

# Össur hf

Consolidated Financial Statements

March 31<sup>st</sup> 2002

Össur hf.  
Grjóthálsi 5  
110 Reykjavík  
Iceland

kt. 560271-0189

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# **Signature by the Board of Directors and the President and CEO**

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It is the opinion of the Board of Directors and the President and CEO of Össur hf. that these interim Consolidated Financial Statements present all the information necessary to show the financial position of the Company at March 31, 2002, the operational results for the period January 1 to March 31, 2002, and financial developments during that period.

The Board of Directors and President and CEO of Össur hf. hereby confirm the interim Consolidated Financial Statements of Össur hf. for the period from January 1 to March 31, 2002 with their signatures.

Reykjavik, April 29, 2002

## **Board of Directors:**

Pétur Guðmundarson  
Chairman of the Board

Össur Kristinsson

Gunnar Stefánsson

Heimir Haraldsson

Kristján T. Ragnarsson

Sigurbjörn Þorkelsson

## **President and CEO**

Jón Sigurðsson

## Financial ratios

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### Consolidated statement

		31.3.2002	31.3.2001	2001	2000 <sup>(1)</sup>	1999	1998
<b>Growth</b>							
Net sales	USD '000	18,593.0	16,325.1	69,202.0	45,828.0	17,989.6	14,532.0
Net income	USD '000	1,030.7	654.5	8,632.1	5,187.5	1,925.2	1,112.4
Total assets	USD '000	61,280.7	54,237.2	58,201.3	56,851.1	24,307.0	7,361.6
EBITDA	USD '000	2,127.3	2,217.5	12,972.9	8,904.3	3,361.0	
<b>Operational performance</b>							
Cash provided by operating activities	USD '000	(443.6)	1,362.3	10,358.7	5,796.7	3,242.9	1,132.8
- as ratio to total debt	%	(6.1)	17.3	36.1	30.0	67.0	24.5
- as ratio to income		(0.4)	2.1	1.2	1.1	1.7	1.0
Working capital from operating activities	USD '000	1,988.8	1,722.0	10,770.6	8,556.9	2,598.3	1,610.5
- as ratio to long-term debt and stockh. equity	%	18.2	14.5	27.3	24.6	19.2	30.9
- as ratio to investm., current maturities, divid.		5.6	3.4	1.2	0.1	2.7	2.4
<b>Liquidity and solvency</b>							
Quick ratio		1.0	0.8	1.2	1.1	1.5	1.7
Current ratio		1.7	1.2	1.9	1.5	2.2	2.7
Equity ratio	%	50.7	46.1	52.5	44.6	78.6	35.7
<b>Asset utilization and efficiency</b>							
Total asset turnover		1.2	0.3	1.3	1.1	1.1	2.2
Grace period granted	Days	45	47	44	50	40	39
<b>Profitability</b>							
Return on capital <sup>(3)</sup>	%	20.6	n/a	19.0	8.2	22.9	22.2
Return on common equity <sup>(3)</sup>	%	32.1	n/a	32.4	9.0	44.7	77.3
Operating profit as ratio to net sales	%	8.6	10.2	15.8	16.5	16.1	14.7
Net income before taxes as ratio to net sales	%	6.9	8.1	15.1	12.9	16.6	12.5
Net income for the year as ratio to net sales	%	5.5	3.9	12.5	11.3	10.7	7.7
<b>Market</b>							
Market cap.	USD '000	155,788.8	179,754.2	158,491.9	255,928.1	116,850.4	
Price/earnings ratio, (P/E) <sup>(3)</sup>		17.3	n/a	19.4	53.0	60.8	
Price/book ratio		5.0	7.2	5.2	10.1	6.1	
Number of shares	Millions	328.4	328.4	328.4	328.4	211.9	
Earnings per share, (EPS) <sup>(3)</sup>	US Cent	2.74	n/a	2.49	1.48	0.91	

### Notes

1. Financial ratios for the year 2000 have been calculated using net income before extraordinary expenses
2. Financial ratios for 1Q 2001 and 2002 have been calculated as for a 12 month period
3. Financial ratio for 1Q 2002 is based on operations for the preceding 12 months
4. Financial ratios based on financial statements prepared in Icelandic currency have been translated to US dollars. Income statement items have been translated at the average exchange rate for each period and balance sheet items have been translated at the exchange rate at the end of each period.

