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Directors' report

In the opinion of the board of directors and the general manager of Össur hf., all information necessary for assessing the standings of the company, as of the 30th of June 2000, and the company's performance for the period and financial trends, is to be found in the financial statements.

The board of directors and the general manager of the company confirm the financial statements with their endorsement.

Reykjavík, July 26th 2000

Board members

Pétur Guðmundarson
Chairman

Össur Kristinsson

Gunnar Stefánsson

Þorkell Sigurlaugsson

Kristján T. Ragnarsson

Sigurbjörn Þorkelsson

Jón Sigurðsson
General Manager

Key figures

Consolidated statement

		6 m 2000	1999	1998	1997	1996
Growth						
Net sales in terms of 2000 prices	ISK '000	1.321.684	1.357.207	1.109.519	855.795	661.720
Employees	Number	269	122	101	87	67
Net income before extraordinary items (2000 price)	ISK '000	137.009	145.246	93.608	12.380	6.512
Total assets in terms of 2000 mid-year prices	ISK '000	3.614.672	1.809.829	557.716	488.085	467.335
Operational performance						
Cash provided by operations (2000 prices)	ISK '000	11.858	244.655	86.493	35.448	(39.508)
- as ratio to total debt	%	2,0	67,0	24,5	10,0	-11,3
- as ratio to income		0,087	1,7	0,9	2,9	-6,1
Working capital from operations (2000 prices)	ISK '000	241.295	196.029	122.965	42.988	22.005
- as ratio to long-term debt and owners' equity	%	20,7	19,2	30,9	11,9	6,2
- as ratio to investment, current maturities and div		5,3	2,7	2,4	0,7	0,3
Liquidity and solvency						
Acid-test ratio		1,0	1,5	1,7	1,3	1,2
Current ratio		1,5	2,2	2,7	2,3	2,3
Equity ratio	%	44,8	78,6	35,7	23,2	23,9
Asset utilization and efficiency						
Net sales pr. employee in terms of 2000 prices	ISK '000	9.827	11.125	10.985	9.837	9.876
Total assets turnover		1,0	1,1	2,2	1,8	1,7
Inventory turnover, raw materials		2,2	5,7	5,9	5,3	4,2
Inventory turnover, finished products		6,3	7,0	6,2	6,0	5,5
Days' sales in receivables	Days	101	40	39	41	44
Profitability						
Return on total assets	%	15,0	22,9	22,2	4,6	5,0
Return on common equity	%	11,8	44,7	77,3	12,8	4,5
Operating profit as ratio to net sales	%	13,3	16,1	14,7	5,0	7,0
Net income before taxes as ratio to net sales	%	14,1	16,6	12,5	4,0	5,1
Net income for the year as ratio to net sales	%	10,4	10,7	7,7	1,4	0,9
Market						
Year-end market value	ISK '000	19.128.394	8.477.498			
Price/earnings ratio		69,8	60,8			
Price/book ratio		11,8	6,1			
Number of shares	ISK '000	277.233	211.937			
Profit per share	ISK	0,99	0,66			

* Intercompany sales/purchases excluded.

** Key figures have been calculated as for a 12 month period.

Auditors' Report

To the board of directors and shareholders of Össur hf.

We have reviewed the accompanying balance sheet of Össur hf. (Ltd.) and the consolidated balance sheet of Össur hf. and subsidiaries as of June 30th 2000, and the related statements of income and cash flows for the period then ended. The interim financial statements contain the board of directors' report, statement of income, balance sheet, statement of cash flows and notes to the interim 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 audit 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 in accordance with generally accepted accounting principles.

Reykjavík, 26th of July 2000

Deloitte & Touche hf.

