to practice law before the Supreme Court of Iceland since 1986. Mr Gudmundarson is Chairman of the Board at Delta hf. and also holds a seat on the Board of Globus Velaver hf.

SIGURBJORN THORKELSSON became a Board Member in 1999. He has been a Managing Director at Lehman Brothers Investment Bank in New York since 1998. Mr Thorkelsson completed a Degree in mechanical engineering at the University of Iceland in 1990, and a Masters Degree in industrial engineering and finance at Stanford University in 1992.

OSSUR KRISTINSSON is the founder of the Company. He has served on the Board of Directors since 1971, and was Managing Director of the Company from 1971 to 1989. Mr Kristinsson studied prosthetics in Sweden and received his certification from the Swedish Board of Certification for Prosthetics and Orthotics in 1971.

XI Management Team

XI Management Team

ARNI ALVAR ARASON, Vice President, Business Development, has been with Ossur since 1996. Prior to this position he has worked within the Company as Chief Financial Officer, Marketing Manager and Product Manager. From 1994 to 1996, he was a Marketing Manager at Folda hf., and he was previously Sales and Distribution Manager with Christoph Fritzsch GmbH in Germany. Mr. Arason graduated from the University of Trier in Germany with a degree in Business Administration.

EYTHOR BENDER, Vice President of the Prosthetics Division, joined Ossur in 1995. He was the Company's Director of Sales from 1997 to 2000 and Marketing Manager prior to that. Before joining Ossur, Mr Bender worked at the Hewlett Packard European Marketing Center in Germany (1993–1995) and with their European Medical Division, as a marketing consultant (1989–1993). He has a degree in Business Administration from the University of Tubingen in Germany.

GARY F WERTZ, President of Ossur North America, Inc., has over 20 years of experience in the healthcare sector. He worked as Flex-Foot's Vice President of Marketing and Sales and was a strategy consultant for biotech and medical device companies before joining Flex-Foot in 1998. Previously Mr Wertz was Regional Vice President for Allergan and Vice President of Sales and Marketing for Herbert Laboratories. He has a BSc in Biology and Chemistry, a Masters of Science in Genetics from Western Michigan University and has completed the Executive Marketing Management Program at Stanford University Graduate School of Business.

HILMAR BRAGI JANUSSON, Vice President of the Technical Division (incorporating R&D and Manufacturing), has been with Ossur since 1993. He was formerly a researcher with the Technological Institute of Iceland from 1987 to 1988. Dr Janusson is also on the Board of a number of other Icelandic companies. He holds a degree in Chemistry from the University of Iceland and a Doctorate in Chemical Science and Engineering from Leeds University in England.

HJORLEIFUR PALSSON, Chief Financial Officer, joined Ossur in the fall of 2001. He is a former Partner and Board Member of Deloitte & Touche, Iceland's leading auditing firm. Mr Palsson graduated in 1988 with a Business Degree from the University of Iceland, and qualified as a certified public accountant in 1989.

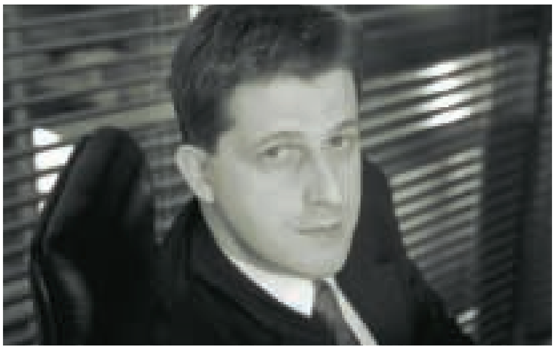
JON SIGURDSSON, Ossur President and Chief Executive Officer, has lead the Company since 1996. He was Commercial Advisor to Iceland's Export Council in New York between 1992 and 1996 and previously Head of Finance at Alafoss hf. (1989–1992). Mr Sigurdsson also worked as Head of the Foreign Division of Eimskip hf. (1986–1989) and Head of the Development Division of Bang & Olufsen AS in

ARNI ALVAR ARASON, Vice President, Business Development

EYTHOR BENDER, Vice President of the Prosthetics Division

GARY F WERTZ, President of Ossur North America, Inc.

HILMAR BRAGI JANUSSON, Vice President of the Technical Division



HJORLEIFUR PALSSON, Chief Financial Officer

JON SIGURDSSON, Ossur President and Chief Executive Officer

OLAFUR GYLFASON, Managing Director of Ossur Europe B.V.

YVONNE MEYER, Managing Director of Ossur Nordic A.B.

Denmark (1982–1984). He is a Board Member of Iceland's Export Council, the Research Commission of the University of Iceland, and Sjoklaedagerdin hf. Mr Sigurdsson has a degree in Administrative Technical Engineering from the Technical School in Odense, Denmark, and a Master's degree in Business Administration from the United States International University in San Diego.

OLAFUR GYLFASON, Managing Director of Ossur Europe B.V., has been with Ossur since 1997, formerly working in international sales and as Marketing and Sales Director for Europe. Mr Gylfason holds a degree in Business Administration from Bifrost School of Business. He continued his studies at Alborg University in Denmark, graduating with a Masters degree in International Business Economics in 1997.

YVONNE MEYER, Managing Director of Ossur Nordic A.B., has been working in the prosthetics and orthotics field since 1971. From 1988 until the acquisition of the company in 2000, she was the Director and owner of PiMedical, a Swedish company that was distributing Ossur products from 1986 onwards. Mrs Meyer has a Masters degree in Languages and has studied Economics at the University of Uppsala.