# **Auditor's Report**

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To the Board of Directors and Shareholders of Össur hf.

We have reviewed the accompanying Consolidated Balance Sheets of Össur hf. and its subsidiaries as of March 31, 2002, and the related Consolidated Statements of Income and Cash Flows for the period then ended. These interim Consolidated Financial Statements contain Income statements, Balance sheets, Statement of Cash Flows and Notes to the Financial Statements. These Financial Statements are the responsibility of the Company's management. Our responsibility is to issue a report on these Financial Statements based on our review.

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

Based on our review nothing has come to our attention that causes us to believe that the accompanying Financial Statements do not give a true and fair view of the financial position of Össur hf and its subsidiaries as of March 31, 2002, of the results of their operations and their cash flows for the period then ended in accordance with generally accepted accounting principles applied on a consistent basis. Financial Statements of foreign subsidiaries have been reviewed by Deloitte & Touche in the countries where they are located.

Reykjavík, April 29, 2002

**Deloitte & Touche**

Heimir Þorsteinsson  
State Authorized Public Accountant

Þorvarður Gunnarsson  
State Authorized Public Accountant

# Consolidated Income Statements for the Periods 1.1.-31.3.2002 and 1.1.-31.3.2001

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	Notes	Consolidated Statements	
		1Q 2002	1Q 2001
<b>Net sales .....</b>		18,593.0	16,325.1
Cost of goods sold .....		<u>(7,494.9)</u>	<u>(6,287.6)</u>
<b>Gross profit .....</b>		11,098.1	10,037.5
Other income .....		222.4	148.6
Sales and marketing expenses .....		<u>(4,197.4)</u>	<u>(3,335.1)</u>
Research and development expenses .....		<u>(2,018.6)</u>	<u>(1,158.4)</u>
General and administrative expenses .....		<u>(3,562.1)</u>	<u>(4,003.9)</u>
 <b>Profit from operations .....</b>		 1,542.4	 1,688.7
Interest income/(expenses) .....	17	(323.3)	(361.0)
Income from associates .....	3	<u>56.0</u>	<u>9.2</u>
 <b>Profit before tax .....</b>		 1,275.1	 1,336.9
Income tax and Net worth tax .....	15	<u>(244.4)</u>	<u>(682.4)</u>
 <b>Net profit for the period .....</b>		 <u>1,030.7</u>	 <u>654.5</u>

# Consolidated Balance Sheets

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## Assets

		Consolidated Statements	
	Notes	31.3.2002	31.12.2001
<b>Fixed assets</b>			
<b>Intangible assets</b>			
Deferred tax asset .....	4	20,738.7	20,562.1
Other intangible assets .....	5	<u>282.5</u>	<u>301.5</u>
		<u>21,021.2</u>	<u>20,863.6</u>
<b>Operating fixed assets</b>	6		
Buildings and sites .....		3,106.9	2,943.3
Other operating fixed assets .....		<u>7,316.1</u>	<u>5,865.7</u>
		<u>10,423.0</u>	<u>8,809.0</u>
<b>Investments</b>			
Investments in associates .....		188.7	127.3
Long-term securities .....	8	<u>1,099.1</u>	<u>1,148.2</u>
		<u>1,287.8</u>	<u>1,275.5</u>
<b>Total fixed assets</b>		<u>32,732.0</u>	<u>30,948.1</u>
<b>Current assets</b>			
<b>Inventories</b>	9		
Raw materials and work in process .....		4,934.3	3,579.8
Finished products .....		<u>5,606.4</u>	<u>6,293.0</u>
		<u>10,540.7</u>	<u>9,872.8</u>
<b>Short-term receivables</b>			
Accounts receivable .....	10	11,621.4	9,854.0
Other receivables .....		<u>2,280.8</u>	<u>1,529.7</u>
		<u>13,902.2</u>	<u>11,383.7</u>
<b>Cash and cash equivalents</b>			
Marketable securities.....	11	95.3	452.8
Cash .....		<u>4,010.5</u>	<u>5,543.9</u>
		<u>4,105.8</u>	<u>5,996.7</u>
<b>Total current assets</b>		<u>28,548.7</u>	<u>27,253.2</u>
<b>Total assets</b>		<u>61,280.7</u>	<u>58,201.3</u>