Árni Tómasson
State Authorized Public Accountant

Stefán Svavarsson
State Authorized Public Accountant

Income statement for January 1st to June 30th 2000

	Note	Consolidated statement		Parent company	
		6 m 2000	6 m 1999	6 m 2000	6 m 1999
Operating revenues					
Net sales	21	1.318.542.000	728.390.989	595.226.633	543.106.434
Other income		3.141.842	0	471.759	0
		<u>1.321.683.842</u>	<u>728.390.989</u>	<u>595.698.392</u>	<u>543.106.434</u>
Operating expenses					
Cost of materials used		264.845.983	184.512.364	117.727.841	116.146.695
Salaries and related expenses	23	375.726.993	199.673.636	178.457.280	167.298.711
Research and development costs		100.926.197	46.318.990	54.902.397	46.318.990
Other operating expenses		370.799.020	162.742.495	138.948.667	106.507.985
Depreciation	4	33.927.498	13.323.599	14.509.439	10.465.574
		<u>1.146.225.691</u>	<u>606.571.084</u>	<u>504.545.624</u>	<u>446.737.955</u>
Operating profit		175.458.151	121.819.905	91.152.768	96.368.479
Net interest					
Interest income (expenses)	22	10.528.286	(3.776.026)	(17.886.411)	(2.824.808)
Income before taxes		185.986.437	118.043.879	73.266.357	93.543.671
Taxes					
	15				
Income tax		(48.938.084)	(37.849.524)	(25.266.059)	(29.492.615)
Net worth tax		0	(1.919.949)	0	(1.919.949)
Net income before minority interests /subsidiaries		137.048.353	78.274.406	48.000.298	62.131.107
Minority interests and subsidiaries					
Minority interest / intercompany income	2	(39.223)	(1.069.258)	74.472.041	15.074.041
Net income before extraordinary items		137.009.130	77.205.148	122.472.339	77.205.148
Extraordinary expenses					
Goodwill charged to cost		(3.688.073.454)	0	(3.688.073.454)	0
Other extraordinary expenses		(1.570.864)	0	12.965.927	0
Net income (loss) for the period		<u>(3.552.635.188)</u>	<u>77.205.148</u>	<u>(3.552.635.188)</u>	<u>77.205.148</u>

Balance Sheet

		Assets			
		Consolidated statement		Parent company	
Notes		30.6.2000	31.12.1999	30.6.2000	31.12.1999
Fixed assets					
Intangible assets					
	3				
		1.583.165.873	0	0	0
		15.263.337	18.094.663	14.730.029	18.094.663
		<u>1.598.429.210</u>	<u>18.094.663</u>	<u>14.730.029</u>	<u>18.094.663</u>
Operating fixed assets					
	4				
		209.266.968	11.988.973	0	11.988.973
		338.165.439	110.318.204	116.346.019	93.745.530
		<u>547.432.407</u>	<u>122.307.177</u>	<u>116.346.019</u>	<u>105.734.503</u>
Long-term investments					
	6	0	0	226.501.781	117.523.113
	5	0	0	3.459.774.924	1.160.952.258
	7	234.840.076	1.148.223.583	87.217.962	30.598.644
		<u>234.840.076</u>	<u>1.148.223.583</u>	<u>3.773.494.667</u>	<u>1.309.074.015</u>
		Total fixed assets	2.380.701.693	1.288.625.423	3.904.570.715
			<u>1.432.903.181</u>		
Current assets					
Inventories:					
	8				
		207.816.823	50.661.574	60.889.678	50.049.687
		152.370.795	95.029.448	70.496.759	73.459.513
		<u>360.187.618</u>	<u>145.691.022</u>	<u>131.386.437</u>	<u>123.509.200</u>
Short-term claims					
	9	573.212.293	163.433.326	133.880.636	95.155.873
	10	85.695.078	40.894.288	58.016.361	31.989.041
		<u>658.907.371</u>	<u>204.327.614</u>	<u>191.896.997</u>	<u>127.144.914</u>
Liquid funds:					
	11	42.253.636	33.842.602	42.253.636	33.842.602
		172.621.209	90.983.746	35.786.972	24.444.040
		<u>214.874.845</u>	<u>124.826.348</u>	<u>78.040.608</u>	<u>58.286.642</u>
		Total current assets	1.233.969.834	474.844.984	401.324.042
			<u>308.940.756</u>		
		Total assets	3.614.671.527	1.763.470.407	4.305.894.757
			<u>1.741.843.937</u>		

June 30th 2000

Liabilities and equity

	Notes	Consolidated statement		Parent company	
		30.6.2000	31.12.1999	30.6.2000	31.12.1999
Equity	12				
Share capital		277.233.105	211.937.460	277.233.105	211.937.460
Additional paid in capital		4.633.567.449	984.913.993	4.633.567.449	984.913.993
General legal reserve		15.163.006	15.163.006	15.163.006	15.163.006
Other equity		<u>(3.307.982.129)</u>	<u>174.740.504</u>	<u>(3.307.982.129)</u>	<u>174.740.504</u>
Total owners' equity		<u>1.617.981.431</u>	<u>1.386.754.963</u>	<u>1.617.981.431</u>	<u>1.386.754.963</u>
Tax liabilities					
Deferred income tax		<u>0</u>	<u>751.504</u>	<u>0</u>	<u>11.859.110</u>
Liabilities					
Long-term liabilities	13				
Bank of Iceland, bond payable		1.149.047.260	76.307.709	1.149.047.260	76.307.709
Bearer bonds		83.608.623	81.466.965	83.608.623	81.466.965
Subsidiary liabilities.....		0	0	1.009.893.811	13.454.475
Other long-term liabilities		<u>243.197.011</u>	<u>21.814.029</u>	<u>243.101.570</u>	<u>21.759.251</u>
		1.475.852.894	179.588.703	2.485.651.264	192.988.400
Current maturities of long-term debt		<u>(325.819.163)</u>	<u>(17.309.466)</u>	<u>(325.819.163)</u>	<u>(17.309.466)</u>
Long-term liabilities		<u>1.150.033.731</u>	<u>162.279.237</u>	<u>2.159.832.101</u>	<u>175.678.934</u>
Current liabilities					
Current maturities, as above.....	14	325.819.163	17.309.466	325.819.163	17.309.466
Accounts payable.....		115.171.283	63.438.254	30.654.719	47.591.132
Accrued taxes payable.....	15	7.325.152	74.128.135	476.549	61.483.758
Other current liabilities.....		181.490.189	20.366.576	50.424.918	7.826.867
Accrued salaries, and other exp. payable		<u>216.850.578</u>	<u>38.442.272</u>	<u>120.705.876</u>	<u>33.339.707</u>
Current liabilities		<u>846.656.365</u>	<u>213.684.703</u>	<u>528.081.225</u>	<u>167.550.930</u>
Total liabilities		<u>1.996.690.096</u>	<u>375.963.940</u>	<u>2.687.913.326</u>	<u>343.229.864</u>
Liabilities and owners' equity		<u>3.614.671.527</u>	<u>1.763.470.407</u>	<u>4.305.894.757</u>	<u>1.741.843.937</u>