# March 31, 2002 and December 31, 2001

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## Equity and liabilities

		Consolidated Statements	
	Notes	31.3.2002	31.12.2001
<b>Stockholders' Equity</b>		12.13	
Common stock .....		3,131.4	3,141.7
Additional paid-in capital .....		26,695.6	27,258.9
Statutory reserve .....		250.0	146.9
Other equity .....		967.4	0.0
<b>Total stockholders' equity</b>		<u>31,044.4</u>	<u>30,547.5</u>
<b>Liabilities</b>			
<b>Long-term liabilities</b>		14	
Credit institutions .....		10,039.1	9,998.4
Long-term notes .....		34.9	34.8
Other long-term liabilities .....		2,904.7	2,897.6
<b>Total long-term liabilities</b>		<u>12,978.7</u>	<u>12,930.8</u>
<b>Current liabilities</b>			
Current maturities.....		5,053.8	4,907.9
Credit institutions .....		1,483.0	0.0
Accounts payable.....		3,276.3	3,448.0
Accrued taxes payable.....	15	310.9	789.3
Other current liabilities.....		7,133.6	5,577.8
<b>Total current liabilities</b>		<u>17,257.6</u>	<u>14,723.0</u>
<b>Total liabilities</b>		<u>30,236.3</u>	<u>27,653.8</u>
<b>Total equity and liabilities</b>		<u>61,280.7</u>	<u>58,201.3</u>

# Consolidated Statements of Cash Flows

## for the Periods 1.1.-31.3.2002 and 1.1.-31.3.2001

	Notes	Consolidated Statements	
		1Q 2002	1Q 2001
<b>Cash flows from operating activities</b>			
Net income for the period .....		1,030.7	654.5
<b>Adjustments for:</b>			
Depreciation and amortization.....	5.6	584.9	528.8
Indexation and foreign exchange rate differences.....		141.8	357.8
Calculated inflation adjustment.....		0.0	(255.4)
Deferred income tax.....		287.4	449.8
Income from associates.....		(56.0)	(9.2)
Other non-cash items.....		0.0	(4.3)
<b>Working capital from operating activities</b>		<u>1,988.8</u>	<u>1,722.0</u>
<b>Changes in operating assets and liabilities</b>			
Inventories, increase.....		(693.1)	(53.5)
Accounts receivable, increase.....		(3,026.0)	(4,105.7)
Current liabilities, increase.....		<u>1,286.7</u>	<u>3,799.5</u>
<b>Net cash provided by/(used in) operating activities</b>		<u>(443.6)</u>	<u>1,362.3</u>
<b>Cash flows from investing activities</b>			
Purchase of fixed assets .....		(1,428.6)	(786.8)
Proceeds from sale of fixed assets .....		7.3	44.7
Share investments .....		0.0	(480.0)
Long-term securities and other receivables, changes ...		<u>55.3</u>	<u>180.6</u>
<b>Net cash used in investing activities</b>		<u>(1,366.0)</u>	<u>(1,041.5)</u>
<b>Cash flows from financing activities</b>			
Payments on long-term debt .....		(59.1)	(799.8)
<b>Net cash used in financing activities</b>		<u>(59.1)</u>	<u>(799.8)</u>
<b>Net decrease in cash and cash equivalents .....</b>		(1,868.7)	(479.0)
<b>Effects of foreign exchange adjustments .....</b>		(22.2)	235.3
<b>Cash and cash equivalents at beginning of year</b>		<u>5,996.7</u>	<u>6,996.3</u>
<b>Cash and cash equivalents at end of period .....</b>		<u>4,105.8</u>	<u>6,752.6</u>

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# Notes to the Financial Statements

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## Operations

Össur 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 during the period: at Össur North America Inc., in Aliso Viejo, California, which manufactures and assembles prosthetic feet; at Össur Engineering, Inc. in Albion, Michigan, which manufactures prosthetic knees, at Mauch, Inc. in Dayton, Ohio, which manufactures components for prosthetic knees and implants, and at Össur hf. in Iceland, which manufactures sockets and components. In addition, orthotic devices are manufactured at Össur Nordic, A.B. in Uppsala, Sweden, and, finally, the parent company runs a prosthetic workshop in Iceland.