Statement of cash flows January 1st to June 30th 2000

	Note	Consolidated statement		Parent company	
		6 m 2000	6 m 1999	6 m 2000	6 m 1999
Operating activities					
Net income (loss) for the year		(3.552.635.188)	77.205.148	(3.552.635.188)	77.205.148
Reconciling items not involving cash:					
Depreciation.....	4	39.923.253	16.072.900	17.371.714	13.214.875
Gain on net monetary position.....	1	29.243.083	2.942.645	29.258.992	2.982.212
Indexation and exchange rate difference on long-term debt.....		(10.507.485)	60.086	3.306.119	(253.277)
Gain on sale of operating fixed assets.....		(1.779.180)	(25.050)	(12.994.906)	(25.050)
Net change in deferred tax-liability.....		48.938.084	302.049	25.266.059	(113.182)
Goodwill charged to cost.....		3.688.073.454	0	3.688.073.454	0
Intercompany investment income.....		0	0	(74.472.041)	(15.074.041)
Minority interest in net income.....	2	39.223	1.069.258	0	0
Working capital from operations		<u>241.295.244</u>	<u>97.627.036</u>	<u>123.174.203</u>	<u>77.936.685</u>
Changes in operating assets and liabilities					
Inventories (increase) decrease.....		(34.877.473)	841.013	(7.877.237)	(11.245.699)
Accounts receivable (increase) decrease.....		(124.590.490)	(67.932.812)	(57.197.403)	(28.620.208)
Current liabilities (decrease) increase.....		(69.969.121)	67.984.585	41.510.877	57.924.310
Cash provided by operations		<u>11.858.160</u>	<u>98.519.822</u>	<u>99.610.440</u>	<u>95.995.088</u>
Investment activities					
Purchase price of fixed assets		(5.742.670.540)	(17.386.352)	(33.342.387)	(19.366.078)
Sales price of fixed assets		15.000.000	0	15.000.000	0
Flex Foot Inc. investments		0	0	(5.798.256.987)	0
Share investments		0	0	4.395.762	0
Long term securities and other receivables		924.962.956	557.783	(160.297.407)	557.783
Investment activities		<u>(4.802.707.584)</u>	<u>(16.828.569)</u>	<u>(5.972.501.019)</u>	<u>(18.808.295)</u>
Financing activities					
Maturities on long-term debt		(4.600.758.418)	(12.510.855)	(4.600.353.613)	(11.788.306)
New long-term debt		5.772.100.000	0	6.779.049.057	0
Paid in capital		3.713.949.101	0	3.713.949.101	0
Financing activities		<u>4.885.290.683</u>	<u>(12.510.855)</u>	<u>5.892.644.545</u>	<u>(11.788.306)</u>
Change in cash position		94.441.259	69.180.398	19.753.966	65.398.487
Cash - beginning balance		<u>120.433.586</u>	<u>83.206.173</u>	<u>58.286.642</u>	<u>51.857.656</u>
Cash - closing balance		<u><u>214.874.845</u></u>	<u><u>152.386.571</u></u>	<u><u>78.040.608</u></u>	<u><u>117.256.143</u></u>

Notes

Summary of accounting policies

1. In preparing the financial statements the accounting principles are, in all material respects, consistent with those of the preceding year. The financial statements are prepared according to the IAS principles, adjusted for the effects of general price level changes as described in the following paragraph. The inflation in Iceland during the first six months of the year 2000 was 2,63%.

The financial statements have been adjusted for the effects of general price-level changes on Össur hf.'s operations and financial position. The adjustment is based on the changes in the Consumer Price Index. In the period January-June 2000 the index rose by 5.61%. The following methods are used:

The effect of general price-level changes on monetary assets, inventories and liabilities at the beginning of the year and their changes during the year has been calculated and is accounted for in the financial statements. Since the net monetary position including inventories was positive during the year, a net debit entry of 29,3 million ISK is included in the calculation of profits. The counterbalancing entry is to the revaluation account under owners' equity. The book value of intangible assets and operating fixed assets is revalued to 2000 mid-year prices based on the increase in the CPI-index. The revision is posted to the revaluation account under owners' equity. Depreciation and amortization of fixed assets is recorded in the income statement at the period's average price-level.

Assets and liabilities denominated in foreign currencies are presented in Icelandic currency (ISK) at the rate of exchange prevailing at the end of the year. Operating income and expenses in foreign currencies are converted to ISK at the exchange rate of the date of transaction.

Accounting principles relating to other items of the financial statements are listed in the notes below.

Consolidation

2. The consolidated financial statements pertain to the following subsidiaries:

	Ownership share
Össur USA, Inc.....	100%
Össur stoðtæki hf.....	90%
Össur UK, Ltd.....	100%
Össur Holding SA.....	100%
Össur Holdings Inc. (Flex-Foot).....	100%

At the beginning of April 2000 Össur hf. purchased Flex-Foot Inc. and their subsidiary, Mauch Inc., which specialize in the design, manufacturing and marketing of lower-limb and knee prosthetic devices. The purchase price amounted to 5,8 billion ISK which corresponds to 78 million USD. The holding company Össur Holdings Inc. was founded for the purpose of the purchase. The consolidated financial statements include the operating income and expenses of the Flex Foot consolidation for the period April-June 2000.