Sales, distribution and services in North America were handled by Össur North America, Inc., Western Europe by Össur Europe B.V., the Nordic countries by Össur Nordic, A.B., while other markets were mostly serviced by Össur hf. in Iceland and Össur North America, Inc. In 2001, the 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 distributors.

A new and changed organization for operations and the legal entities that form the consolidation took effect in 2002. The Technical division manages all R&D and manufacturing. The Prosthetic division handles international marketing, product management and sales to international markets other than North America and Europe. Localized marketing, sales distribution and services is handled by three independent sales companies, Össur North America, Inc., California, Össur Europe, B.V., Netherlands, and Össur Nordic, A.B., Sweden.

## Changes in Accounting Policies

By legislation of a change in Icelandic Act no. 144/1994 on Financial Statements the effects of general price level changes on the operation and financial position of the Icelandic reporting entities will cease to be reported, effective January 1st 2002. Accordingly the interim Consolidated Financial Statements do not report the effects of general price level changes since January 1, 2002. Comparative figures for the previous period have not been changed. If the effects of general price level changes had not been reported for the previous period, net income would have been USD 399.3 thousand.

In periods prior to 2002 the effects of general price level changes on the operation and financial position were calculated in preparation of prior period's consolidated financial statements. Accordingly the income statement in prior period's consolidated financial statements indicated figures stated at the average price level of the year, but figures in the balance sheet were stated at year-end price level. Price level changes were measured in accordance with changes in consumer price index. Fixed assets were revalued by adjusting their total value and depreciation to year-end. Those fixed assets, which were bought or sold during the period, were revalued according to the period of ownership. The effects of changes in general price level on monetary assets and liabilities as they were at beginning of the year and changes in that position during the year were calculated and created revenue (expense) entry called "Purchasing power loss on net monetary items." (calculated inflation adjustment) Revaluation of fixed assets and Purchasing power loss on net monetary items were posted to the revaluation equity account in the balance sheet.

By legislation of a change in Icelandic Act no. 144/1994 on Financial Statements, Icelandic legal entities were permitted to report the results of their operations and financial position in foreign currencies. Accordingly, the board of Össur has decided to report in US dollars, which is the consolidated companies' functional currency.

The interim Consolidated Financial Statements are based on historical cost in accordance with Icelandic law and generally accepted accounting principles. In all material respects the statements are consistent with the statements of the preceding year except for the abovementioned changes.

# Notes to the Financial Statements

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## Summary of Accounting Policies

1. The interim Consolidated Financial Statements are based on historical cost in accordance with Icelandic law and generally accepted accounting policies.

The Income Statements of foreign subsidiaries, reporting in other currencies than US dollar, are calculated to US dollars at the average exchange rate of the operating period, and Balance Sheet items other than common stock are calculated to US dollars at exchange rate at the end of the period. Translation differences from foreign companies are posted to other equity.

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

## Comparison to The Previous Year

2. In order to disclose comparison between periods, comparative figures for periods prior to 2002, which were originally stated in Icelandic krona, have been translated from Icelandic krona to US dollars. Income Statement items have been translated at the average exchange rate for the period January 1 - March 31, 2001 and Balance Sheet items have been translated at the year-end exchange rate 2001.

## The Group

3. The interim Consolidated Financial Statements of Össur hf. pertain to the following subsidiaries:

	Ownership
Össur Holding, AB.....	100%
Össur Nordic, AB.....	100%
Össur 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%
Össur Holdings, Inc.....	100%
Össur Engineering, Inc.....	100%
Century XXII Engineering, Inc.....	100%
Össur North America, Inc.....	100%
Mauch, Inc.....	100%
Össur USA, Inc.....	100%
OR Capital, Inc.....	100%
Össur stoðtæki hf.....	90%
Össur UK, Ltd.....	100%
Össur Europe, BV.....	100%

Össur's ownership in associates is accounted for using the equity method. Össur owns 48,75% of the shares of Eirberg ehf. which qualifies as a associated company of Össur. Össur's share in the period's net profit, USD 56 thousand, is entered in the Income Statements.

# Notes to the Financial Statements

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The interim 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 Össur stoðtæki hf. is not material and is not accounted for in the interim Consolidated Financial Statements.