The purchase price of all shares in Flex-Foot Inc. is as follows, in millions of ISK/USD:

	IKR	USD
Purchase price of shares in Flex-Foot Inc.....	5.379	72,4
Earn-out payments to former shareholders of Flex-Foot Inc.....	223	3,0
Direct cost relating to the purchase.....	197	2,6
	<u>5.799</u>	<u>78,0</u>
Book-value of Flex-Foot Inc.'s equity at the date of purchase.....	610	8,2
Goodwill, charged to cost.....	3.688	49,7
Goodwill, capitalized.....	1.583	21,3
Exchange rate difference from date of purchase/other changes.....	-82	-1,2
	<u>5.799</u>	<u>78,0</u>

Notes

The consolidated financial statements are prepared in conformity with the purchase method of accounting and the minority interest stems from Össur stoðtæki hf. (Ltd.). Each amount in the foreign subsidiaries' balance sheet is converted to ISK at the mid-year-rate of exchange, but amounts in the foreign subsidiaries' income statement are converted to ISK at the average-rate of exchange for the period January-June 2000.

One of the purposes of the consolidated accounts is to show only the net revenues, expenses, assets and liabilities of the group as a whole. Hence, intergroup transactions have been eliminated within the group in the presentation of the consolidated financial statements. Unrealized gain in inventories resulting from intergroup transactions has been eliminated, and taxes adjusted accordingly.

Intangible assets

3. Goodwill stems from the purchase price of shares in Flex-Foot Inc. in excess of Flex-Foot Inc.'s equity, see note 2. Over the next 15 years, this goodwill is tax-deductible from the consolidation's point of view and will gradually be charged to cost. In the consolidated income statement 26,6 million ISK are charged to cost as part of this.

Other intangible assets recorded include capitalized research and development cost of previous years as well as capitalized patents. Intangible assets are amortized on a straight line basis during a period of five years. All incurred research and development cost during the period January-June 2000 is expensed.

Intangible assets:

Restated cost 1.1.2000.....	37.419.476
Accumulated amortization.....	(19.324.813)
Book value 1.1.2000.....	<u>18.094.663</u>
Revaluation.....	475.685
Amortization in the period.....	(3.840.319)
Book value 30.6.2000.....	<u>14.730.029</u>
Intangible assets, subsidiaries.....	<u>533.308</u>
	<u><u>15.263.337</u></u>

Fixed assets

4. Depreciation of fixed assets is calculated on a straight line basis. The amounts recorded are based on the restated historical cost at the end of June, 2000. The following rates are used:

Automobiles.....	10-20%
Machinery and equipment.....	12%
Computer hardware.....	33%
Office equipment.....	15%
Fixture and furniture.....	10%
Buildings and sites.....	3%

Notes

Fixed assets, their revaluation and depreciation are the following:

	Buildings and sites	Automobiles	Machinery and equipment	Fixtures and furniture	Total
Restated cost 1.1.2000.....	18.241.548	12.334.208	87.779.569	72.840.416	191.195.741
Accum.depreciation.....	(6.252.575)	(1.149.931)	(51.215.419)	(26.843.313)	(85.461.238)
Book value 1.1.2000.....	11.988.973	11.184.277	36.564.150	45.997.103	105.734.503
Revaluation.....	148.318	294.017	1.307.655	1.289.057	3.039.047
Investments.....	0	0	25.039.443	8.302.944	33.342.387
Sold/retired.....	(12.015.562)	0	0	0	(12.015.562)
Depreciation.....	(121.729)	(908.557)	(6.678.554)	(6.045.516)	(13.754.356)
Book value 30.6.2000.....	0	10.569.737	56.232.694	49.543.588	116.346.019
Subsidiaries.....	209.266.968	4.640.768	198.087.476	19.091.176	431.086.388
	<u>209.266.968</u>	<u>15.210.505</u>	<u>254.320.170</u>	<u>68.634.764</u>	<u>547.432.407</u>

Depreciation according to income statement is as follows:

Fixed assets depreciation, parent (average price-index).....	14.509.439
Fixed assets depreciation, subsidiaries.....	19.418.059
	<u>33.927.498</u>
Research and development cost amortization, parent (average price-index).....	2.862.275
Research and development cost amortization, subsidiaries.....	3.133.480
	<u>39.923.253</u>