One of the purposes of interim Consolidated Financial Statements is to show only the net external sales, 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 interim Consolidated Financial Statements. Unrealised gain in inventories resulting from intercompany transactions has been eliminated and calculated income tax in the interim Consolidated Financial Statements adjusted accordingly.

## Intangible Assets

4. **Deferred tax asset** is due to, on the one hand, tax benefits from the purchase of shares in other companies for a price in excess of the recorded book value of stockholders' equity and, on the other hand, by income tax loss carryforward due to operating losses. Deferred income tax liabilities of subsidiaries where applicable are deducted from income tax loss carryforward from goodwill. The amounts are shown in the following schedule in thousands of USD:

Tax benefits due to purchase of goodwill .....	17,231.3
Tax benefits due to loss carry-forward .....	3,401.7
Tax adjustments due to unrealized intercompany gain in inventories.....	835.6
Tax liabilities .....	(729.9)
	<hr/> <u>20,738.7</u>

In the year 2000 Össur bought all shares in an Californian based Company called Flex-foot Inc. The purchasing price of the shares was considerable higher than book value of equity, identified as goodwill. The goodwill was expensed in the income statement in the year 2000 but 3/4 of the tax benefits related to the buying of the goodwill was capitalized.

According to US tax laws applying to the deal the goodwill is deductible from tax over a period of 15 years. Thus the subsidiary Össur Holdings Inc. will have a tax deduction over the next 13 years on profits amounting to USD 55,581.2 thousand. The Company estimates sufficient annual profits to utilize the tax benefits. The amount will be charged to income tax expense in the Income Statement over the next 13 years. Accordingly, USD 331.4 thousand was charged to income tax expense in the Income Statement during the period. The remaining balance amounts to USD 17,231.3 thousand.

At the end of the period the consolidated companies had an income tax loss carryforward, which can be used in following years. The Income tax loss carryforward, USD 3,401.7 thousand, 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 USD 729.9 thousand 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 USD 3,501.5 thousand were eliminated. This has an effect on the income tax expenses of the consolidated companies, and an adjustment of USD 835.6 thousand is made in the Consolidated Financial Statements to reduce income tax expense to account for this. Income tax expense is calculated in accordance with tax rates in the countries where the inventories are produced.

# Notes to the Financial Statements

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5. **Other intangible assets** consist of capitalized research and 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 period are expensed.

Development cost and other intangible assets are further specified as follows in thousands of USD:

Cost at January 1 .....	707.3
Previously amortized .....	(405.8)
Book value at January 1 .....	301.5
Amortized during the period.....	(19.0)
Book value at March 31 .....	<u><u>282.5</u></u>

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

Research and development expenses.....	7.7
General and administrative expenses.....	11.3
	<u><u>19.0</u></u>

## Fixed Assets and Depreciation

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

Buildings.....	2%
Automobiles .....	5-20%
Machinery and equipment .....	3-20%
Fixtures and office equipment .....	6-33%

Fixed assets, exchange rate differences and depreciation are specified as follows in thousands of USD:

	Buildings and sites	Automobiles	Machinery & equipment	Fixtures & office equipment	Total
Total value January 1 .....	3,364.2	273.8	7,332.4	4,167.9	15,138.3
Previously depreciated .....	(420.9)	(56.0)	(3,807.9)	(2,044.5)	(6,329.3)
Book value January 1 .....	<u><u>2,943.3</u></u>	<u><u>217.8</u></u>	<u><u>3,524.5</u></u>	<u><u>2,123.4</u></u>	<u><u>8,809.0</u></u>

Exchange rate difference					
during the period.....	(1.4)	(1.6)	(0.2)	(1.0)	(4.2)
Purchases during the period.....	221.1	0.0	1,373.3	597.0	2,191.4
Sales during the period.....	0.0	0.0	(7.3)	0.0	(7.3)
Depr. during the period.....	(56.1)	(10.5)	(243.5)	(255.8)	(565.9)
Net book value March 31.....	<u><u>3,106.9</u></u>	<u><u>205.7</u></u>	<u><u>4,646.8</u></u>	<u><u>2,463.6</u></u>	<u><u>10,423.0</u></u>

Purchase of fixed assets financed by lease agreements are capitalized and the related liability recorded among debts in the Balance Sheets.