Share investments

5. Shares in subsidiaries:

	Book value 1.1.2000	Oper. income /extraordinary expenses	Translation difference	Paid-in capital/sold	Book value 30.6.2000
Össur stoðtæki.....	493.000	353.003	12.966	0	858.969
Össur USA.....	4.043.874	23.327.492	1.453.748	0	28.825.114
Össur LUX.....	7.248.018	0	0	(7.248.018)	0
Össur UK.....	7.404.317	(4.358.793)	(94.787)	0	2.950.737
Össur Holding SA.....	1.141.763.049	28.212.610	0	4.587.600.000	5.757.575.659
Össur H. Inc.(Flex-Foot)....	0	(3.698.260.895)	35.971.352	1.331.853.987	(2.330.435.556)
	<u>1.160.952.258</u>	<u>(3.650.726.583)</u>	<u>37.343.279</u>	<u>5.912.205.969</u>	<u>3.459.774.923</u>

Net income of the subsidiaries amounted to 74,5 million ISK when unrealized gain included in inventories resulting from intergroup transactions had been eliminated. Extraordinary expenses resulting from the amortization of goodwill amounted to 3.668 million ISK and income tax amounted to 56 million ISK.

Share investments and intercompany investment income have been reduced of unrealized gain included in inventories resulting from intergroup transactions. The unrealized gain, net of income tax effect, is 30,1 million ISK.

Notes

6. The operation of the subsidiaries; inventories; receivables and operating fixed assets, is financed by the parent company. Material repayments from the subsidiaries are not expected in the year 2000.

Long-term investments

7. Long-term securities, as defined by management, are intended for future expansion and growth of the company. Long-term securities are recorded at market value at year-end and they are classified as follows:

Bonds and bills of exchange.....	87.217.962
Interest-bearing bonds.....	126.427.387
Equity securities and share certificates.....	21.194.727
	<u>234.840.076</u>

Inventories

8. Inventories are valued at the lower of cost or market. Finished products in the consolidated statements have been reduced by unrealized gain from intergroup transactions.

Short-term claims

9. Accounts receivable are valued at cost plus incurred interest, less allowance for doubtful accounts which amounts to 5,1 million ISK at the end of the period.

10. Other receivables are as follows:

Kaupping hf.....	30.082.341
Value added tax, refund.....	17.858.130
Prepaid expenses and miscellaneous.....	10.075.890
	<u>58.016.361</u>
Other receivables, subsidiaries.....	27.678.717
	<u>85.695.078</u>

Liquid funds

11. Marketable securities are valued at market rate at the end of June, 2000. The securities are readily accessible in a monetary fund.

Equity

12. At the beginning of the year owners' equity approximated 1.386,8 million ISK, which equals 1.423,2 million ISK in terms of 2,63% price-index change in the period. At the end of the period owners' equity amounted to 1.618 million ISK. Changes in the owners' equity consist of the following during the period:

	<u>Nominal value</u>	<u>Mid-year value</u>
Owners' equity 1.1.2000.....	1.386.754.963	1.423.210.892
Paid-in capital.....	3.713.949.101	3.727.052.752
Loss of the period.....	(3.552.635.188)	(3.598.574.397)
Translation difference.....	69.912.555	66.292.184
	<u>1.617.981.431</u>	<u>1.617.981.431</u>

Notes

Changes in owners' equity are the following:

	Share capital	Additional paid-in capital	General legal reserve	Other equity	Total
Beginning balance.....	211.937.460	984.913.993	15.163.006	174.740.504	1.386.754.963
Paid-in capital.....	65.295.645	3.648.653.456			3.713.949.101
Translation difference, subsidiaries.....				37.343.278	37.343.278
Revaluation of fixed assets				3.310.285	3.310.285
Price-level changes-loss.....				29.258.992	29.258.992
Loss of the period.....				<u>(3.552.635.188)</u>	<u>(3.552.635.188)</u>
	<u>277.233.105</u>	<u>4.633.567.449</u>	<u>15.163.006</u>	<u>(3.307.982.129)</u>	<u>1.617.981.431</u>

Long-term liabilities

13. The long-term debts of the parent company are recorded in terms of the price-level at the end of the year. The fixed assets of the company have been pledged as security for these loans. Long-term debts are as follows, at the end of June, 2000:

	Interest	Remaining balance
Bank of Iceland, Íslandsbanki hf.....	5-7,8%	1.149.047.260
Bearer bonds.....	7,1%	83.608.623
Leasing company, Lýsing hf.....	5,9-7,2%	2.800.588
Other bonds payable.....	4,5%	7.036.441
Investment bank, FBA hf.....	6,5%	3.884.540
Subsidiary liabilities.....		1.009.893.812
Former shareholders of Flex-Foot Inc.....		<u>229.380.000</u>
		<u>2.485.651.264</u>

Among other long-term liabilities a debt to former shareholders of Flex-Foot Inc. is recorded, amounting to 229 million ISK (3 million USD) at the end of the period. The repayment is dependent on the achievement of certain sales goals by Flex-Foot Inc. in the next 3 years. It is considered more likely than not that these sales goals will be met.

14. The repayment schedule of long-term liabilities is as follows:

Year due:

2001.....	325.819.163
2002.....	261.501.774
2003.....	258.237.701
2004.....	629.416.986
Later.....	<u>1.010.675.640</u>
	<u>2.485.651.264</u>

Notes

Taxation

15. A provision has been made in the financial statements for the payment of taxes. Income tax according to the income statement is as follows:

	Consolidation	Parent
Decrease of income tax liability.....	11.859.110	11.859.110
Tax adjustment/goodwill amortization.....	(63.733.731)	(37.125.164)
Tax adjustment/unrealized gain in inventories.....	2.400.000	0
Calculated income tax of subsidiaries.....	536.537	0
	<u>(48.938.084)</u>	<u>(25.266.054)</u>

Accrued taxes payable are as follows:

Industrial tax.....	476.549
Accrued taxes of subsidiaries.....	6.848.603
	<u>7.325.152</u>

Insurance

16. Össur hf. is insured against temporary stop of general operations. The amount of insurance is 192 million ISK.
17. Fixed assets are insured for 219,4 million ISK and current assets for 87,4 million ISK.

Intercompany transactions

18. The total amount of intercompany sales was 271 million ISK during the period January-June 2000. At the end of the period the parent company has claims against subsidiary companies amounting to 226,5 million ISK. These intercompany balances and intercompany transactions have been eliminated in the consolidated financial accounts.

Other items

19. The parent has taken on lease the ground floor and the first floor at Grjótháls 5, Reykjavík. The lease expires in the year 2007. Besides the parent has an option to purchase the building, as a whole, with three months prior notice at fixed price pr. square meter. The cost price will be effected by changes in general prices. In the period January-June 2000, the parent's lease payments for Grjótháls 5 amounted to 15,6 million ISK.
20. At the end of June 2000, 313,6 million ISK of company assets and 1.391 million ISK of company debts were in foreign currency.
21. Sales according to market areas:

America.....	55%
Europe (Iceland not included).....	40%
Iceland and other countries.....	5%
	<u>100%</u>

Notes

24. Interest income and expenses:

	Consolidation		Parent company	
	30.06.2000	30.06.1999	30.06.2000	30.06.1999
Interest income.....	61.338.939	939.519	29.458.275	800.456
Dividends.....	0		1.500	1.689
	61.338.939	939.519	29.459.775	802.145
Interest expense/exchange rate difference.....	(21.567.566)	(1.772.900)	(18.087.194)	(644.741)
General price level gain (loss).....	(29.243.087)	(2.942.645)	(29.258.992)	(2.982.212)
	10.528.286	(3.776.026)	(17.886.411)	(2.824.808)

25. Salaries and related expenses:

Salaries, parent company.....	147.413.627
Related expenses, parent company.....	31.043.653
	178.457.280
Salaries and related expenses, subsidiaries.....	197.269.713
	375.726.993

In addition, salaries and related expenses of 34.683.871 ISK are expensed as research and development costs in the income statement.

Össur hf. have loaned their employees 71.884.180 ISK at 30.06.2000, to buy shares in the company. The loans are not interest-bearing and the credit period is 2 years.