# Notes to the Financial Statements

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7. Depreciation is calculated as a fixed annual percentage of historical cost, based on the period of ownership during the period. Depreciation, classified by operational category, is shown in the following schedule in thousands of USD:

Cost of goods sold .....	214.8
Sales and marketing expenses .....	21.0
Research and development expenses.....	75.7
General and administrative expenses .....	254.4
	<hr/>
	565.9
	<hr/>

## Investments

8. Long-term securities are intended for investments in the future. Long-term securities are valued at purchase price.

## 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 intercompany transactions.

## Short-term Receivables

10. Accounts receivable are valued at nominal value with interest and exchange rate gains added, less an allowance amounting to USD 1,368.9 thousand. The allowance relates to doubtful receivables USD 850.3 thousand and sales returns 518.6 thousand. The allowance is deducted from accounts receivable in the Balance Sheet and does not represent a final write-off. The increase in the allowance during the period USD 149.2 thousand is expensed 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 in millions of shares and USD thousands:

	Shares	Ratio	Nominal value
Total common stock at the end of year.....	323.1	98.4%	3,131.4
Treasury stock at the end of year.....	5.3	1.6%	51.2
	<hr/>	<hr/>	<hr/>
	328.4	100%	3,182.6

Shares issued and outstanding at year-end numbered a total of 328,441,000. The nominal value of each share is 1 Icelandic krona.

## Notes to the Financial Statements

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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, 2002.....	3,141.7	27,258.9	146.9	0.0	30,547.5
Purchases of treasury stock .....	(15.8)	(774.4)			(790.2)
Allocation of treasury stock to sellers of subsidiaries .....	5.5	211.1			216.6
Translation difference of shares in foreign companies.....				39.8	39.8
Net income for the period.....				1,030.7	1,030.7
Transferred to statutory reserve.....			103.1	(103.1)	
	<u>3,131.4</u>	<u>26,695.6</u>	<u>250.0</u>	<u>967.4</u>	<u>31,044.4</u>

### Long-term Debts

14. Long-term debts, in other currencies than US dollars, are recorded at the exchange rate at the end of the period. Long-term debts, classified by currency, are shown in the following schedule in USD thousands:

	<u>Remaining balance</u>
Long-term debts in foreign currencies:	
Loans in USD .....	17,418.1
Loans in ISK .....	614.4
	<u>18,032.5</u>
Current maturities.....	(5,053.8)
Long-term debts at March 31.....	<u>12,978.7</u>

Aggregated annual maturities are as follows:

In 1.4 2002 - 31.3 2003.....	5,053.8
In 1.4 2003 - 31.3 2004.....	4,751.3
In 1.4 2004 - 31.3 2005.....	7,631.4
In 1.4 2005 - 31.3 2006.....	449.2
Later.....	146.8
	<u>18,032.5</u>

# Notes to the Financial Statements

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## Taxation

15. Income taxes on the consolidated profits during the period have been calculated and entered in the Consolidated Financial Statements. Income tax expense in the Income Statement is shown in the following schedule in USD thousands:

	1Q 2002
Income tax payable for the period.....	328.0
Amortized tax benefits due to purchase of goodwill.....	331.4
Income tax adjustments due to elimination of unrealized profit in inventory.....	(410.0)
Changes in calculated tax benefits / tax liabilities in the year 2001 .....	(5.0)
	<u><u>244.4</u></u>

## Other Issues

16. Net sales is specified as follows according to markets and product lines:

North America .....	59%
Europe.....	33%
Other markets.....	8%
	<u><u>100%</u></u>
Prosthetics.....	94%
Orthodics.....	5%
Other products.....	1%
	<u><u>100%</u></u>

17. Financial income and (financial expenses) are specified as follows in USD thousands:

	1Q 2002
Interest income .....	25.0
	<u>25.0</u>
Interest expenses.....	(200.3)
Exchange rate difference.....	(148.0)
	<u>(323.3)</u>

## Cash flow

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

Taxes paid during the period amounted to USD 10.6 thousand. Interest expenses in excess of interest income amounted to USD 27.4 thousand during the period.

Fixed assets in the amount of USD 762.8 thousand were purchased during the period, financed in full by lease agreements. Treasury stock in the amount of USD 790.3 thousand was purchased during the period financed in full with a short term note payable. These purchases do not affect cash, and are therefore not included in the Statements of Cash Flows.